



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 19, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Pine City
Charter Number 11581**

**560 East Third Avenue
Pine City, MN 55063**

**Comptroller of the Currency
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, MN 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 First National Bank of Pine City's lending performance is satisfactory. The bank's loan-to-deposit ratio is reasonable for a bank of its size in this area. A substantial majority of the bank's loans are made in the assessment area. Loans are made to individuals of different income levels including an adequate distribution to those designated as low- and moderate-income.

- The bank's average quarterly loan-to-deposit ratio of 75% is near average in comparison to a group of similarly situated banks.
- The bank's record of lending in the assessment area is strong. Of the loans sampled, 90% by number and 93% by dollar were originated in the bank's assessment area.
- The bank's lending performance to borrowers of different income levels exceeds the percentage of moderate-income families living in the assessment area but is less than the percentage of low-income families living in the assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Pine City has one office located in Pine City, Minnesota. The bank also owns and operates one ATM at a nearby convenience store. The bank is primarily a residential real estate lender. As of September 30, 2001, total loans represented 56% of the bank's \$51.4 million in total assets. The bank's loan portfolio consists of: 69% residential real estate; 14% consumer; 13% commercial; 3% agriculture; and 1% land development & other.

The First National Bank of Pine City is owned by a closely held single bank holding company, Pine Bancshares, Inc. The majority owner of The First National Bank of Pine City also owns a bank in California. The banks are independently operated and do not impact the other's CRA performance. There have been no recent changes in the bank's corporate structure.

There are no legal impediments or other factors, including the financial condition of the bank, that limit its ability to meet the credit needs of its assessment area. The bank's last CRA evaluation was April 24, 1997. The bank was rated satisfactory at that time.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists of four census tracts in southern Pine County. Pine City is near the center of the assessment area and is located approximately 90 miles north of Minneapolis/St. Paul. Opportunities exist to make residential real estate loans in the assessment area because of modest population growth and demand for seasonal lake homes.

The assessment area is economically sound. Assessment area population is growing modestly. Data from the most recent census shows an increase in assessment area population from 11,700

in 1990 to 14,529 in 2000, and an increase in homeownership rates from 58% in 1990 to 66% in 2000. Seasonal lake homes account for approximately 17% of all housing in the assessment area and are not considered owner occupied. Excluding seasonal lake homes, the rate of homeownership is now near 79%. Real estate values in the assessment area are appreciating due to population growth, proximity to Minneapolis/St. Paul, and demand for seasonal lake homes.

Business is also growing modestly with most growth occurring in the service sector along Interstate 35. Unemployment is economically healthy but higher than average for the state of Minnesota, 5.8% in Pine County versus 3.4% state wide as of November 30, 2001. Updated median family income for Minnesota's Non-Metropolitan Statistical Areas (MSAs) increased to \$47,100 in 2001 compared to \$27,052 based on 1990 census data.

One new community contact was made to assist in evaluating the credit needs of the assessment area. The contact, a local realtor, described an active and competitive local market for residential real estate loans. Pine City has at least seven active residential real estate lenders including offices of: three banks; one savings association; one credit union; and two mortgage companies. Per the community contact, in-town homes range in price from \$80-\$150 thousand and are typically selling within a few months and lake homes are starting at \$170 thousand and typically selling within a month. The data provided by the contact on home values indicates that low-income families can not afford most of the housing on the market.

The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. Table 1 below shows that the assessment area is comprised entirely of middle-income geographies based on 1990 census data. Table 2 below shows a distribution by family income level for the assessment area based on 2001 updated Non-MSA median family income of \$47,100.

Table 1: Assessment Area by Income Level	Number of Census Tract	Percent of Census Tract
Low Income	0	0%
Moderate Income	0	0%
Middle Income	4	100%
Upper Income	0	0%

Table 2: Family Income Level	Percent of Families
Low Income	21.79%
Moderate Income	19.91%
Middle Income	24.90%
Upper Income	33.40%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The First National Bank of Pine City's loan-to-deposit ratio is reasonable. The bank's quarterly average loan-to-deposit ratio of 75% since its last CRA evaluation is near the 83% average for a group of similarly situated banks. Similarly situated banks are defined as those with an office in southern Pine County and total bank assets of less than \$100 million. Three banks and one savings association met these criteria.

Lending in Assessment Area

The bank's record of lending in the assessment area is strong. Based on a sample of loans, 90% of loans by number and 93% by dollar were originated in the assessment area. The bank's ratio of lending in its assessment was calculated from 20 randomly selected residential real estate loans (primary loan type) originated by the bank between January 1, 1997 and October 31, 2001.

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

The bank's distribution of loans in the assessment area to individuals of different income levels is adequate. The bank's distribution of residential real estate loans by borrower income level exceeds the demographic for moderate-income families but is less than the demographic for low-income families. This level of performance is adequate given that virtually all of the lake homes and many of the in-town homes in the assessment area are priced beyond the means (28% home debt service capacity) of a low-income family.

Table 3 below shows the bank's distribution of residential real estate loans to borrowers of different income levels versus the percent of families in the assessment area by income level. The data was compiled from 40 randomly selected residential real estate loans made by the bank in the assessment area between January 1, 1997 and October 31, 2001.

Table 3. Borrower Income Level	By % of Number	By % of Dollar	% of Families in Assessment Area
Low	7.50%	6.28%	21.79%
Moderate	25.00%	24.51%	19.91%
Middle	47.50%	52.60%	24.90%
Upper	20.00%	16.61%	33.40%

Geographic Distribution of Loans

This is not a meaningful analysis because the bank's assessment area consists only of middle-income geographies.

Responses to Complaints

There have been no CRA related complaints against the bank.

Fair Lending Review

An analysis of 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 exam was performed in 1997.