



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

October 14, 2003

Community Reinvestment Act Performance Evaluation

**The First National Bank of Walker
Charter Number: 8476**

**600 Minnesota Avenue West
Walker, Minnesota 56484**

**Office of the Comptroller of the Currency
Alexandria Field Office
P. O. Box 849
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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

First National Bank of Walker is rated **Outstanding**.

- ▣ The bank's LTD ratio exceeds the standard for satisfactory performance. The LTD ratio is high given the institution's size, financial condition and lending opportunities within the assessment area (AA). The LTD is also high when compared to other area institutions.
- ▣ The bank's lending within the AA exceeds the standard for satisfactory performance. A substantial majority of its loans are made within the AA.
- ▣ The bank's geographic distribution of loans throughout the AA exceeds the standard for satisfactory performance.
- ▣ The bank's retail banking delivery systems are readily accessible to geographies and individuals of different income levels throughout the AA.

Description of Institution

The First National Bank of Walker (FNB of Walker) is a \$214 million bank in Walker, Minnesota. The Walker Bank Company, a one-bank holding company, owns 100% of the bank. The bank is located in north central Minnesota and has branches in Akeley, Backus, Hackensack and Longville. The bank owns nine automatic teller machines (ATMs); three located at branch offices and six located at retail businesses. Deposit-taking services are provided at two of the ATMs located at branch offices.

The bank offers a wide variety of loan and deposit products and services. Using December 31, 2002 financial information, gross loans represent approximately 72% of total assets. The primary lending focus is in 1-4 family residential real estate and business loans, including business real estate. The following table depicts the loan portfolio composition.

Loan Portfolio Composition 6/03	\$ (000)	%
Business Loans & Real Estate	77,486	50.10
Residential Real Estate Loans	61,540	39.80
Consumer Loans	13,768	8.90
Other Loans	1,859	1.20
Total	154,653	100.00

The last CRA examination was April 4, 1997 and the bank was rated "Outstanding". There are no legal or financial impediments limiting the bank's ability to help meet community credit needs.

Description of FNB of Walker's Assessment Area

The bank's assessment area (AA) includes parts of Cass and Hubbard counties in north central Minnesota. The AA is not located within a metropolitan statistical area (MSA). According to the 1990 census, the population of the AA is approximately 17,300. The AA includes 11 block-numbering areas (BNAs); eight designated as moderate-income and three designated middle-income. The AA contains no low-income or upper-income BNAs.

The AA includes only whole BNAs that are contiguous. The AA meets the requirements of the regulation. Low- or moderate-income geographies are not arbitrarily excluded from the AA. Larger cities included in the AA are Walker and Park Rapids.

The bank's AA is dependent on business operations. Employment opportunities include the school district, small manufacturing and health care providers. The number of households living below the poverty level is high, at 20.63% of total households. The statewide median income for 2002 is \$48,500.

The bank's competitors include three community banks located within Walker. Other competition includes several community banks operating in, or bordering FNB of Walker's AA.

During our evaluation, we contacted local community organizations to better understand the AA demographics and to determine the primary credit needs of the AA. We also relied on previous community contacts made by this agency and other governmental agencies. The top credit needs of the AA include residential real estate and business lending.

The demographics of the AA are illustrated in the table on the next page. The information is based on 1990 census data unless otherwise noted.

Demographic and Economic Characteristics of AA	
<i>Population</i>	
Number of Families	4,953
Number of Households	6,812
Number of Low-Income Families	1,467
% of Low-Income Families	29.62%
Number of Moderate-Income Families	1,208
% of Moderate-Income Families	24.39%
Number of Middle-Income Families	1,131
% of Middle-Income Families	22.83%
Number of Upper-Income Families	1,147
% of Upper-Income Families	23.16%
<i>Geographies</i>	
Number of Census Tracts/BNA	11
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	73%
% Middle-Income Census Tracts/BNA	27%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$21,983
2002 HUD-Adjusted MFI	\$48,500
<i>Economic Indicators</i>	
Unemployment Rate: Cass/Hubbard Counties	5.8% / 5.0%
2002 Median Housing Value	\$52,131
% of Households Below Poverty Level	20.63%

Loan Sampling

The bank's primary loan types were determined through reviewing all loans originated and purchased during the time period from January 1, 2001 to December 31, 2002. The following table depicts the number and volume of loans originated and purchased.

Loan Products	#	%	\$ (000)	%
Business Loans	1,631	19.15	59,561	68.16
Residential Real Estate	1,535	18.02	22,877	26.18
Consumer Loans	5,322	62.49	4,878	5.58
Agricultural Loans	29	0.34	74	0.08
Total	8,517	100	87,390	100

For the purpose of this evaluation, the primary loan types are business loans, residential real estate loans, and consumer loans. Business loans account for over 68% of the volume of loans and nearly 20% of the loans originated. Residential real estate loans account for 18% of loan originations along with over 26% of the volume of loans. Consumer loans total 62% of the

number of loans and 5.58% of the volume of loans. Agricultural loans were not selected based on the limited number of loans originated and the small dollar volume.

To conduct our analysis, we selected a sample of twenty business, twenty residential real estate and twenty consumer loans originated between January 2001 and December 2002. Statistically valid sampling techniques were used to select the sample. The twenty consumer loans totaled \$1,937,976. The residential real estate sample totaled \$1,211,495 and the twenty consumer loans totaled \$103,902. After initial sampling to determine the bank’s lending within the AA, additional files were selected so that all loans in the sample were made within FNB of Walker’s AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank’s LTD ratio exceeds the standard for satisfactory performance. The LTD ratio is high given the bank’s size, financial condition and lending opportunities within in its AA. The quarterly LTD ratio averaged 85.98% in the 20 quarters since September 30, 1998. During this period the LTD ratio increased steadily from 79.41% on September 30, 1998 to 84.59% on June 30, 2003. In comparison all other financial institution with assets greater than \$70 million within, or bordering FNB of Walker’s AA, FNB of Walker has the third highest average LTD ratio.

Institution	Assets (as of 6/30/03)	Average LTD Ratio (%)
State Bank of Park Rapids	\$82,692	95.87
Security State Bank	\$75,333	88.60
<i>First National Bank of Walker</i>	<i>\$214,321</i>	<i>85.98</i>
Woodland Bank	\$71,688	85.47
Pine River State Bank	\$71,845	78.13
The Citizens National Bank of Park Rapids	\$162,094	71.07
The First National Bank of Bemidji	\$345,494	64.92

Lending in Assessment Area

The bank's lending within its AA exceeds the standard for satisfactory performance. The bank continues to originate a substantial majority of its loans within the AA as demonstrated by the table below.

Lending in FNB of Walker's AA										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	#	%	\$
Total	59	98	1	2	60	3,160*	98	50*	2	3,210*

Dollar volume in 000s.

Geographic Distribution of Loans

FNB of Walker's geographic distribution of loans throughout its AA exceeds the standard for satisfactory performance.

Business Loans

The geographic distribution of business loans is good. The percentage by number of business loans in the moderate-income area exceeds the portion of businesses within that geography. The following table depicts the bank's performance.

Geographic Distribution of Loans to Businesses in FNB of Walker's AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0	0	56	60	44	40	0	0

Residential Real Estate Loans

The geographic distribution of residential real estate loans is good. The percentage by number of loans in the moderate-income area exceeds the portion of residential real estate within that geography. The following table depicts the bank's performance.

Geographic Distribution of Residential Real Estate Loans in FNB of Walker's AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% 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
	0	0	36	56	33	44	0	0

Consumer Loans

The geographic distribution of consumer loans is satisfactory. The portion of consumer loans made in the moderate-income geography is slightly below the portion of households located in that geography. The table below illustrates the bank's performance.

Geographic Distribution of Consumer Loans in FNB of Walker's AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	0	0	77	70	23	30	0	0

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

Lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

Business Loans

FNB of Walker's lending to businesses of different sizes is satisfactory. Lending to businesses with revenues under \$1 million meets the demographics of the AA. The following table illustrates FNB of Walker's lending to businesses of different sizes.

Borrower Distribution of Loans to Businesses in FNB of Walker's AA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses **	75.55%	3.05%
% of Bank Loans in AA #	65%	15%
% of Bank Loans in AA \$	65%	17%

** 21.4 % of businesses did not report revenue data.

Residential Real Estate Loans

FNB of Walker's residential real estate lending to borrowers of different income levels is satisfactory when considering performance context issues of the AA.

The bank's level of residential real estate lending to low-income borrowers is below AA demographics. However, FNB of Walker's low penetration to low-income residential real estate borrowers is mitigated by several factors; including the high and increasing median price of homes, the high level of households at the poverty level, and the lack of low-priced homes. The poverty level, as a percent of households, is nearly 21%, leaving a small portion of low-income borrowers who would be able to qualify for a home purchase. In addition, the stock of low priced homes is low, leaving few alternatives for low-income borrowers to purchase.

Borrower Distribution of Residential Real Estate Loans in FNB of Walker's AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% 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
	29.62	15	24.39	5	22.83	50	23.16	30

Consumer Loans

Consumer lending to low- and moderate-income borrowers exceeds the standard for satisfactory performance. The percentage of number of loans made to low-income borrowers significantly exceeds the demographics of the AA. The following table depicts the distribution of consumer loans.

Borrower Distribution of Consumer Loans in FNB of Walker's AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	32.5	85	19.3	10	20.5	0	27.7	1

Retail Banking Services

FNB of Walker's retail banking delivery systems are readily accessible to geographies and individuals of different income levels throughout the AA. Of the five banking locations, three are located within moderate-income geographies and two within middle-income geographies.

Alternative delivery systems include telephone banking, internet banking and nine ATMs located throughout the AA, including two with deposit-accepting capabilities.

Business hours and services offered throughout the AA are excellent. The main bank location has lobby hours from 8:30am until 4:30pm except Fridays extended to 5:30pm. In addition, the lobby is open on Saturday from 9pm until noon. The drive up opens at 7:30am and remains available until 6pm with Saturday hours from 8am until noon.

All branches have the same hours of operation. The branch lobbies are open Monday through Thursday from 9am until 4pm, except Friday extended until 6pm. The branch drive-ups open at 8am until 5pm except Friday when the drive up closes at 6pm. Both the branch lobbies and drive ups are open on Saturday from 8am until noon.

Responses to Complaints

FNB of Walker's response to complaints meets the standard for satisfactory performance.

Fair Lending Review

An analysis of 1997 through 2002 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.