



## **PUBLIC DISCLOSURE**

February 17, 2015

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Fairfax  
Charter Number 9771

16 South East First Street  
Fairfax, MN 55332

Office of the Comptroller of the Currency

Campbell Mithun Tower  
222 South Ninth Street  
Suite 800  
Minneapolis, MN 55402-3393

**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 Outstanding.**

Summarize the major factors supporting the institution's rating.

- The bank's loan-to-deposit ratio (LTD) is more than reasonable given the bank's size, financial condition, and Assessment Area (AA) credit needs.
- The bank originates a majority of its loans within its AA.
- The borrower distribution of loans reflects reasonable penetration among farms of different sizes.
- Community development activities benefit the bank's AAs and contribute to the overall rating.

**SCOPE OF EXAMINATION**

We evaluated First National Bank of Fairfax's (FNB) record of meeting the credit needs of its community consistent with the provisions set forth in the Community Reinvestment Act (CRA) for the period beginning December 2, 2008 and ending February 17, 2015. In order to assess the bank's lending performance, we determined the primary loan products based on the number and dollar volume of loans originated for the period beginning January 1, 2013 and ending December 31, 2014. We determined agricultural loans to be the bank's primary product. We selected a random sample of 20 agricultural loans in order to evaluate lending performance within the AA and the borrower distribution of lending. We used 2010 U.S. Census information and 2014 Business Geodemographic Data for comparison purposes. The following table shows the loan origination details for FNB:

<b>Loan Originations and Purchases in 2013 and 2014</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial	13.44%	18.88%
Consumer	28.49%	0.91%
Residential Real Estate	1.08%	0.34%
Agricultural	56.99%	79.87%

*Source: Bank loan origination report for 2013 and 2014*

**DESCRIPTION OF INSTITUTION**

FNB is a \$28 million bank headquartered in Fairfax, MN. The community of Fairfax has a population of approximately 1,200, and is located in Renville County in southwestern MN. FNB is 100 percent owned by Fort Ridgely National Bancorporation, Inc., a one-bank holding company headquartered in Fairfax, MN. FNB has one affiliate, First

National Agency, which is a crop insurance agency located in Fairfax, MN. Affiliate activities do not materially impact the bank's CRA performance. FNB operates the one-bank location and one non-deposit taking ATM in Fairfax, MN. No branches were opened or closed during the evaluation period.

FNB offers a range of traditional loan and deposit products, which are designed to meet the community's needs. FNB's primary lending focus is on agricultural loans. As of December 31, 2014, 70 percent of FNB's loan portfolio is agricultural loans. Agricultural loan products include working capital loans and lines, equipment loans, real estate loans, land loans, and FSA guaranteed loans.

As of December 31, 2014, FNB's net loans and leases totaled \$22 million, or 79 percent of the bank's total assets. The loan portfolio was comprised of agricultural loans (70%), commercial and commercial real estate loans (26%), consumer loans (2%), and residential real estate loans (2%). As of December 31, 2014, tier one capital totaled \$11 million, for a tier 1 leverage ratio of 38.63 percent.

There are no known financial or legal impediments that would impede FNB's ability to help meet the credit needs of its AA.

FNB's last CRA performance evaluation was conducted as of December 1, 2008, and resulted in an Outstanding rating.

## **DESCRIPTION OF ASSESSMENT AREA**

The Renville County AA consists of six contiguous census tracts (CTs) comprising all of Renville County, a nonmetropolitan area in southwestern MN. The AA includes the CT where the bank in Fairfax is located. The AA is comprised entirely of middle-income CTs, and does not arbitrarily exclude any low- or moderate-income CTs. The AA meets the requirements of the regulation. The table below illustrates the demographics of the Renville County AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE RENVILLE COUNTY AA</b>	
Population	
Number of Families	4,413
Number of Households	6,539
% of Low-Income Families	17.90%
% of Moderate-Income Families	18.79%
% of Middle-Income Families	25.06%
% of Upper-Income Families	38.25%
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$57,683
2014 FFIEC-Adjusted MFI	\$61,700
Economic Indicators	
2014 Unemployment Rate*	4.95%
2010 Median Housing Value	\$97,961
% of Households Below Poverty Level	11.12%

*Source: 2010 U.S. Census data with updated information when available*

*\*Average of all monthly 2014 unemployment rates for Renville County (December 2014 unemployment rate is preliminary data.)*

The Renville County AA's deposit and lending market competition is moderate. Per the June 30, 2014 FDIC Deposit Market Share Report, there are nine financial institutions operating in Renville County. FNB Fairfax currently maintains a 5.55 percent market share of deposits in Renville County, ranking 8<sup>th</sup> overall in market share. The only other bank located in the city of Fairfax is Frandsen Bank & Trust, which operates a full-service branch in Fairfax and is headquartered in Lonsdale, MN. Frandsen Bank & Trust leads the deposit market in Renville County with 31.43 percent share of the market. Competitors in Renville County include other national banks, state chartered banks, and credit unions.

The local economy is highly dependent on farming and agricultural related businesses. The local economy has historically been stable, however, the community contact indicated that it has started to show signs of deterioration, primarily due to the area's population loss. The residential population has experienced a decline in recent years. Per the Federal Financial Institutions Exam Council (FFIEC), Renville County is a Distressed Nonmetropolitan Middle Income area due to population loss, and has held this designation since the last CRA evaluation. As of 2013, Renville County had a population of 15,200.

Primary industry sectors of the AA are agriculture and manufacturing. Many of the local residents commute to neighboring larger communities for employment. According to the Bureau of Labor Statistics, the 2014 unemployment rate for Renville County was 4.95 percent, which was slightly higher than the Minnesota statewide unemployment rate of 4.1 percent for this same time period.

We contacted the local Farm Services Agency to discuss the local economic and credit needs of the community. The contact indicated that the primary credit needs of the community are agricultural/farm loans. It was the contact’s opinion that the local financial institutions are meeting the credit needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB’s LTD ratio is more than reasonable given the bank’s size, financial condition, and AA credit needs. Since the previous CRA evaluation, FNB’s quarterly average LTD was 123.7 percent for the 25 quarters beginning December 31, 2008 and ending December 31, 2014. During that time, FNB’s quarterly LTD ratio ranged from 97.4 percent to 141.8 percent.

For comparison purposes, we identified three similarly situated banks to FNB. We defined similarly situated banks as banks headquartered in Renville County with similar asset sizes. The quarterly average LTD ratios for the similarly situated banks was 61.8 percent for the same 25 quarter period. During that time, the similarly situated bank’s quarterly LTD ratios ranged from 30.4 percent to 90.1 percent. FNB’s LTD exceeded the average LTD ratio for similarly situated banks.

<b>Loan-to-deposit Ratio</b>	<b>Assets as of</b>	<b>Average LTD Ratio</b>
<b>Institution</b>	<b>12/31/14 (\$000s)</b>	<b>(%)</b>
First National Bank of Fairfax	\$28,619	123.74%
Franklin State Bank	\$27,010	74.97%
Cenbank	\$61,217	60.53%
Farmers & Merchants State Bank of Sacred Heart	\$23,876	49.97%

*Source: Call Report data as of December 31, 2014.*

### Lending in Assessment Area

FNB originates a majority of its loans inside their AA. Based on a sample of twenty agricultural loans originated between January 1, 2013 and December 31, 2014, FNB originated 80 percent of loans by number, and 69 percent of loans by dollar volume within their AA. The table below summarizes lending inside the assessment area by number and dollar amount.

<b>Lending in the Renville County AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	16	80.00%	4	20.00%	20	\$2,717	68.66%	\$1,240	31.34%	\$3,957

Source: Agricultural loan samples from 2013 and 2014.

### Lending to Farms of Different Sizes

The distribution of borrowers reflects reasonable penetration among farms of different sizes given the demographics of the Renville County AA. To assess the bank's performance, we sampled twenty agricultural loans that originated in the AA between January 1, 2013 and December 31, 2014. Based on our sample, the bank originated 90 percent of loans to farms with annual revenues of less than \$1 million.

<b>Borrower Distribution of Loans to Farms in the Renville County AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.14%	0.52%	0.34%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0%	100%
% of Bank Loans in AA by \$	84.62%	15.38%	0%	100%

Source: Agricultural loan sample; Dunn and Bradstreet Data (2014)

### Geographic Distribution of Loans

The geographic distribution of loans did not provide a meaningful analysis, as the AA consists entirely of middle-income CTs.

### Community Development

FNB's community development activities enhance the availability of credit in its AA and contributed to the overall rating of "Outstanding".

FNB is active in helping to revitalize their local community and economy. FNB donated \$200 thousand for the city to build a new public library. After building a new bank building in 2010, FNB donated their old bank building to the City of Fairfax for the use of city government offices. In addition, in 2011, FNB leased \$728 thousand to the local school district, GFW Independent school district, to repair leaky roofs on three school buildings. As previously noted, Renville County is a distressed area due to population loss. All of these donations and leases help to revitalize the community by helping to attract and retain individuals and businesses in the community.

### Responses to Complaints

There have been no CRA-related complaints since the previous CRA evaluation dated December 1, 2008.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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