

## **PUBLIC DISCLOSURE**

September 18, 2000

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Bovey  
Charter Number 11054**

**301 Second Street  
Bovey, Minnesota 55709**

**Office of the Comptroller of the Currency  
Minneapolis North Field Office  
920 Second Avenue South, Suite 800  
Minneapolis, Minnesota 55402**

**NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this 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.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Bovey** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **September 18, 2000**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated "Satisfactory". Since the last CRA evaluation, dated July 11, 1996, FNB has originated the majority of its loans to borrowers and businesses in its assessment area (AA). FNB's lending to commercial businesses and consumer borrowers is also reasonable based on the distribution by the business' annual revenues and borrowers' family incomes, respectively. quarterly loan-to-deposit ratio since the last CRA evaluation is reasonable as compared to similarly situated banks in its assessment area.

## **DESCRIPTION OF THE INSTITUTION:**

The First National Bank of Bovey (FNB) is a \$12 million financial institution headquartered in Bovey, Minnesota (population of 662). It operates one banking office. The city of Bovey is located in Itasca County (population of 40,863). It is approximately 10 miles northeast of the county seat of Grand Rapids, Minnesota. FNB is wholly owned by Bovey Financial Corporation, a one-bank holding company.

As of June 30, 2000, FNB's \$7.3 million loan portfolio consisted primarily of 1-4 family residential real estate loans (56% by dollar volume or \$4.1 million). The \$1.9 million commercial loan portfolio comprised 20% of the total loan portfolio. Loans to individuals, loans secured by non-farm, non-residential real estate, and loans to municipalities comprised the remaining 11%, 7%, and 6% of the loan portfolio, respectively. Fifty nine percent (59%) by number of FNB's loan originations since the last CRA evaluation were instalment and single-pay loans to individuals for various personal purposes. By number, the remaining 23% and 18% of the loans originated are categorized as 1-4 family real estate and commercial loans, respectively. The loan portfolio is 60% of total assets as of June 30, 2000.

There are no legal or financial circumstances that impede FNB's ability to help meet the credit needs of its assessment area. FNB's last CRA evaluation dated July 11, 1996 rated FNB's performance as "satisfactory".

## **DESCRIPTION OF ASSESSMENT AREA:**

The assessment area (AA) consists of five block numbering areas (BNAs) located in southeastern Itasca County. All BNAs within the AA are designated as middle-income and include BNA 9804, 9806, 9808, 9809, and 9810. The AA encompasses the cities of Grand Rapids, Coleraine, Bovey, La Prairie, Marble, Warba, Taconite, and Calumet. The First National Bank of Bovey is located in BNA 9810. BNA 9810 contains approximately 23% of total AA families.

The population of the assessment area is approximately 24,000. At the time of the census, 16% of the population was over 65 years old. Within this assessment area, 80% of all housing units are 1-4 family units while 11% are mobile homes or trailers. Sixty-six percent of all housing units are owner-occupied, 18% are vacant, and 16% are occupied by renters.

The assessment area meets the requirements of the regulation and does not arbitrarily

exclude low- or moderate-income geographies.

The HUD statewide nonmetropolitan median family income for 1999 and 2000 is \$41,600 and \$44,300, respectively. The following table displays the demographics of the assessment area by income levels and percentage of families.

<b><i>Income Level</i></b>	<b><i>Number of Families</i></b>	<b><i>Percent of Families</i></b>
<i>Low-Income (&lt; 50% of median family income)</i>	1,403	20.63%
<i>Moderate- Income (50% to &lt; 80% of median family income)</i>	1,197	17.60%
<i>Middle- Income (80% to &lt; 120% of median family income)</i>	1,430	21.03%
<i>Upper- Income (at least 120% of median family income)</i>	2,770	40.74%

Based on 1999 demographic information from Dun & Bradstreet, 98% of businesses within the AA are non-farm with industry classifications primarily in services, retail trade, and construction. Eighty-two percent (82%) of the reporting businesses have less than ten employees. The following table provides information on the number and percentage of businesses based on reported annual revenues.

<b><i>Annual Revenues</i></b>	<b><i>Number of Businesses</i></b>	<b><i>Percent of Businesses</i></b>
<i>Less than \$500,000</i>	958	85.00%
<i>\$500,000 to 999,999</i>	82	7.28%
<i>\$1 million and greater</i>	87	7.72%
<i>Total business reporting revenue information</i>	1,127	100%

National Bank Examiners contacted community organizations to determine the credit needs of the AA and opportunities for bank involvement. Contacts indicated a general need for venture capital for small businesses within Itasca County.

FNB primarily competes with three, independent commercial banks in Coleraine and Grand Rapids with total assets ranging from \$46 million to \$170 million. There are nine FDIC-insured institutions with offices located in FNB's assessment area. FNB was third smallest based on total deposits of \$11.6 million and deposit market share of 2.74% as of June 30, 1999. Market share information as of June 30, 2000 is not available from the Federal Deposit Insurance Corporation at this time.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

### ***Loan-to-Deposit Ratio***

FNB's average quarterly loan-to-deposit ratio since the last CRA evaluation is reasonable as compared to similarly situated banks. Of the six additional independent banks chartered in Itasca County, the average quarterly loan-to-deposit ratio for each bank ranges from 41.9% to 87.4%, with an average of 71.1%. FNB's average quarterly loan-to-deposit ratio is the second lowest at 61.8%. However, FNB is considerably smaller than the institutions with higher loan-to-deposit ratios. FNB's loan-to-deposit ratio is near the average of the eight other national banks within the State of Minnesota with comparable assets (\$20 million or less). As of June 30, 2000, FNB's loan-to-deposit ratio was 63.6%; the average loan-to-deposit of the eight other similarly sized banks within Minnesota was 64.0%.

### ***Lending within the Assessment Area***

Since the last CRA evaluation, FNB originated the majority of its loans to borrowers within its (AA). Bank employees record the borrower's address by BNA number for each loan originated. The accuracy of this data was verified by examiners and used in the analysis of FNB's lending within its assessment area. Refer to the following table for details.

<b>Loans Originated Within the Assessment Area Since July 11, 1996 through September 25, 2000</b>				
	<i>Number of Loans</i>	<i>Dollar Volume of Loans (000s)</i>	<i>Percent within AA by number</i>	<i>Percent within AA by dollar</i>
<i>Loans secured by first liens on 1-4 family residential real estate</i>	87	3,196	81.3%	73.6%
<i>Consumer general purpose</i>	265	1,476	89.8%	86.5%
<i>Commercial general purpose</i>	72	2,160	80.0%	78.6%
<i>Total Loans</i>	430	6,892	86.0%	77.6%

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

Lending to Borrowers of Different Incomes:

Based on a sample of loans originated since the last CRA evaluation, FNB is reasonably meeting the credit needs of borrowers and businesses within its assessment area. This analysis focused on FNB's commercial lending and loans secured by 1-4 family residential real estate (noncommercial purpose). Although loans to consumers are a substantial line of business, these loans could not be analyzed based on borrower income, as income information has not been regularly collected at origination.

For 1-4 family residential real estate loans, FNB exceeds the demographics when originating loans to moderate- and middle-income borrowers. Lending to low-income borrowers is reasonable despite being less than area demographics. Weighted average monthly gross rental expense is below monthly principal and interest payments based on the cost of weighted average of median housing at standard interest rates and standard tenors. As such families with low incomes may be more inclined to rent than purchase residences.

<b>Distribution of 1-4 Family Residential Real Estate Loans by Family Income (Sample of Loans Originated in 1999 and 2000 Compared to Assessment Area Demographics)</b>					
	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Dollar of Loans (000s)</i>	<i>Percent by Dollar</i>	<i>Families in AA</i>
<i>Low-Income</i>	2	10.0%	103	14.6%	20.63%
<i>Moderate-Income</i>	5	25.0%	157	22.2%	17.60%
<i>Middle-Income</i>	5	25.0%	280	39.7%	21.03%
<i>Upper-Income</i>	8	40.0%	166	23.5%	40.74%

Lending to Businesses of Different Sizes:

FNB's lending to commercial businesses is also reasonable based on the distribution by

<b>Distribution of Commercial Loans by Revenue Size of Business (Sample of Commercial Loans Originated Since the last CRA Evaluation Compared to Assessment Area Demographics)</b>					
	<i>Number of Loans</i>	<i>Percent by Number</i>	<i>Dollar of Loans (000s)</i>	<i>Percent by Dollar</i>	<i>Businesses in AA that report revenues</i>
<i>Revenues &lt; \$100,000</i>	4	22.2%	\$100	17.4%	85.0%
<i>Revenues \$100,000 - \$500,000</i>	6	33.7%	\$271	47.2%	
<i>Revenues \$500,000 - \$1,000,000</i>	0	0%	\$0	0%	7.3%
<i>Revenues &gt; \$1,000,000</i>	2	11.1%	\$95	16.6%	7.7%

For those loans that FNB did not obtain information on the revenues of the business, the loan amount ranged from \$3,000 to \$30,000. This further evidences FNB's willingness to meet the credit needs of small businesses owners within the AA. Of the commercial loans included in this sample and those originated since the last CRA evaluation, the origination amount has averaged approximately \$30,000.

### ***Geographic Distribution of Loans within the Assessment Area***

The analysis of the distribution of loans within the various BNAs of the assessment area was not performed. The analysis would not have been meaningful as all BNAs are categorized as middle-income.

### ***Response to Complaints***

The First National Bank of Bovey has not received any CRA related complaints since its last CRA evaluation dated July 11, 1996.

### ***Record of Compliance with Antidiscrimination Laws***

Local demographics, FNB's history of fair lending performance, public comments, and

consumer complaint information were analyzed according to the OCC's risk based analysis approach. The analysis revealed no substantive fair lending issues that warranted a more detailed review.

### ***Community Development Services***

In a joint effort with another area bank, FNB's executive officer provided technical advice in the last year to Greenway High School. The school will be establishing a bank through the state of Minnesota to provide check-cashing services, saving accounts, and small loans to students.