



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 31, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Luverne
Charter Number 12488**

**800 South Kniss Avenue
Luverne, Minnesota 56156**

**Comptroller of the Currency
Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, South Dakota 57108**

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 bank’s average loan-to-deposit ratio is reasonable at 72 percent.
- A majority (85 percent) of the bank’s loans are located within the assessment area.
- Distribution of loans by revenue or income level of the borrower is adequate for commercial loans and good for consumer loans.

DESCRIPTION OF INSTITUTION

First National Bank of Luverne, Luverne, Minnesota (FNB Luverne) is a \$26 million commercial bank. The bank’s main office is a full-service facility located in Luverne. Branch offices are located in Beaver Creek and at the Jubilee Food Center in Luverne. The Magnolia branch was closed on June 29, 2001 due to low customer traffic. FNB Luverne also operates two automated teller machines (cash-dispensing only) located at the main office and at the Jubilee branch.

FNB Luverne’s business focus is commercial and consumer lending. According to its Report of Condition and Income, the bank has the following outstanding loans by dollar volume on December 31, 2002: commercial (52 percent), agricultural (19 percent), residential real estate (17 percent), consumer (9 percent), and other (3 percent). Net loans total 75 percent of total assets.

The bank is wholly owned by Fishback Financial Corporation, a \$745 million five-bank holding company. Affiliate banks are located in Pipestone, Minnesota and in Brookings, White and Milbank, South Dakota. Prior to November 17, 2000, this bank was First National Bank in Garretson, South Dakota and the above branch locations were part of First National Bank and Trust, Pipestone, Minnesota.

The bank received a “Satisfactory” rating at its March 30, 1998 CRA examination. This Performance Evaluation assesses the bank’s CRA activities from April 1, 1998 through December 31, 2002. There are no financial, legal, or other factors that impede the bank’s ability to meet the credit needs of its assessment areas.

DESCRIPTION OF ASSESSMENT AREA

FNB Luverne’s assessment area contains the following counties and block numbering areas (BNAs): all of Rock County (#9701, 9702, 9703), southern Pipestone County (#9604, 9605), and western Nobles County (#9902, 9903), all in Minnesota. The total population of the assessment area is 20,112 persons, according to 1990 U.S. Census data.

The assessment area complies with regulatory requirements. It includes the bank's main office as well as a majority of the bank's loans. The area does not arbitrarily exclude any low- or moderate-income BNAs.

The 1990 U.S. Census and 2002 Department of Housing and Urban Development (HUD) estimated median family incomes (MFI) for the non-metropolitan areas of Minnesota are \$28,933 and \$48,500, respectively. The following table summarizes the income levels of individual BNAs and families located within the bank's assessment area:

INCOME DISTRIBUTION OF BLOCK NUMBERING AREAS AND FAMILIES								
Assessment Area	Block Numbering Areas (# and %)				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Rock, Pipestone, and Nobles Counties, MN	0	0	7	0	19%	21%	25%	35%
	0%	0%	100%	0%				

Source: U.S. Census Data (1990)

Economic conditions in the assessment area are good. As of December 31, 2002, the unemployment rate for the assessment area was 2.4 percent, which compares favorably to the state of Minnesota (3.7 percent) and the nation (5.7 percent). Major employers in the area include manufacturing and agricultural production.

Competition from other financial institutions is strong. Including FNB Luverne, there are 18 financial institutions serving the bank's assessment area; the bank has only 3 percent deposit market share, which ranks 12th. In Rock County, FNB Luverne has deposit market share of 11.5 percent, ranking fourth among five financial institutions. Minnwest Bank Luverne dominates Rock County deposit market share with 50 percent.

Assessment area credit needs are typical of those in most small towns and rural communities and include small business, small farm, residential, and consumer lending.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Luverne's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 72 percent over the 20 quarters from March 31, 1998 to December 31, 2002.

The bank's net loan-to-deposit ratio compares favorably with other community banks of similar size (total assets less than \$100 million) in the assessment area. FNB Luverne ranks fourth among a total of eight similarly situated banks serving the assessment area. The other seven banks had quarterly average net loan-to-deposit ratios averaging 65 percent and ranging from 35 percent to 87 percent over the 20 quarters from March 31, 1998 to December 31, 2002.

Lending in Assessment Area

FNB Luverne originates a majority of its loans to borrowers located within its defined assessment area. We sampled 29 commercial and 30 consumer loans originated during the evaluation period; these are the bank's primary products. About 85 percent by number and 52 percent by dollar volume were made to businesses and individuals located within the bank's assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT (000s)				
Type of Loan	Number	Percent of Number	Dollars (000s)	Percent of Dollars
Commercial	23 of 29	79%	\$2,193 of \$4,348	50%
Consumer	27 of 30	90%	\$188 of \$200	94%
Total	50 of 59	85%	\$2,381 of \$4,548	52%

Source: Bank records (verified by examiners)

Five of the six commercial loans located out of the assessment area are loan participations purchased from an affiliate bank. Excluding these loans totaling \$2.1 million from the sample, the dollar volume of commercial loans in the assessment area would increase to about 98 percent.

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

The distribution of loans by the income or annual revenues of the borrower is adequate for commercial lending and good for consumer lending.

The bank's distribution of commercial loans is adequate, although slightly below the demographics for assessment area businesses. The majority of the bank's loans are originated to commercial borrowers with gross annual revenues between \$250,000 and \$500,000. There are also a significant number of loans originated to the smallest businesses with gross annual revenues of less than \$50,000. Examiners sampled 22 commercial loans from 2000, 2001, and 2002. The following table shows the summary of results from that sample:

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE			
Gross Annual Revenue	Number	Percent of Number	Percent of Assessment Area Businesses
<\$50,000	5	22%	93%
\$50,000 - \$100,000	2	9%	
\$100,000 - \$250,000	2	9%	
\$250,000 - \$500,000	7	32%	
\$500,000 - \$1,000,000	3	14%	
>\$1,000,000	3	14%	7%
Totals	22	100%	100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)
 FNB Luverne’s distribution of consumer loans slightly exceeds the demographics for low-income borrowers and exceeds the demographics for moderate-income borrowers. This is good performance as about 13 percent of assessment area households are below the poverty level. Examiners sampled 25 consumer loans from 2000, 2001, and 2002. The following table shows the summary of results from that sample:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number	Percent of Number	Percent of Households
Low	7	28%	23%
Moderate	7	28%	16%
Middle	8	32%	21%
Upper	3	12%	40%
Totals	25	100%	100%

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

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle-income BNAs.

Responses to Complaints

The bank has not received any CRA-related complaints since the prior CRA examination.

Fair Lending Review

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified. We performed a general review of the bank’s 2002 approved and denied consumer and residential loans. FNB Luverne has sufficient policies, procedures, training, and audit to prevent discriminatory or other illegal credit practices.