



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 09, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of River Falls
Charter Number 7087**

**104 East Locust Street
River Falls, WI 54022**

**Comptroller of the Currency
Minneapolis South
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.

INSTITUTION'S CRA RATING: **This institution is rated Satisfactory.**

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's loan-to-deposit is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loan originations are made within the bank's assessment area.
- The distribution of loans reflects reasonable penetration among businesses of different sizes and individuals of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank's community development performance demonstrates satisfactory responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services.

SCOPE OF EXAMINATION

We evaluated the First National Bank of River Falls Community Reinvestment Act performance under the Lending and Community Development Tests. In evaluating the bank's lending performance we reviewed lending data for the bank's two primary loan products. We reviewed commercial and home refinance loans for the period January 1, 2005 through December 31, 2006. These two loan types comprised 81% of loan originations by dollar during that timeframe. Prior to conducting this evaluation, we tested the accuracy of the bank's HMDA data. We found the data to be accurate and used the data in the evaluation of home refinance loans. Home refinance loans were compared to the 2000 census data and business loans were compared to the 2006 demographics.

The Community Development Test covered community development loans, investments, and services during the entire evaluation period, May 21, 2002 through December 31, 2006. We used only those that met the regulatory definition for community development in our analysis of the Community Development Test.

DESCRIPTION OF INSTITUTION

First National Bank of River Falls (FNB) is a \$270MM bank located in River Falls, WI. FNB is owned by First National Bancorp of River Falls, Inc., a one-bank holding company.

FNB's main office is located in River Falls and a full-service branch is located in Prescott, WI. In addition, FNB operates limited-service branch offices at Well Haven Senior Apartments in River Falls and the University of WI River Falls (UWRF). The Well Haven branch is open the 2nd and 4th Tuesday of each month. The activities at this location are limited to opening accounts, cashing checks, and taking deposits. The UWRF branch provides deposit services and consumer installment loans. The bank also operates two automated teller machines (ATMs) at the main office location, one ATM in Prescott, and one ATM at UWRF. Only the ATM at the UWRF location accepts deposits.

The bank offers telephone and online banking to its customers. These services provide customers with 24-hour access to deposit and loan account information. It also allows the customer to make transfers between accounts, including making loan payments. Internet banking is offered for both consumer and business customers and includes bill payment services.

FNB is a full-service bank and offers a wide variety of banking products. As of December 31, 2006, the bank's \$172MM loan portfolio consisted of 68% commercial loans, 17% residential real estate loans, 14% consumer loans, and 1% agricultural loans. Net loans total 64% of total assets.

There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its assessment area (AA). At its last CRA examination, dated May 20, 2002, the bank was rated Satisfactory under the Small Bank procedures. This examination was completed under the Intermediate Small Bank procedures.

DESCRIPTION OF FNB'S ASSESSMENT AREA

FNB's AA includes Pierce County and a majority of St. Croix County. Both counties are part of the Minneapolis-St. Paul, Minnesota-Wisconsin, Metropolitan Statistical Area (MSA). The AA consists of eight census tracts (CTs) in Pierce County (9601-9608) and nine CTs in St. Croix County (1201-1206, and 1208-1210). The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Based on 2000 census data, there are no CTs designated as low-income, two (11.76%) designated as moderate-income, 13 (76.47%) designated as middle-income, and two (11.76%) designated as upper-income. The two moderate-income CTs are located on the eastern edge of Pierce County, farthest from the bank. All FNB's branches and ATMs are located in middle-income CTs.

The Department of Housing and Urban Development's 2006 estimated median family income for the MSA is \$78,500, up 25% from \$62,716 in 2000. There are 651 or 2.60% of families below poverty level in the AA. The median housing value in the AA is \$139,924. Owner-occupied housing represents 72% of the housing stock within the AA. Rental units have an average gross rent of \$561 per month.

The local economy is strong. Employment is centered in several major industries including educational services, food services, nursing and residential care facilities, and local government. Unemployment in Pierce and St. Croix Counties is 4.4% and 4.7%, respectively, as of

December 2006. This is below the 4.9% unemployment rate for the state of Wisconsin.

Competition from other financial institutions is strong. There are 20 financial institutions, excluding credit unions, with offices in the AA. According to the June 30, 2006 information from the Federal Deposit Insurance Corporation, FNB ranked first among the 20 institutions having 14.53% of the market share for deposits.

Our community contacts indicated that local banks are competitive and very active in the community. One contact explained that most local banks offer some type of homebuyer program to help low- and moderate-income individuals afford homes. However, there remains a need for affordable housing in the River Falls market.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank's performance under the Lending Test is satisfactory. We based this conclusion on commercial and home refinance loans. We placed more emphasis on the bank's commercial loans as this represented over 80% of the two primary products.

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly net loan-to-deposit ratio averaged 76% over the 19 quarters from June 30, 2002, through December 31, 2006. FNB's net loan-to-deposit ratio trend is increasing and totaled 81% at December 31, 2006.

FNB's ratio is reasonable compared with other community banks of similar size (total assets \$175MM to \$400MM). FNB ranks fifth among a total of 6 similarly-situated banks with a presence in the AA. The five other banks had an average net loan-to-deposit ratio averaging 91% and ranging from 67% to 104% over the 19 quarters from June 30, 2002, through December 31, 2006.

Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its defined AA. Based on a sample of 20 commercial loans and 2005-2006 HMDA data for home refinance loans, 88.10% by number and 86.79% by dollar volume were made to businesses and individuals located within the bank's AA. The following table shows loans originated inside the AA by number and dollar volume:

Lending in Assessment Area by Number and Dollar Amount								
Loan Type	In Assessment Area				Out of Assessment Area			
	#	%	\$(000's)	%	#	%	\$(000's)	%
Commercial	17	85.00%	\$2,234	76.89%	3	15.00%	\$671	23.11%
Home Refinance	131	88.51%	\$21,699	87.95%	17	11.49%	\$2,972	12.05%
Total	148	88.10%	\$23,933	86.79%	20	11.90%	\$3,643	13.21%

Source: Bank records (verified by examiners) and 2005-2006 HMDA data

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

The distribution of borrowers reflects reasonable penetration among businesses of different sizes and among individuals of different income levels.

Commercial lending activity in the AA is reasonable compared to community demographics. The largest number of loans was made to businesses with less than \$1 million in gross annual revenues. However, the community demographics indicate that a large portion of businesses do not report their revenues. The following table compares the bank's commercial lending activity by revenue size to community demographics:

Borrower Distribution of Loans to Businesses in the AA			
Business Revenues	< \$1,000,000	> \$1,000,000	Not reported
% of AA Businesses	55.74%	4.28%	39.98%
% of Bank loans in AA by #	65.00%	35.00%	0.00%
% of Bank loans in AA by \$	53.57%	46.43%	0.00%

Source: Bank records (verified by examiners) and Business Geodemographic Data (2006)

Residential real estate lending activity in the AA is reasonable. Based upon 2005-2006 HMDA data, FNB exceeds the demographic for lending to moderate-income borrowers at 30%. Only 9.23% of the home refinance loans were made to low-income families. However, the percentage of families below poverty level is 2.60% and those families would have difficulty purchasing or refinancing homes. Taking this into consideration, the bank's penetration of lending to low-income families more closely approximates area demographics. The following table compares the bank's home refinance lending activity by borrower income to AA demographics:

Borrower Distribution of Home Refinance Loans by Income Level								
Borrower Income	Low \$0 - \$39,249		Moderate \$39,250 - \$62,799		Middle \$62,800 - \$75,360		Upper \$75,360 and over	
	% of bank loans	% of families	% of bank loans	% of families	% of bank loans	% of families	% of bank loans	% of families
Home Refinance	9.23%	16.55%	30.00%	21.47%	32.31%	29.73%	28.46%	32.25%

Source: 2005-2006 HMDA data and U.S. Census Demographic Data (2000)

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. There are no low-income CTs in the bank's AA.

FNB's lending for commercial and home refinance loans is low for moderate-income CTs compared to the demographic data. However, the bank's locations relative to the moderate-income CTs negatively impacts its ability to make loans in those areas. The two moderate-income CTs are located on the eastern side of Pierce County, opposite the bank locations. The moderate-income CTs are also served by several other local financial institutions.

Geographic Distribution of Commercial Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of bank loans	% of AA Businesses	% of bank loans	% of AA Businesses	% of bank loans	% of AA Businesses	% of bank loans	% of AA Business es
Commercial	0.00%	0.00%	0.00%	7.03%	75.00%	80.79%	25.00%	12.18%

Source: Bank records (verified by examiners) and Business Geodemographic Data (2006)

Geographic Distribution of Home Refinance Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of bank loans	% of AA Owner Occupied	% of bank loans	% of AA Owner Occupied	% of bank loans	% of AA Owner Occupied	% of bank loans	% of AA Owner Occupied
Home Refinance	0.00%	0.00%	1.53%	7.44%	93.89%	77.32%	4.58%	15.24%

Source: 2005-2006 HMDA data and U.S. Census Demographic Data (2000)

Responses to Complaints

FNB River Falls has not received any CRA related complaints during the evaluation period.

Community Development Test

FNB's community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services. We considered the AA needs and the availability of opportunities for community development in the bank's AA during our analysis.

Community Development Loans

FNB originated one qualifying loan totaling \$1,062M during the evaluation period. The loan was to construct a 24-unit affordable housing complex in River Falls, WI. The apartment rents are targeted specifically to low- and moderate-income individuals.

FNB also originated two loans totaling \$850M for a senior housing project located outside the bank's AA in Clear Lake, WI. The project consisted of 14 units, with 50% of the apartments currently leased by low-to-moderate income individuals.

Community Development Investments

FNB had an adequate level of qualified community development investments. During the evaluation period, the bank's qualified investments included donations totaling \$80M to 16 organizations located in the bank's AA. These donations included funds to Habitat for Humanity, YMCA Y partners, need based scholarship programs, and various food shelters. All funds are specifically targeted to benefit low- and moderate-income individuals.

In 2004, FNB and the UW-River Falls College of Business formed the Compass Scholars Annual Scholarship. This scholarship recognizes Wisconsin minority students with financial need. Along with the \$5M scholarship, the student is offered a paid internship at the bank for the

academic year and the summer. To date, the bank has contributed \$20M to this scholarship program.

Community Development Services

FNB provides a satisfactory level of community development services through its branches, products, and activities with local organizations that support qualified community development activities.

Delivery systems are reasonably accessible to businesses and individuals of different income levels. The River Falls and Prescott branches provide similar hours of operations, with extended hours available at all office drive-up locations.

FNB provides a full-range of consumer and commercial banking products and services at all its branches. FNB participates in two loan programs to assist LMI home buyers, such as WHEDA loans and the Guaranteed Rural Housing program. FNB offers a free checking account that is suitable for LMI individuals. There is also a checking account targeted to small businesses. FNB also offers Express Deposit, an imaging system for business customers to make their deposits electronically through a secured processing system.

Through its employees, FNB is also involved in a variety of community development services. Bank employees serve on the Board of Directors or other committees for various Economic Development Corporations and Chambers of Commerce. Employees also lend their financial expertise to non-profit organizations that provide services for LMI individuals, such as Habitat for Humanity, River Falls Lions Club, YMCA Y Partners, and the local Salvation Army.

Two employees have participated directly in the organization of the Kinnickinnic Valley Health & Education Foundation's "Free Clinic of Pierce and St. Croix Counties". The Free Clinic will open in April 2007 and provide care to uninsured, low-income individuals from Pierce and St. Croix counties with no health care alternative.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.