



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 9, 2001

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**The Pioneer National Bank of Duluth
Charter Number 13078**

**311 North Central Avenue
Duluth, MN 55807**

**Comptroller of the Currency
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, MN 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 Pioneer National Bank of Duluth, Duluth, MN as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 9, 2001. 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 Pioneer National Bank's performance of lending in its assessment area is good and the bank's loan-to-deposit ratio is reasonable in comparison to other similarly situated banks. The bank has an adequate distribution of loans to individuals of different income levels (including low- and moderate-income families) and businesses of different revenue size (including annual revenues less than \$1 million). The bank has a good geographic distribution of loans in the assessment area (including low- and moderate-income neighborhoods).

- By number, 84% of the bank's primary loan types (business loans and home improvement loans) were made in the assessment area.
- The bank's quarterly average loan-to-deposit ratio of 71% is slightly below the average of 73% for similarly situated banks operating in the same area of the state.
- The bank's lending performance among primary loan types approximated or was near to the assessment area demographics for low- and moderate-income families and businesses with annual revenues less than \$1 million.
- The bank's lending performance among primary loan types was near to or exceeded the assessment area demographics for business and owner-occupied housing distributions by the income level of the geographies.
- The bank has not received any CRA related complaints.

DESCRIPTION OF INSTITUTION

The Pioneer National Bank (Pioneer) is a \$73 million bank located in Duluth, Minnesota. Pioneer maintains three offices in Duluth. Products, services, and hours are substantially identical at each office. Each office offers drive up banking services and ATM access. The bank operates one additional ATM also located in Duluth.

The bank is primarily a business and residential real estate lender. As of December 31, 2000, business loans (commercial & commercial real estate) accounted for 53% of total outstanding loans, 1-4 family residential real estate (first lien, junior lien, & home equity) 41%, and consumer and other loans 6%. Total loans equaled \$46 million or 63% of total assets as of December 31, 2000.

Pioneer is owned by Pioneer Bank Shares, Inc., a closely held one-bank holding company. Pioneer does not have any bank or non-bank affiliates engaged in lending activities that impact the bank's CRA performance.

There are currently no legal impediments or other factors, including the financial condition of the bank, which limit its ability to meet the credit needs of its assessment area. The bank's last CRA evaluation was June 24, 1996. The bank was rated satisfactory at that time.

DESCRIPTION OF ASSESSMENT AREA

Pioneer's assessment area is primarily the Duluth portion of the Duluth-Superior Metropolitan Statistical area (MSA). The bank has defined its assessment area as the City of Duluth and surrounding communities in Minnesota. All but one of these surrounding communities are located within the boundaries of the Duluth-Superior MSA. The inclusion of one adjacent community outside of the MSA, the City of Esko, does not materially change the demographics of the assessment area from that of what they would be if the bank had only included communities located in the MSA.

The assessment area is economically sound. The unemployment rate is low, 2.7% for the City of Duluth and 5.9% for the MSA. Real estate values are climbing moderately but a considerable amount of housing stock is old or in need of rehabilitation. The local economy is transitioning from one centered in heavy industry to one centered in tourism and select service and technology industries such as: education, healthcare, and aviation. While Duluth is home to a large state university and other small colleges, most students graduating do not enter the local workforce because the job market is stronger and wages are significantly higher in the Minneapolis-St. Paul MSA. The population of the City of Duluth grew from eighty-five thousand in 1990 to eighty-seven thousand in 2000. No other demographic data is currently available from the 2000 Census.

One new community contact and five existing contacts were considered in evaluating the credit needs of the assessment area. The contacts made were primarily with non-profit organizations promoting either small business development or affordable housing. Business start-up loans for individuals with no or limited credit experience and

loans to rehabilitate housing were the primary credit needs mentioned. Community contacts did not mention any unmet credit needs for qualified applicants. A total of seven community banks, including Pioneer, are located in the assessment area plus several credit unions and branches of three large national banking companies.

The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. Table 1. below shows assessment area composition by census tract income level based on 1990 census data. Table 2. shows family income level based on the 2000 updated MSA median family income of \$46,200.

Table 1. Assessment Area by Income Level	Number of Census Tracts	Percent of Census Tracts
Low-Income	6	13.95%
Moderate-Income	10	23.26%
Middle-Income	17	39.53%
Upper-Income	10	23.26%

Table 2. Family Income Level	Percent of Families
Low-Income	17.58%
Moderate-Income	16.88%
Middle-Income	22.62%
Upper-Income	42.92%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Pioneer's loan-to-deposit ratio performance is reasonable. The bank's quarterly loan-to-deposit ratio ranged from 67% to 75% during the current assessment period. Pioneer's average quarterly loan-to-deposit ratio was 71% versus an average of 73% for other similarly situated banks (defined as banks located in or near Duluth with total assets of less than \$250 million as of year-end 2000). The bank's loan-to-deposit ratio performance ranks fourth highest among seven similarly situated banks.

Lending in Assessment Area

Pioneer's record of lending in its assessment area is good. The bank originated 84% by number and 83% by dollar amount of its loans in the assessment area. The bank's ratio of lending in the assessment area was calculated from its primary loan types. Business loans (commercial & commercial real estate) and home improvement loans were selected as primary loan types based on an analysis of quarterly new loan reports and Home Mortgage Disclosure Act (HMDA) data. Specifically, we calculated the ratio of loans in the assessment area from a random sample of 20 business loans originated

between July 1, 1996 and December 31, 2000, and combined those results with 1997 through 2000 HMDA data for all originated home improvement loans. Table 3. below shows the results of the in/out lending analysis.

Table 3. In/Out Lending Analysis	In Assessment Area By Number %	In Assessment Area by Dollar %
Business Loans (Random Sample)	75.00%	84.12%
Home Improvement Loans (HMDA Data)	84.72%	82.31%
Aggregate Results	84.09%	82.93%

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

Pioneer's distribution of loans in the assessment area to individuals of different levels and businesses of different revenue sizes is adequate. Pioneer's distribution of loans to businesses with annual revenues less than \$1 million approximates the demographics. The bank's distribution of home improvement loans is less than the demographics for low-income families and exceeds the demographics for moderate-income families. Overall, home improvement lending is considered near to the demographics for low- and moderate-income families.

Table 4. below shows the bank's distribution of business loans to businesses with annual revenues less than \$1 million versus the demographics for the same. Note, approximately 4% of businesses surveyed for demographic data did not report revenues. The data was obtained from a random sample of 20 business loans originated in the assessment area between July 1, 1996 and December 31, 2000.

Table 4. Revenue Size of Business	By Number %	By Dollar %	Demographic for Assessment Area
Less Than \$1 Million	70.00%	58.81%	88.06%
Greater Than \$1 Million	30.00%	41.19%	8.07%
Revenue Not Reported	0%	0%	3.87%

Table 5. below shows the bank's distribution of home improvement loans to borrowers of different income levels versus the assessment area demographics for income level by families. The data was obtained from 1997 through 2000 HMDA reports.

Table 5. Income Level of Borrower	By Number %	By Dollar %	Demographic for Assessment Area
Low	12.64%	5.31%	17.58%
Moderate	19.16%	14.69%	16.88%
Middle	23.37%	20.71%	22.62%
Upper	36.40%	49.92%	42.92%
NA	8.43%	9.37%	0%

Geographic Distribution of Loans

Pioneer's geographic distribution of loans in the assessment area by geographies of different income levels (including low- and moderate-income neighborhoods) is good. No conspicuous gaps exist in the bank's geographic distribution of its primary loan types. Pioneer's distribution of loans to businesses is near to or exceeds the demographics for businesses located in low- and moderate-income geographies. The bank's geographic dispersion of home improvement loans is less than the demographics for owner-occupied housing located in low-income geographies and exceeds the demographics for moderate-income geographies. Overall, Pioneer's geographic distribution of home improvement loans is considered near to the demographic for owner-occupied housing located in low- and moderate-income geographies.

Table 6. below shows the bank's distribution of business loans versus the percentage of businesses located in the assessment area by geographies of different income levels. The data was obtained from a random sample of 20 business loans originated in the assessment area between July 1, 1996 and December 31, 2000.

Table 6. Business Loans Income Level of Geography	Business Loans by Number %	Business Loans by Dollar %	Assessment Area Businesses %
Low-Income	25.00%	30.52%	32.17%
Moderate-Income	15.00%	11.84%	9.41%
Middle-Income	50.00%	55.55%	38.99%
Upper-Income	10.00%	2.09%	19.43%

Table 7. below shows the bank's distribution of home improvement loans versus the percentage of owner-occupied housing in the assessment area by geographies of different income levels. The data was obtained from 1997 through 2000 HMDA reports.

Table 7. Home Improvement Income Level of Geography	Home Improvement Loans by Number %	Home Improvement Loans by Dollar %	Assessment Area Owner Occupied %
Low-Income	.82%	1.71%	2.40%
Moderate-Income	15.16%	15.48%	12.25%
Middle-Income	57.79%	50.77%	50.58%
Upper-Income	26.23%	32.04%	34.77%

Response to Complaints

There have been no CRA related complaints against the bank.

Retail Services and Qualified Investments

Pioneer's retail services and level of qualified investments were not evaluated as part of this CRA evaluation. However, we are aware of a qualified equity investment made by the bank in three installments between July 1997 and July 1998 for a total of \$132

thousand. This equity investment provided a portion of the funds used to rehabilitate an apartment building for use as affordable housing.

Record of Compliance with Antidiscrimination Laws

An analysis of 1998 HMDA, Small Business, and Small Farm lending data, public comments, and consumer complaint information was performed according to the OCC's risk based fair lending approach. The analysis of this data revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with the CRA evaluation. The latest comprehensive fair lending examination performed by the OCC was in connection with the June 24, 1996 CRA evaluation. At that examination, examiners compared the terms (such as rates and fees) applied to 13 different home improvement borrowers. Examiners did not identify any evidence of discrimination.