



PUBLIC DISCLOSURE

April 3, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank North
Charter Number 8476

P.O. Box 520
Walker, MN 56484

Office of the Comptroller of the Currency
222 South 9th Street, Suite 800
Minneapolis, MN 55402

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

The primary factors supporting First National Bank North's (FNB) rating include:

- FNB's loan to deposit ratio (LTD) is reasonable based on the institution's size, financial condition, and the assessment area (AA) credit needs;
- FNB originated a substantial majority of its loans within its AA;
- FNB's distribution of loans reflects reasonable penetration among borrowers of different income levels;
- FNB's distribution of loans reflects adequate dispersion throughout census tracts (CTs) of different income levels; and
- FNB demonstrates adequate responsiveness to the community development (CD) needs in its AA.

Scope of Examination

FNB was evaluated under the Intermediate Small Bank examination procedures, which include a Lending Test and a Community Development Test to assess compliance with the Community Reinvestment Act (CRA). The Lending Test evaluates FNB's record of meeting the credit needs of its AA through its lending activities. The Community Development Test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments and CD services.

The Lending Test for FNB covers its performance from January 1, 2015 through December 31, 2016 (the lending evaluation period). The number and dollar volume of originated and purchased loans were evaluated to determine the primary products for the bank's AA. See the following table where the primary products are listed in bold. A sample of loans for each primary product were reviewed to evaluate performance under the Lending Test.

The Community Development Test for FNB covers its performance from March 3, 2013 through April 3, 2017 (the CD evaluation period).

Loan Originations and Purchases in 2015 and 2016 in the AA		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Residential Real Estate	33.52%	52.06%
Consumer	35.92%	13.35%
Commercial	30.30%	34.54%
Agriculture	0.25%	0.05%

Source: Bank loan origination report for 2015 and 2016

Description of Institution

FNB is a \$516 million intrastate bank headquartered in Walker, MN. The bank is wholly owned by Walker Bank Co., a one-bank holding company, also located in Walker, MN. FNB has operations throughout northcentral MN in the counties of Cass, Crow Wing, and Hubbard. FNB has no subsidiaries or other affiliates. The bank operates ten branches, one of which is located in a moderate-income CT and the other nine are located in middle-income CTs. In July 2014, the bank closed one branch in a middle income CT, which was Crow Wing County in the City of Jenkins, MN. There have been no additional branch closings during the lending evaluation period.

FNB operates 11 automated teller machines (ATMs), none of which accept deposits. Eleven ATMs are adjacent to bank branches with two additional ATMs in Cass County and one in Crow Wing County. In Cass County, one ATM is located inside the Super One grocery store, in a middle-income CT. The second ATM is located in the One Stop gas station, which is in a moderate-income CT. In Crow Wing County, the ATM is in a middle-income CT, located inside the SuperValu grocery store.

In April 2015, FNB merged with Lakes State Bank of Baxter, MN and acquired branches in the cities of Baxter, Crosslake, and Pequot Lakes, MN. FNB was previously named First National Bank of Walker, but changed its name to FNB in September 2015. FNB's strategy is to grow the bank through the normal course of business, both in commercial and retail loans. The bank has benefited from increased operational efficiencies as a result of the merger.

As of December 31, 2016, FNB had total assets of \$516 million and Tier One Capital of \$49 million. Net loans and leases totaled \$321 million, or 62 percent of total assets. The Tier One Leverage ratio was 9.45 percent. The loan portfolio is comprised of commercial loans, (47 percent), residential real estate loans (38 percent), consumer loans (14 percent), and agricultural loans (one percent).

FNB is a full-service financial institution offering a wide variety of loan and deposit products and services to both retail and commercial customers. Retail products include single-family mortgage loans for purchase and refinance, open-end and closed-end home equity loans, construction loans and consumer loans for a variety of purposes. Non-retail products include commercial, multi-family, and farm real estate loans as well as commercial construction and other business loans.

There are no known financial or legal impediments that would affect FNB's ability to meet the credit needs within its communities.

The last CRA performance evaluation was dated March 4, 2013, and resulted in an "Outstanding" rating.

Description of Assessment Area

FNB has one AA in the State of Minnesota. The AA includes the full counties of Hubbard, Crow Wing and Cass, which are all located within the non-metropolitan area of Minnesota. The AA consists of CTs where the bank's branches are located, as well as surrounding CTs where the bank originates a majority of its loans. The AA does not include any areas designated as distressed or underserved by the Federal Financial Institutions Examination Council.

The AA is comprised of eight moderate-income CTs, 24 middle-income CTs and one upper-income CT. There are no low-income CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs. The table on the following page shows demographic information for FNB's AA.

According to the Bureau of Labor Statistics, the 2016 annual average unemployment rates for Cass, Crow Wing and Hubbard counties were 7.0 percent, 5.2 percent, and 6.6 percent respectively. Each county individually exceeds the State unemployment rate of 3.9 percent.

Major employers in the AA include Essentia Health – Central Region, Cuyuna Regional Medical Center, in Crow Wing County, Northern Lights Casino in Cass County, and Lamb-Weston/RDO Frozen in Hubbard County.

Based upon 2016 Dunn & Bradstreet data, economic activity in the AA is centered in the services industry followed by retail trade. Services comprise 44 percent of the AA's activity, followed by retail trade at 14 percent.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA	
Population	
Individuals	111,495
Number of Families	32,903
Number of Households	48,473
% of Low-Income Families	20.17%
% of Moderate-Income Families	20.74%
% of Middle-Income Families	23.62%
% of Upper-Income Families	35.47%
Geographies	
Number of Census Tracts	33
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	24.24%
% Middle-Income Census Tracts	72.73%
% Upper-Income Census Tracts	3.03%
Median Family Income (MFI)	
2010 MFI for AA	\$57,683
2016 FFIEC-Adjusted MFI	\$63,800
Economic Indicators	
2016 Unemployment Rate	6.30%
2010 Median Housing Value	\$202,298
% of Households Below Poverty Level	12.64%
% of Families Below Poverty Level	8.56%

Source: 2010 U.S. Census data with updated information when available

Competition from other financial institutions is moderate. Based upon the June 30, 2016 FDIC Market Share Report, there are 19 different deposit-taking financial institutions with 52 offices in the AA. FNB ranks first in deposit market share, with 22.11 percent of the market share or \$441 million. FNB's primary banking competitors are The Citizens National Bank of Park Rapids with 11 percent, and Bremer Bank, National Association with ten percent. All other institutions have nine percent of the market share or less.

In order to gather current information on the community and potential lending opportunities in the area, we contacted a commercial business development organization. The community contact noted the economic conditions have been improving since the recession with the exception of the lumber industry. In addition, the economy is driven by tourism, which is seasonal for the AA. A current trend in the AA is the acquisition of resorts by private real estate development companies who tear down the resort, divide the property into small lots, and then construct single-family homes with lakefronts. These lakefront properties are areas where community banks may participate. Economic development lending needs in the AA also include small business operating lines of credit, equipment lending, residential and commercial construction lending, commercial and single-family residential mortgages and affordable housing. The community contact also indicated that USDA guarantees are under-utilized.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the Lending Test is Satisfactory.

Loan-to-Deposit Ratio

FNB's average LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB's quarterly net LTD ratio averaged 68.27 percent over the 17 quarters from December 30, 2012 to December 30, 2016. The ratio ranged from a quarterly low of 62.19 percent to a quarterly high of 73.77. FNB's LTD ratio ranks last among four similarly situated banks, which are defined as banks operating in the banks AAs with similar asset sizes and number of branches, but is still considered reasonable.

Loan-to-deposit Ratio FNB, Headquarters	Assets as of 12/31/16 (\$000s)	Average LTD Ratio (4Q12 – 4Q16)
Riverwood Bank (Baxter, MN)	\$355,296	90.69%
American National Bank of MN (Baxter, MN)	\$242,333	87.89%
Deerwood Bank (Baxter, MN)	\$477,650	80.98%
FNB (Walker, MN)	\$515,655	68.27%

Source: Call Report data.

Lending in Assessment Area

FNB originates a substantial majority of loans inside its AA. Of the 60 loans sampled, FNB originated 92 percent of its loans by number and 90 percent of its loans by dollar volume within its AA.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Real Estate	17	85.00%	3	15.00%	20	2,025	87.21 %	297	12.79%	2,322
Consumer	19	95.00%	1	5.00%	20	176	98.88%	2	1.12%	178
Commercial	19	95.00%	1	5.00%	20	1,066	94.34%	64	5.66%	1,130
Totals	55	91.67 %	5	8.33%	60	3,267	90.00%	361	10.00%	3,630

Source: Home mortgage, consumer and commercial loan samples.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNBs' overall distribution of lending reflects reasonable penetration among individuals of different income levels and businesses of different sizes when compared to AA demographics.

Residential Real Estate Loans

The borrower distribution of residential real estate loans in the AA reflects reasonable penetration. The distribution of residential real estate loans to low-to-moderate income (LMI) borrowers is near the percentage of LMI families living in the AA.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
	20.17%	18.33%	20.74%	16.67%	23.62%	25.00%	35.47%	40.00%

Source: Loan sample; 2010 US Census Data

Consumer Loans

The borrower distribution of consumer loans reflects excellent penetration. The distribution of consumer loans to low-income borrowers significantly exceeds the demographic comparator. Lending to borrowers of moderate-income exceeds the demographic.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	23.75%	45.00%	17.62%	20.00%	20.17%	20.00%	38.46%	15.00%

Source: Loan Sample; 2010 US Census Data

Commercial Loans

The distribution of loans among businesses of different sizes reflects reasonable penetration. The bank's performance is near the percentage of businesses in the AA by number and by dollar.

Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	84.87%	4.56%	10.57%	100%
% of Bank Loans in AA by #	80.00%	20.00%	0.00%	100%
% of Bank Loans in AA by \$	76.33%	23.67%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet Data 2016

Geographic Distribution of Loans

The overall distribution of loans reflects adequate dispersion throughout the CTs of different income levels.

Our geographic distribution analysis included a review of lending gaps, particularly in the LMI areas. FNB lent in most moderate-income CTs in its AA across all primary products reviewed. We did not identify any unexplained conspicuous gaps in lending in the AA.

Residential Real Estate Loans

The geographic distribution of residential real estate loans reflects excellent dispersion throughout the AA. The bank's performance exceeds the AA demographic comparator in lending in moderate-income CTs.

Geographic Distribution of Residential Real Estate Loans in AA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential Real Estate	0.00%	0.00%	17.68%	26.67%	78.46%	73.33%	3.87%	0.00%

Source: Loan Sample; 2010 US Census Data

Consumer Loans

FNB's performance reflects adequate dispersion of consumer loans in moderate-income CTs in comparison to the percentage of households within the AA. The following table compares the bank's consumer lending activity by the CT income level to the local demographics.

Geographic Distribution of Consumer Loans in AA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	0.00%	0.00%	22.29%	16.67%	74.37%	81.67%	3.34%	1.67%

Source: Loan Sample; 2010 US Census Data

Commercial Loans

The geographic distribution of business loans reflects very poor dispersion throughout the AA. The bank’s performance is significantly below the AA demographic comparator. Competition in the area contributed to the lack of loans originated in the moderate-income CTs.

Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	0.00%	0.00%	23.88%	6.67%	73.81%	93.33%	2.31%	0.00%

Source: Loan Sample; 2010 US Census Data

Responses to Complaints

During this lending evaluation period, there were no complaints related to FNB’s performance in meeting AA credit needs.

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the Community Development Test is rated Satisfactory. FNB’s community development performance demonstrates adequate responsiveness to the community development needs in the AA.

Number and Amount of Community Development Loans

FNB North’s level of CD loans reflects adequate responsiveness to community area needs. During the CD evaluation period, FNB North originated 14 CD loans totaling nearly \$2.7 million that directly benefited the AA. The majority of loans were to

organizations targeting community services to LMI individuals and affordable housing needs.

Examples of CD loans include:

- Two loans for \$570,000 for the purchase and construction of properties for food shelves within the AA that will benefit LMI families.
- Four loans totaling \$306,455 to purchase and maintain a pharmacy in a moderate-income CT.
- Two loans totaling \$860,000 which provided affordable housing for low-income individuals with disabilities.

Number and Amount of Qualified Investments

The bank made 149 contributions during the CD evaluation period totaling \$114,000. There are several opportunities in the AA for the bank to participate in qualified investments.

Examples of these contributions include:

- Eleven donations totaling \$68,400 to organizations that provide community services to LMI individuals.
- Twenty-three donations totaling \$14,300 to schools that serve LMI students.

Extent to Which the Bank Provides Community Development Services

Twenty bank employees, or 16 percent, provided services to 22 different organizations. Employees mostly served in leadership roles for organizations providing social services and affordable housing to LMI persons.

The bank also originates small unsecured consumer loans with reasonable repayment terms that served primarily LMI individuals and LMI geographies during the CD evaluation period.

Responsiveness to Community Development Needs

FNB's community development activities reflect overall adequate responsiveness to the community development needs of the AA. The bank focused some of their initiatives on economic development and affordable housing, which were identified by the community contact as specific community needs in the AA. In addition, one of the bank's branches

is located in a moderate-income CT which generally increases access to financial services to LMI individuals.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.