



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Brewster
Charter Number 10946**

**224 Tenth Street
Brewster, MN 56119**

**Comptroller of the Currency
Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, SD 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 First National Bank of Brewster's overall lending level is reasonable, given the institution's size, financial condition, and credit needs of the assessment area.
- A majority of the bank's loans by both number (83 percent) and by dollar volume (57 percent) are located within the bank's defined assessment areas.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers) and meets community demographics for lending to small farms of various sizes.

DESCRIPTION OF INSTITUTION

The First National Bank (FNB) of Brewster, Brewster, Minnesota is a \$25 million commercial bank. The bank's main office is a full service facility located in downtown Brewster. FNB also has one branch located in Worthington, Minnesota, approximately six miles southwest of Brewster.

FNB's business focus is agricultural, commercial, and consumer lending. According to its Report of Condition and Income, FNB has the following outstanding loans by dollar volume on March 31, 2002: agricultural (43 percent), commercial (33 percent), residential real estate (13 percent), consumer (7 percent), and other (4 percent). Net loans total 37 percent of total assets.

The bank is 100 percent owned by Nobles Agency, Inc, a \$26 million one-bank holding company. Affiliates include an insurance agency in Brewster, as well as a holding company and bank in Buhl, Minnesota.

FNB received a "Satisfactory" rating at its January 10, 1997, CRA examination. This Performance Evaluation assesses the bank's CRA activities from January 1, 1997 through March 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs in its assessment area.

DESCRIPTION OF THE ASSESSMENT AREA

FNB identifies its assessment area as Cottonwood, Jackson, Murray, and Nobles Counties in Minnesota, with a total of 17 block numbering areas (BNAs). The total population of the assessment area is 54,129 persons, according to 1990 U.S. Census Data.

The assessment area complies with regulatory requirements. It includes FNB's main office and branch location, along with a majority of the bank's loans. The area does not arbitrarily exclude any low- or moderate-income BNAs.

The U.S. Department of Housing and Urban Development's 2002 updated statewide non-metropolitan area median family income (MFI) estimate for Minnesota is \$48,500. The following table summarizes the income levels of individual BNAs and families located within the bank's assessment area:

Assessment Area	INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES											
	Number and Percent of BNAs								Percentage of Families			
	Low		Moderate		Middle		Upper		Low	Moderate	Middle	Upper
	#	%	#	%	#	%	#	%				
Cottonwood, Jackson, Murray, Nobles Counties	0	0%	0	0%	16	94%	1	6%	19%	21%	26%	34%

Source: U.S. Census Data (1990)

The assessment area has only 10 percent of families with incomes below the poverty level (less than 30 percent of MFI).

Economic conditions are generally good throughout the assessment area. Major employers in the Brewster Area include Swift Company (1,500 employees), Worthington Regional Hospital and Clinics (363), Highland Manufacturing (170) and Bedford Industries (153). In the city of Brewster, the public school (30) and FNB (6) are the main employers. According to U.S. Department of Labor statistics, June 2002 unemployment for Minnesota was 4.3 percent, which is comparable to the national average of 4.8 percent. Unemployment in Nobles, Murray, and Cottonwood Counties is relatively low at 2.8 percent, 2.7 percent and 3.4 percent, respectively. Unemployment in Jackson County is comparable to the national and Minnesota average at 4.1 percent.

Competition from other financial institutions is strong. Based on asset size, FNB ranks 10th among 15 banks chartered in the assessment area. Including FNB, there are 10 financial institutions doing business in Nobles County and there are a total of 23 doing business in the assessment area. The bank ranks 12th among these 23 banks with offices in the assessment area with deposit share of 2.58 percent.

We did not identify any unmet credit needs in FNB's assessment area through our contact with a local U.S. Department of Agriculture representative.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB'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 49 percent over the 22 quarters from December 31, 1996 to March 31, 2002.

The bank's loan-to-deposit ratio ranks 12th among the 13 community banks of similar size (total assets less than \$50 million) in the assessment area. The average quarterly loan-to-deposit ratio for the 12 other similarly situated banks in the assessment area is 68 percent and ranges from 33 percent to 81 percent over the last 22 quarters from December 31, 1996 to March 31, 2002.

Two factors adversely affect the FNB's loan-to-deposit ratio. First, the bank has a high volume of large deposits (those greater than \$100 thousand). These deposits come from public funds and from customers who have no borrowing needs. Analysis as of March 31, 2002 shows that the bank had 50 percent more large deposit volume than the average of the 12 similarly situated banks. Second, FNB sold loan participations totaling nearly \$1 million. Combined, these factors adversely impact the loan-to-deposit ratio by approximately 10 percent. Adjusted for these factors, the bank's average net loan-to-deposit ratio improves to approximately 59 percent, which is only slightly below the 68 percent average of the similarly situated banks in the assessment area.

Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its defined assessment area. We sampled a total of 60 loans originated from January 1, 1997 to March 31, 2002. About 83 percent by number and 63 percent by dollar volume were made to farms, 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	Percent of Dollars
Agricultural	19	95%	\$1,053	100%
Commercial	12	60%	\$616	31%
Consumer	19	95%	\$201	99%
Total	50	83%	\$1,870	57%

Source: Bank records (verified by examiners)

The bank purchases a significant volume of commercial loan participations to hold in its own portfolio. From January 1, 1997 through March 31, 2002, FNB purchased 16 loans totaling about \$2.6MM. These purchases significantly reduce the percentage of commercial loans by dollar volume originated inside the assessment area.

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

Overall, the distribution of borrowers reflects reasonable penetration among farms of different sizes and individuals of different income levels. Lending to small farms approximates community demographics, while lending to low- and moderate-income individuals exceeds community demographics.

Agricultural lending activity in the assessment area nearly meets community demographics. Examiners sampled 20 agricultural loans. The largest number of loans in the assessment area was originated to small farms with less than \$250,000 in annual revenues. The following table compares the bank's agricultural lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE				
Revenue (000s)	Cottonwood/Jackson/Murray/Nobles Counties			
	Number	Percent of Number	1997 Agricultural Census	
<\$100	4	20%		54%
\$100-\$250	8	40%		28%
\$250-\$500	6	30%		11%
>\$500	2	10%		5%
Totals	20	100%		100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)

Consumer lending activity in the assessment area substantially exceeds community demographics for both low- and moderate- income borrowers. Examiners sampled 20 consumer loans. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL				
Borrower Income Level	Cottonwood/Jackson/Murray/Nobles Counties			
	Number	Percent of Number	Percent of Households	
Low	7	35%		24%
Moderate	6	30%		17%
Middle	2	10%		21%
Upper	5	25%		38%
Totals	20	100%		100%

Source: Bank records (verified by examiners) and US Census Data (1990)

Although commercial lending was identified as a primary product type by dollar volume, analysis of borrower distribution within the bank's commercial lending portfolio was not meaningful. The majority of the bank's commercial loans are participations purchased outside of FNB's assessment area. The bank originated loans to only 10 different commercial borrowers inside its assessment area from January 1, 2000 through March 31, 2002.

Geographic Distribution of Loans

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

Responses to Complaints

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

OTHER INFORMATION

Fair Lending Review

An analysis of 2002 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 examination was performed in 2001.