

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 26, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 8280**

**414 Main Street, P.O. Box 129
Milnor, North Dakota 58060**

**Office of the Comptroller of the Currency
Fargo Field Office
3211 Fiechtner Drive SW
Fargo, North Dakota 58103-2358**

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 CRA performance of the **First National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 26, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

First National Bank is meeting the credit needs of its assessment area. The dollar amount of loans outstanding given the bank's deposit base is reasonable when compared to similar banks within its assessment area. A substantial majority of the bank's loans are made within its assessment area. The bank actively lends to businesses and farms of smaller size.

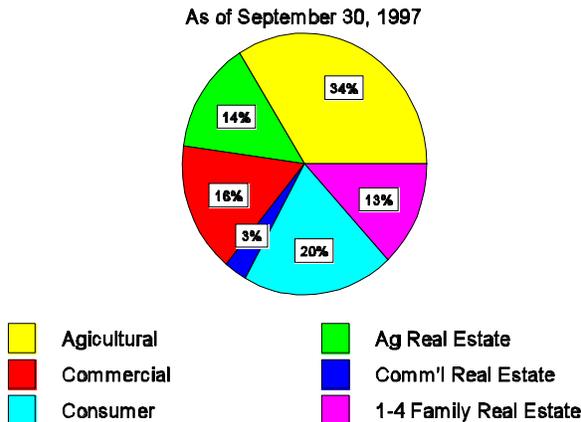
The following table indicates the performance level of the **First National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST NATIONAL BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Analysis not meaningful.		
Response to Complaints	No complaints were received since the prior examination		

DESCRIPTION OF INSTITUTION

First National Bank, a \$32 million financial institution, is one of five banks with offices located in the bank's assessment area. The bank is 100% owned by FNB Bankshares, Inc., a one bank holding company. The main office is located in Milnor, ND and is a full service branch offering a variety of loan products with an emphasis in agricultural lending. The bank also has a full service branch in Lisbon, ND.

Loan Portfolio Composition



Together, the two offices maintain an \$18 million loan portfolio with agriculture and agricultural real estate loans making up 48% of the loans. Commercial and commercial real estate loans represent 19% of the portfolio with consumer and 1-4 family residential loans at 20% and 13%, respectively.

The bank does not have any barriers that prohibit it from meeting the credit needs of its assessment area. The economy in the bank's assessment area is dependent on a fragile agricultural industry and supplemented with a stable commercial base. First National Bank opened a branch office in Lisbon, ND on March 3, 1996 and also operates two Automated Teller Machines (ATM's). At the last CRA examination dated February 7, 1995, First National Bank received a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes the counties of Ransom and Sargent in southeastern North Dakota. The assessment area consists of block numbering areas (BNAs) 9689, 9690, and 9691 in Ransom County and BNAs 9739, 9740, and 9741 in Sargent County. Based on 1990 U.S. Census Bureau numbers, BNA 9691 is designated as an upper income area (household income that is 120% or more of median family income) with the remaining BNAs designated middle income areas (income that is at least 80% and less than 120% of median family income). The assessment area complies with the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The 1990 census population for the combined counties was approximately 10,470. The updated 1997 weighted average of non-metropolitan statistical area's median family income is \$34,000. The primary housing facilities are 1-4 family, owner occupied units with a median value of \$28,638. The following table breaks down the assessment area's population by family income:

Population	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
	#	%	#	%	#	%	#	\$	#	\$
	494	17	490	17	635	22	1260	44	2,879	100.00

Community contacts included a local branch of a federal agency and a member of a local business group. Our discussions with both groups indicated a primary need for affordable housing units. First National Bank addresses this need by providing housing loans. The bank has 13% of their loan portfolio in residential real estate loans and sold another \$1.1 million in real estate loans on the secondary market during 1996-1997.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Analysis

First National Bank's loan-to-deposit ratio is reasonable in comparison with other banks in their assessment area. During the 12 quarters ended September 30, 1997, the bank's average loan-to-deposit ratio was 54%. Average loan-to-deposit ratios for the two other community banks located in the assessment area were 87% and 59% over the same period. The bank's loan-to-deposit ratio has increased over recent quarters to 68% on September 30, 1997 compared to 54% on September 30, 1996 and 52% on September 30, 1995. Increased loan activity comes largely from the branch opened in Lisbon which currently maintains 29% of the bank's loan portfolio.

Credit Extended Inside and Outside of the Assessment Area

A substantial majority of the bank's loans are within its defined assessment area. We reviewed a sample of loans to analyze the extent of lending inside and outside the assessment area. Our sample included 50 commercial and agricultural loans, 20 residential real estate and consumer loans on the bank's trial balance, and 20 residential real estate loans sold on the secondary market over the last two years. We found that 82% of the commercial and agricultural and 100% of all residential real estate and consumer loans were extended to customers within the bank's assessment area.

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

The income distribution for small business loans and agricultural loans shows good penetration to businesses and farms of different sizes. We sampled 50 small business and agricultural loans to determine the gross income levels. As detailed in the following table, our sample showed that 90% of the loans reviewed were made to borrowers with gross incomes less than \$1 million.

Gross Income for Commercial and Agricultural Businesses						
	< \$100,000	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	> \$1,000,000	Total
# of Loans	15	17	7	6	5	50
% of Loans	30%	34%	14%	12%	10%	100%

The bank does not obtain sufficient income information on real estate and consumer loans to perform an accurate file review to determine the distribution of loans to borrowers with different income levels.

Geographic Distribution of Loans

Five of the six block numbering areas found in the bank's assessment area are middle income and the sixth is considered upper income. Analysis of this assessment criteria would not be meaningful.

Response to Complaints

The bank has received no CRA related complaints since the previous CRA examination.

Compliance with Antidiscrimination Laws and Regulations

Our review did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations.