



PUBLIC DISCLOSURE

January 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Aitkin
Charter Number 6803**

**101 Minnesota Avenue North
Aitkin, Minnesota 56431**

**Office of the Comptroller of the Currency
Duluth Field Office
302 West Superior Street, Suite 307
Duluth, Minnesota 55802**

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 Aitkin prepared by The Comptroller of the Currency, the institution's supervisory agency, as of January 4, 1999. 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.

The First National Bank of Aitkin reasonably lends to borrowers of different income levels and businesses of different sizes. The bank originates the majority of loans within its assessment area and has good lending penetration of different income geographies. The bank's loan-to-deposit level is reasonable.

DESCRIPTION OF THE INSTITUTION:

The First National Bank of Aitkin (FNB) is a \$40 million dollar bank located in rural east-central Minnesota. FNB has one office located in Aitkin, a city with a population of approximately 1,800. FNB also operates two automated teller machines (ATMs). Both ATMs are cash-dispensing only and are located in Aitkin, one at a grocery store and another at an on/off-sale liquor store.

FNB's primary product lines are residential real estate and commercial loans. Residential real estate loans compose 46% (by dollar) of FNB's loan portfolio while commercial loans compose another 36% of the portfolio. FNB's loan portfolio represents 61% of its total assets. FNB is not subject to any legal or financial factors which would impede its ability to help meet the credit needs of its assessment area.

FNB is owned by First National Corporation of Aitkin, Inc., a one-bank holding company located in Aitkin. The bank has no subsidiaries. FNB received a "Satisfactory" rating at its last CRA evaluation dated October 12, 1995.

DESCRIPTION OF THE ASSESSMENT AREA:

FNB's assessment area consists of all of Aitkin County. The population of the assessment area is approximately 12,500. The vacancy rate for the assessment area's 13,000 housing units is very high at 60.37%. By comparison, the percent of owner- and rental-occupied units is only 33.26% and 6.37%, respectively. A large volume of seasonal homes contributes to this very high vacancy rate. According to the Aitkin County Assessors Office, median housing costs for the county are \$60,000 for existing homes and \$85,000 for new home construction.

The assessment area is not located within a Metropolitan Statistical Area (MSA). Therefore, the 1998 statewide Non-MSA median family income of \$40,500 is used for comparative purposes. Approximately 3,700 families reside in the assessment area, 14.1% of which report incomes below the poverty level. The distribution of all assessment area families by income level is as follows:

Income Level of Family	Percentage of Total Families
Low (\$0 - \$20,250)	30%
Moderate (\$20,250 - \$32,400)	24%
Middle (\$32,400 - \$48,600)	22%
Upper (Greater than \$48,600)	24%

Aitkin County itself is divided into nine block numbering areas. The distribution of the assessment area's nine BNAs, by income levels, is as follows:

Income Level of BNA	Proportion of Total BNAs
Moderate	78% (7/9)
Middle	22% (2/9)

The middle-income BNAs include the city of Aitkin, as well as, an area immediately south of Aitkin. FNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

Economic conditions are fair and have been improving over the past several years. Unemployment levels remain above the statewide average at just over 4%. Primary employers include the county government, school district, and health care sectors. Lending competition in the local market is moderate with two other banks and a credit union located within the city of Aitkin. Another bank provides competition with an office within this assessment area but outside the city of Aitkin. As part of this evaluation, an examiner met with a local real estate broker to develop an understanding of local economic conditions, community credit needs, and perceived performance of local financial institutions. Through a combination of information gained through community contacts, examiner familiarity, and the bank's knowledge of the area, the principal credit needs of the community are for home, small business, and general retail loan products.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS

FNB reasonably lends to borrowers of different income levels and businesses of different sizes given the distribution of family income levels and businesses sizes within its assessment area.

To assess performance under this standard, examiners selected a judgmental sample of 26 home mortgage loans secured by the borrowers' primary residence and 173 commercial loans originated since the last CRA evaluation. Examiners then excluded all loan originations from outside of the assessment area. Examiners selected these two loan types because they are the bank's primary product lines based on the dollar volume of loans outstanding. Information on the total number and dollar amount of originations for these types of loans since the last CRA evaluation was unavailable. Therefore, examiners selected a loan sample by reviewing monthly new loan reports and selecting all loan originations for home mortgage and commercial loans for six of the thirty-nine months since the last CRA evaluation. This sample represents 15% of months during that time period. Bank management indicated there were no unusual periods during this time frame which would differ significantly from normal operations. Examiners directly reviewed sampled files to collect necessary information.

Home Mortgage Lending

FNB's distribution of loans to borrowers of different income levels is reasonable in relation to the demographics of the assessment area. The following table compares borrower income levels to assessment area characteristics.

Income Level*	Percent of Families Within Each Income Level	Percent of the Number of Loans Originated	Percent of the Dollar Volume of Loans Originated
Low	30%	8%	2%
Moderate	24%	20%	21%
Middle	22%	28%	23%
Upper	24%	44%	54%

* Refer to the prior table for the dollar ranges that correspond to these income levels.

FNB's lending penetration to borrowers with low income levels is below the assessment area demographics; however, the penetration is not unreasonable. This is because 14% of assessment area families have income levels below the poverty level. The U.S. Census Bureau's 1998 weighted average poverty threshold for a family of four is \$12,092. Families with incomes at or below this level have difficulty qualifying for residential real estate financing given the assessment area's median family housing cost of \$60,000 for existing homes and \$85,000 for new home construction.

Commercial Lending

FNB's distribution of loans to businesses of different sizes is reasonable in relation to the characteristics of the assessment area. Business demographic information for the assessment area indicates the majority of firms are small businesses, which are defined as businesses with annual revenues of less than \$1,000,000. The following table compares borrower revenue levels to assessment area characteristics.

Sales Volume (in 000s)	Percent of Business in the Assessment Area	Percent of the Number of Loans Originated	Percent of the Dollar Volume of Loans Originated
Less than \$500	86%	75%	62%
\$500 to \$1,000	6%	5%	7%
Greater than \$1,000	8%	20%	32%

Revenue information was not available for approximately 26% of the commercial borrowers sampled by examiners. The extremely small dollar amounts for loans to these borrowers makes it very likely that these borrowers were also small businesses. Examiners noted that all but one of these loans were in amounts under \$60,000, with most under \$10,000.

GEOGRAPHIC DISTRIBUTION OF LOANS

FNB reasonably lends to borrowers and businesses throughout its assessment area. To make this determination, examiners analyzed the same sample information described in the previous section of this Evaluation. We compared the distribution of home mortgage and commercial loans to the distribution of the assessment area's population and occupied housing units.

Home Mortgage Lending

FNB's home mortgage loan originations in moderate- and middle-income BNAs are similar to assessment area demographics. The following table compares home mortgage lending activity to assessment area demographic statistics.

Income Level of BNAs	Percent of Assessment Area Population	Percent of Assessment Area Occupied Housing Units	Percent of Loans by Dollar	Percent of Loans by Number
Moderate	67%	67%	66%	62%
Middle	33%	33%	34%	38%

Sample information reviewed by examiners indicated lending penetration in all but one moderate-income BNA. Lack of penetration in this one BNA is reasonable as the BNA is located in the far eastern portion of FNB's assessment area near another institution's banking office.

Commercial Lending

FNB's commercial loan originations reflect a strong penetration into the moderate-income BNAs of its assessment area. The following table compares commercial lending activity to assessment area demographic statistics.

Income Level of BNAs	Percent of Assessment Area Businesses	Percent of Loans by Dollar	Percent of Loans by Number
Moderate	38%	57%	54%
Middle	62%	43%	46%

We did not identify any BNAs which appeared to have a low level of penetration considering the activity of the businesses present in the BNA.

LOAN-TO-DEPOSIT RATIO

FNB's average quarterly loan-to-deposit ratio is reasonable. FNB's quarterly average loan-to-deposit ratio since its last CRA evaluation was 70%. The quarterly weighted average loan-to-deposit ratio of the other two banks with main offices located within FNB's assessment area was 81% over this same period. The other two banks have total assets between \$25 and \$60 million dollars.

LENDING WITHIN THE ASSESSMENT AREA

FNB originates the vast majority of its loans to customers within its assessment area. Using the sample information described previously, with the loans originated outside of the assessment area added back to the sample, examiners calculated the percentage of home mortgage and commercial loans originated to borrowers within the assessment area. FNB originated 100% of the home mortgage loans sampled within its assessment area. FNB originated 94% by number and 91% by dollar of the commercial loans sampled within its assessment area.

RESPONSE TO CRA-RELATED COMPLAINTS

FNB has not received any CRA-related complaints since its last CRA evaluation.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

Examiners did not identify any violations of antidiscrimination laws and regulations.

To make this determination, examiners reviewed the bank's unsecured retail lending practices in the past 12 months. The sample compared five denied loan applications from single females to 29 approved applications to single males. This sample included 100% of such denials for this product group and prohibited basis, and approximately two-thirds of the comparative approvals. Examiner analyses of this data revealed no denied applicants with comparable credit worthiness to approved applicants.