



Comptroller of the Currency
Administrator of National Banks

Small Bank

PUBLIC DISCLOSURE

April 14, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Woodlands National Bank
Charter Number 23926**

**122 Main Street
Hinckley, Minnesota 55037**

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

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INSTITUTION'S CRA RATING

This institution is rated “Satisfactory”.

- The geographic distribution of loans originated throughout the assessment area reflects excellent dispersion. Commercial and consumer lending activity in moderate-income geographies is strong and exceeds community demographics.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers) and meets community demographics for lending to businesses of different sizes.
- A majority of loans by both number (67 percent) and by dollar volume (59 percent) is originated to borrowers within Woodlands National Bank’s defined assessment area.
- Woodlands National Bank holds two \$100,000 certificates of deposit from Native American Bank, N.A. (NAB). NAB is a federally chartered bank owned by Native American Bancorporation, a bank holding company that has been organized by a group of Tribal Nations and Alaska Native Corporations.

DESCRIPTION OF INSTITUTION

Woodlands National Bank, Hinckley, Minnesota, (Woodlands NB) is a \$93 million commercial bank. The bank's main office is a full service facility located in Hinckley, Minnesota. There are two other full-service branch locations in Onamia and Sturgeon Lake, Minnesota. The Hinckley and Sturgeon Lake branches were acquired through the purchase of Rural American Bank in October 1999. Although Woodlands NB was a nationally chartered bank at the time of the acquisition of Rural American Bank, Woodlands NB was rechartered on November 1, 1999 in conjunction with this corporate application and its corporate headquarters were relocated from Onamia to Hinckley, Minnesota. The bank operates seven cash-dispensing machines (ATMs), two of which are located in the Grand Casino–Mille Lacs and the Grand Casino–Hinckley.

Woodlands NB's business focus is to meet local residential real estate and commercial lending needs. According to its Report of Condition and Income, the bank has the following outstanding loans by dollar volume on December 31, 2002: residential real estate (34 percent); commercial (24 percent); commercial real estate (23 percent); and consumer (7 percent). Net loans total 50 percent of total assets.

Woodlands NB is 100 percent owned by Mille Lacs Bancorporation, Inc., a \$94 million one-bank holding company headquartered in Onamia, Minnesota. Mille Lacs Bancorporation, Inc. is wholly owned by the Mille Lacs Band of the Ojibwe Indians of Minnesota. The bank has many affiliates due to its association with the Mille Lacs Band of Ojibwe including the Grand Casino–Mille Lacs and the Grand Casino–Hinckley.

This is the bank's first CRA performance evaluation since its reorganization in 1999. The former Woodlands NB received a "Satisfactory" rating as of its January 26, 1998 CRA evaluation. This evaluation period assesses the bank's CRA activities from December 31, 1997 through December 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs in its assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

Woodlands NB has identified two assessment areas, both of which are located in non-Metropolitan Statistical Area (MSA). The bank identifies one of its assessment areas as all of Mille Lacs County, Minnesota, which includes seven block number areas (BNAs). The other identified assessment area is all of Pine County, Minnesota, which includes eight BNAs. The assessment areas comply with regulatory requirements. The areas include Woodlands NB's main office, branches, and most ATMs, as well as a majority of the bank's loans. The areas do not arbitrarily exclude any low- or moderate-income BNAs.

The two assessment areas of Woodlands NB are not geographically contiguous. For analysis purposes, we combined the two assessment areas and evaluated them as one combined assessment area due to their similarities. The total population of the combined assessment area is 39,934 persons, according to 1990 U.S. Census Data.

The U.S. Department of Housing and Urban Development’s updated statewide non-MSA median family income (MFI) estimate for Minnesota is \$48,500 for 2002. The following table summarizes the income category of the individual BNAs and families within the bank’s assessment area. In addition, 11 percent of all families report income below the poverty level.

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Number of BNAs				Percentage of Families			
	Low	Mod	Mid	Upper	Low	Mod	Mid	Upper
Pine County and Mille Lacs County	0	3	12	0	23%	19%	24%	34%

Source: U.S. census data (1990)

According to 1990 U.S. Census Data, the median housing value is affordable at \$46,263 and the average age of homes is 35 years. Over 54 percent of housing in the assessment area is owner-occupied. Rental units have an average gross rent of \$295 per month. According to more recent information provided by a local real estate agent, the median sales price of a home in this area is approximately \$100,000.

The area contains many resorts and the economy is largely dependent on tourism. Major employers in the area are gambling industries, full-service restaurants, and elementary and secondary schools. These employers include: Grand Casino Inc. (1,730), Tobie’s Restaurant (198), and Hinckley-Finlayson Public Schools (165). Unemployment in Mille Lacs and Pine Counties is seasonal in nature. As of December 2002, the unemployment rate was 11.7 percent in Mille Lacs County and 11.1 percent in Pine County. Unemployment rates for both counties in the winter season exceeded the 4.9 percent unemployment rate for the state of Minnesota.

Competition from other financial institutions is strong. Besides Woodlands NB, there is one other financial institution, a credit union, located in Hinckley. The bank is the largest of the two financial institutions in Hinckley. There are 12 banks operating offices in either Mille Lacs or Pine Counties. Of these, Woodlands NB ranks third with a deposit share of 14 percent.

We did not identify any unmet credit needs in Woodlands NB’s assessment area through our contact with a local real estate agent. Our contact indicated that all area banks have expressed a willingness to provide financing to the community, including joint financing programs with governmental agency programs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

Overall, the distribution of loans reflects reasonable penetration among businesses of different sizes and individuals of different income levels. Lending to businesses meets community demographics, while lending to low-income individuals exceeds community demographics and lending to moderate-income individuals meets community demographics.

The bank's volume of commercial loans to businesses with annual revenues of less than \$1 million at 80 percent meets demographics of 93 percent. From December 31, 1997 to December 31, 2002, Woodlands NB originated 672 commercial/commercial real estate loans totaling \$59.1 million. As of December 31, 2002, \$22.3 million of the \$47.6 million loan portfolio is commercial/commercial real estate related loans. Examiners sampled 20 commercial and commercial real estate loans originated in the assessment area that totaled \$1.9 million. Forty-five percent by number of loans originated in the assessment area were to businesses with less than \$250,000 in annual revenues. The following table compares the bank's commercial lending activity by revenue size to community demographics.

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number of Loans	Percent of Loans by Number	Business Demographic Data
< \$50,000	3	15%	93%
\$50,000 - \$100,000	1	5%	
\$100,000 - \$250,000	5	25%	
\$250,000 - \$500,000	4	20%	
\$500,000 - \$1,000,000	3	15%	
> \$1,000,000	4	20%	7%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Residential real estate lending activity is strong given the demographics of the assessment area. The bank meets the demographics for low-income borrowers despite a high poverty rate of 11 percent of total families and exceeds the demographics for moderate-income borrowers. From December 31, 1997 to December 31, 2002, Woodlands NB originated 622 residential real estate loans totaling \$31.2 million. As of December 31, 2002, \$16 million of the \$47.6 million loan

portfolio is residential real estate related loans. Examiners sampled 20 residential real estate loans originated in the assessment area totaling \$1.1 million. The following table compares the bank's residential real estate lending activity by borrower income level to community demographics.

BORROWER DISTRIBUTION OF RESIDENTIAL RE LOANS BY INCOME LEVEL			
Borrower Income Level	Number of Loans	Percent of Loans by Number	Percent of Families
Low	4	20%	23%
Moderate	4	20%	19%
Middle	4	20%	24%
Upper	8	40%	34%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Consumer lending activity also reflects excellent penetration. Consumer lending exceeds the community demographics for low-income borrowers and meets the community demographics for moderate-income borrowers. From December 31, 1997 to December 31, 2002, Woodlands NB originated 3,273 consumer loans totaling \$22.3 million. As of December 31, 2002, \$7.3 million of the \$47.6 million loan portfolio is consumer related loans. Examiners sampled 20 consumer loans originated in the assessment area totaling \$134,826. The following table compares the bank's consumer lending activity by borrower income level to community demographics.

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number	Percent of Number	Percent of Households
Low	7	35%	27%
Moderate	3	15%	17%
Middle	4	20%	18%
Upper	6	30%	38%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

We did not perform a review of Woodlands NB’s agricultural lending activity, as this is not a major product line for the bank. From December 31, 1997 to December 31, 2002, Woodlands NB originated 193 agricultural related loans (4 percent). As of December 31, 2002, \$2 million of the \$47.6 million loan portfolio (4 percent) is agricultural related loans.

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion of throughout Woodlands NB’s assessment area. The volume of commercial, residential real estate, and consumer loans in the moderate-income BNAs exceeds assessment area demographics, as shown in the following tables.

Geographic Distribution of Commercial Loans by Income Level					
BNA Income Level	Number	Percent of Number	Dollar Amount	Percent of Amount	Percent of Businesses by BNA Category
Low	0	0%	\$0	0%	0%
Moderate	7	35%	\$179,564	12%	18%
Middle	13	65%	\$1,308,962	88%	82%
Upper	0	0%	\$0	0%	0%
Totals	20	100%	\$1,488,526	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Geographic Distribution of Residential Real Estate Loans by Income Level					
BNA Income Level	Number	Percent of Number	Dollar Amount	Percent of Amount	Percent of Owner-Occupied Homes by BNA Category
Low	0	0%	\$0	0%	0%
Moderate	8	40%	\$404,450	46%	44%
Middle	12	60%	\$470,894	54%	56%
Upper	0	0%	\$0	0%	0%
Totals	20	100%	\$875,344	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (1990)

Geographic Distribution of Consumer Loans by Income Level					
BNA Income Level	Number	Percent of Number	Dollar Amount	Percent of Amount	Percent of Households by BNA Category
Low	0	0%	\$0	0%	0%
Moderate	9	45%	\$32,658	26%	16%
Middle	11	55%	\$94,496	74%	84%
Upper	0	0%	\$0	0%	0%
Totals	20	100%	\$127,154	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Demographic Data (1990)

An analysis of the geographic distribution reflects lending in most of the 15 BNAs in the assessment area. In our review of the bank's primary products, we identified that no loans in our sample were originated in the one moderate-income BNA in Pine County (#9503). However, our sample was relatively small and since the bank currently does not track loan originations by BNA, we could not identify the level of loan originations from that BNA.

The moderate-income BNA (#9503) in Pine County is located between the Hinckley and Sturgeon Lake offices, approximately 15 miles from each. This BNA (#9503) includes the cities of Finlayson and Askov, and the town of Sandstone on the southern side. The First State Bank of Finlayson is located within this BNA, along with First National Bank of the North in Sandstone. The level of competition from these banks may limit lending opportunities in this BNA.

Loan-to-Deposit Ratio

Woodlands NB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the assessment area's credit needs. The bank's quarterly net loan-to-deposit ratio averaged 64 percent and ranged from 53 percent to 78 percent over the 21 quarters from December 31, 1997 through December 31, 2002. Woodlands NB's net quarterly loan-to-deposit ratio totals 58 percent as of December 31, 2002.

Woodlands NB's net loan-to-deposit ratio is comparable to other community banks of similar size (total assets between \$50 and \$120 million) in the assessment area. Woodlands NB ranks fifth among a total of six similarly-situated banks chartered in the assessment area. The other five banks had average quarterly net loan-to-deposit ratios averaging 79 percent and ranging from 58 percent to 98 percent over the 21 quarters from December 31, 1997 through December 31, 2002.

Since the Mille Lacs Band purchased the holding company in 1996, the Band has held a large amount of deposits at the bank. For liquidity purposes, the bank maintains about half of these deposits in Fed Funds Sold. This situation has kept the loan to deposit ratio of Woodlands NB somewhat lower than other similarly-situated banks in the region.

Lending in Assessment Area

Woodlands NB originates a majority of its loans to borrowers located within its assessment area. Of the loans originated from December 31, 1997 to December 31, 2002, 67 percent by number and 59 percent by dollar volume were made to businesses and individuals located within the bank's assessment area. The following table shows loans originated within the assessment area by number and dollar volume for the twenty loans that we sampled of each loan type.

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT (000s)				
Type of Loan	Number of Loans	Percent of Loans by Number	Dollar Amount of Loans	Percent of Loans by Dollar
Commercial	12	60%	\$1,151	61%
Residential RE	15	75%	\$626	55%
Consumer	13	65%	\$84	62%
Total	40	67%	\$1,861	59%

Source: Bank Records (verified by examiners)

Woodlands NB purchases a significant volume of commercial loan participations to hold in its own portfolio. As of April 21, 2003, the bank held 16 participations totaling over \$4.1 million that accounted for 18% of the commercial loan portfolio. These participations to some extent reduce the percentage of commercial loans by number and dollar volume originated within the assessment area.

Qualified Investments and Community Development Services

Woodlands NB holds two \$100,000 certificates of deposit from Native American Bank, N.A. (NAB). NAB is a federally chartered bank that is owned by Native American Bancorporation, a bank holding company that has been organized by a group of Tribal Nations and Alaska Native Corporations. The mission statement of NAB is "Pooling Indian Economic Resources to Increase Indian Economic Independence". The executive offices of Native American Bancorporation and Native American Bank, N.A. are located in Denver, Colorado. The location of the principal banking office of NAB is in Browning, Montana, on the Blackfeet Indian Reservation. The bank's holding of these deposits received positive consideration during the evaluation period as qualified investments.

Responses to Complaints

The bank has not received any CRA-related complaints since it was chartered on November 1, 1999.

Fair Lending Review

An analysis of 1998, 1999, 2000, 2001, and 2002's public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed prior to the acquisition of Rural American Bank in 1999 and the creation of this current Woodlands NB charter.