



## **PUBLIC DISCLOSURE**

August 4, 2014

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

First National Bank  
Charter Number: 21793

2457 Broadway Avenue  
Slayton, MN 56172

Office of the Comptroller of the Currency

Sioux Falls Field Office  
4900 S Minnesota Avenue Suite 300  
Sioux Falls, SD 57108-2865

**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 major factors that support this rating include:

- First National Bank's (FNB) net loan-to-deposit (LTD) ratio is reasonable averaging 66 percent over the 23 quarters since the last CRA examination.
- FNB originates a majority of its loans to borrowers located inside its designated assessment area (AA).
- The bank's distribution of loans reflects reasonable penetration among businesses and farms of different sizes and households of different income levels.
- The bank's geographic distribution of loans reflects reasonable dispersion throughout census tracts (CTs) of different income levels.

Examiners gave more weight to conclusions in the non-Metropolitan Statistical Area (MSA) AA than the MSA AA because 90 percent of loans by number and 85 percent of loans by dollar were originated in the non-MSA AA during the evaluation period and a majority of the bank's deposits (83 percent) are from the non-MSA AA.

**SCOPE OF EXAMINATION**

Examiners evaluated FNB using the small bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test evaluation period for FNB covers performance from January 1, 2012 through May 31, 2014. The bank's lending during this evaluation period is representative of the bank's lending strategy since the last CRA examination.

To determine the bank's primary loan products, examiners analyzed both the number and dollar volume of loans originated and purchased during the evaluation period by loan type and based on the bank's internal classification codes. Based on the number and dollar volume of loans originated and purchased during the evaluation period, the bank's primary loan products are agricultural, business, and consumer loans. FNB's primary products in the non-MSA AA are agricultural and consumer loans. FNB's primary products in the MSA AA are commercial and consumer loans. These primary products are consistent with the bank's business strategy. The following table shows the breakdown of loans originated and purchased during the evaluation period.

Loan Originations/Purchased Summary by Loan Product								
Loan Category	Non-MSA AA – Minnesota				MSA AA – Minneapolis-St. Paul			
	Number	% by Number	Dollars (\$ 000)	% by Dollars	Number	% by Number	Dollars (\$ 000)	% by Dollars
Home	63	3%	4,957	3%	16	8%	1,564	6%
Consumer	606	<b>34%</b>	6,276	4%	78	<b>41%</b>	953	3%
Business	206	12%	26,907	16%	99	<b>51%</b>	26,503	<b>91%</b>
Farm	900	<b>51%</b>	132,076	<b>77%</b>	0	0	0	0
Total Loans	1,775	100%	170,216	100%	193	100%	29,020	100%

Source: Bank reports for all loan originations and purchases from 1/1/2012 to 5/31/2014

To evaluate the bank's lending, examiners selected a sample of loans originated or purchased during the evaluation period for each primary product in each AA. To evaluate whether the bank made loans to borrowers in their AA, examiners selected a sample of 20 loans from each primary product. Examiners selected additional loans as needed to have sufficient information to analyze borrower and geographic distribution within the AA, including an additional 40 consumer loans for the non-MSA AA.

## DESCRIPTION OF INSTITUTION

FNB is headquartered in Slayton, Minnesota. As of June 30, 2014, FNB had total assets of \$199 million and tier one capital of \$19.4 million. The bank is wholly owned by Fulda Bancorporation Inc., a one-bank holding company. There have been no significant changes to the bank's corporate structure, including merger or acquisition activities, since the last CRA examination.

FNB is affiliated with two national banks located in Fort Pierre, SD and Davenport, IA. FNB is also affiliated with a national thrift located in Beresford, SD. Each financial institution is wholly-owned by separate one-bank holding companies. In addition, FNB is a one-fourth owner of a company that provides information technology services to all affiliated institutions.

The bank operates nine full-service branches located in Slayton, Fulda, Lakefield, LeRoy, Plymouth, Spring Valley, Springfield, and Hastings, all in Minnesota. The bank has two full-service branches in moderate-income CTs and seven in middle-income CTs. In 2012 and 2013 the Spring Valley branch was in a middle-income CT but in 2014 was in a moderate-income CT. Of the bank's branches located in middle-income CTs, two are in non-metropolitan underserved CTs. There have been no branches opened or closed since the last CRA examination. The bank also operates six cash-dispensing automated teller machines (ATMs) in the Lakefield, Hastings, Spring Valley, LeRoy, Slayton, and Springfield branches. FNB does not operate any deposit-taking ATMs.

FNB primarily offers traditional loan and deposit products and services to its customers. In addition, FNB offers credit cards to a nationwide market. The loan portfolio is comprised of commercial loans (45 percent), farm loans (40 percent), consumer loans (9 percent), and one-to-four family residential home loans (6 percent).

There have been no changes in the bank's business strategy since the last CRA examination. Management's business strategy is to serve the needs of the community, primarily through farm lending in the non-MSA AA and small business lending in the MSA AA. As of June 30, 2014, FNB reported net loans of \$121 million, which represents 61 percent of total assets.

FNB was rated Satisfactory at its last CRA examination dated March 16, 2009. There are no legal, financial, or other factors impeding FNB's ability to meet the credit needs of its AAs.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNB has two assessment areas in Minnesota, one in rural Minnesota (non-MSA AA) and the other in the Minneapolis-St. Paul-Bloomington, MN-WI MSA (MSA AA).

### **Non-MSA AA**

The non-MSA AA includes all of Brown, Cottonwood, Fillmore, Jackson, Mower, Murray, Nobles, and Redwood counties in Minnesota. The bank operates at least one branch in Brown, Fillmore, Jackson, Mower, and Murray counties in the AA. The non-MSA AA includes 48 total CTs, including one upper-income, 42 middle-income, four moderate-income, and one low-income CTs. Additionally, within the middle-income CTs, three are considered underserved nonmetropolitan CTs. The non-MSA AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

Current economic conditions in the non-MSA AA are stable. Primary employment sectors in the AA include agriculture and agriculture-related business, healthcare, and manufacturing. According to the Bureau of Labor Statistics, as of April 2014, the 2013 unemployment rate for the eight counties in the non-MSA AA ranged from a low of 3.5 percent to a high of 5.4 percent, with an average unemployment rate of 4.6 percent. This is comparable to the State of Minnesota unemployment rate of 4.5 percent and lower than the national unemployment rate of 6.2 percent.

The table below summarizes key demographic data for the Non-MSA AA.

<b>Demographic Data</b>	<b>Non-MSA AA</b>
Population	154,037
Total Families	41,846
Households Below the Poverty Level	7,905
1-4 Family Units	60,470
Multi-family Units	6,251
Owner-occupied Units	49,170
Percent Owner-occupied Units	71.38%
Median Housing Value	110,538
HUD Adjusted Median Family Income (2012)	60,000
HUD Adjusted Median Family Income (2013)	61,700
Percent of households in AA that are low-income	3.64%
Percent of households in AA that are moderate-income	8.00%
Percent of households in AA that are middle-income	85.75%
Percent of households in AA that are upper-income	2.61%

Competition from other financial institutions is moderate in the non-MSA AA. The bank's competitors include several local community banks and branches of regional mid-size and large banks. FNB ranks eighth in deposit market share in the AA with four percent of deposits.

In conducting the assessment of the bank's performance, examiners interviewed a community contact located in Murray County. The contact indicated that agriculture, ag-related businesses, and consumer loans are the primary credit needs within the community. The contact is satisfied with the degree of lending activity and added that local financial institutions are heavily involved in the local community and. The bank helps meet the credit needs of the AA by offering agriculture and consumer lending products, which are primary products in the bank's non-MSA AA.

Refer to the bank's public file for additional information on the AA.

### **MSA AA**

The MSA AA includes a portion of the Minneapolis-St. Paul-Bloomington MN-WI (Minneapolis) MSA. The AA includes all of Dakota, Hennepin, and Washington counties in Minnesota. There are two branches in Dakota County and one branch in Hennepin County. The bank's market includes the two aforementioned counties and extends to Washington County. The AA includes 444 total CTs, including 138 upper-income, 171 middle-income, 91 moderate-income, 42 low-income CTs, and 2 non-classified CTs. The MSA AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

Current economic conditions in the MSA AA are stable with low growth. Primary employment sectors in the AA include government, healthcare, education, and manufacturing. According to the Bureau of Labor Statistics, as of June 2014, the unemployment rate for the Minneapolis MSA was 4.5 percent. This is comparable to

the State of Minnesota unemployment rate of 4.5 percent and lower than the national rate of 6.2 percent.

The table below summarizes key demographic data for the MSA AA.

<b>Demographic Data</b>	<b>MSA AA</b>
Population	1,789,113
Total Families	443,350
Households Below the Poverty Level	64,451
1-4 Family Units	558,902
Multi-family Units	189,551
Owner-occupied Units	499,906
Percent Owner-occupied Units	66.17%
Median Housing Value	269,768
HUD Adjusted Median Family Income (2012)	83,900
HUD Adjusted Median Family Income (2013)	82,300
Percent of households in AA that are low-income	7.16%
Percent of households in AA that are moderate-income	20.06%
Percent of households in AA that are middle-income	40.10%
Percent of households in AA that are upper-income	32.68%

*Source: 2010 Census; Housing and Urban Development (HUD)*

Competition from other financial institutions is strong in the MSA AA. Wells Fargo Bank and U.S. Bank are the primary competitors followed by with several local community banks. FNB ranks 77<sup>th</sup> in deposit market share in the AA with 0.02 percent of deposits.

In conducting the assessment of the bank's performance, examiners contacted two local community economic development organizations. One contact indicated small business lending is the primary credit need within the community. The contact said financial institutions are active and work well with local businesses to promote community development. A second contact offered that he would like to see lending increase to ensure continued growth and development of individual businesses. The additional contact also expressed a need for construction and consumer lending. The bank helps meet the credit needs of the AA by offering business and consumer lending products, which are primary products in the bank's MSA AA.

Refer to the bank's public file for additional information on the AAs.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **Loan-to-Deposit Ratio**

FNB's LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's LTD ratio averaged 66 percent over the 23 quarters since the last CRA examination, from December 31, 2009 through June 30, 2014. The ratio ranged from a quarterly low of 58 percent to a high of 78 percent during the time period.

The bank’s LTD ratio is lower than, but still comparable to, other financial institutions of similar size, location, and product offerings. FNB ranks fourth among a total of five similarly-situated banks. The other four banks had LTD ratios averaging 70 percent and ranging from a low of 60 percent to a high of 80 percent over the same 23 quarters.

**Lending in Assessment Area**

FNB originated a majority of its loans to borrowers located inside its designated AA. Examiners sampled loans from each primary product to assess lending within the AA, including 20 farm loans, 20 business loans, and 40 consumer loans originated or purchased during the evaluation period. FNB originated 83 percent of its loans by number and 80 percent of its loans by dollar volume within its AA.

Table 1 below details the bank’s lending within its AA by number and dollar volume.

<b>Table 1 - Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	15	75%	5	25%	20	1,368,740	63%	794,445	37%	2,163,185
Business	17	85%	3	15%	20	2,963,697	89%	376,000	11%	3,339,697
Consumer	34	85%	6	15%	40	465,807	90%	49,830	10%	515,637
Total	66	83%	14	17%	80	4,798,244	80%	1,220,275	20%	6,018,519

Source: Loan sample

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

The bank’s distribution of loans in the AAs reflects reasonable penetration among businesses and farms of different sizes and households of different income levels. Examiners gave more weight to conclusions in the non-MSA AA than the MSA AA because 90 percent of loans by number and 85 percent of loans by dollar volume were originated in the non-MSA AA during the evaluation period. Also, a majority of the bank’s deposits (83 percent) are from the non-MSA AA.

**Non-MSA AA**

The bank’s distribution of loans in the Minnesota non-MSA AA reflects reasonable penetration among farms of different sizes and households of different income levels.

Farm Loans:

The bank’s distribution of farm loans reflects reasonable penetration among farms of different sizes. The bank originated or purchased 85 percent of farm loans sampled in the AA to small farms. Small farms are farms with gross annual revenues of one million dollars or less. This is considered reasonable as it is comparable to the demographic data that shows 99 percent of farms in the AA are considered small farms.

Table 2A below shows the distribution of farm loans among different sized farms in the AA.

<b>Table 2A - Borrower Distribution of Loans to Farms in Minnesota Non-MSA AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	82%	18%	0%	100%

Source: Loan sample; 2010 Census data

**Consumer Loans:**

The bank’s distribution of consumer loans reflects reasonable penetration among borrowers of different income levels. The bank’s level of lending to low-income borrowers is slightly below the demographic comparator. The bank originated or purchased 23 percent of consumer loans sampled to low-income borrowers, which is slightly below 24 percent of households in the AA that are low-income. The bank’s level of lending to moderate-income borrowers exceeds the demographic comparator. The bank originated or purchased 25 percent of consumer loans sampled to moderate-income borrowers, which exceeds the 17 percent of households in the AA that are moderate-income.

Table 2B below shows the bank’s distribution of consumer loans in the AA among borrowers of different income levels compared to the percent of households in each income level category.

<b>Table 2B - Borrower Distribution of Consumer Loans in Minnesota Non-MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	24%	23%	17%	25%	20%	27%	39%	25%

Source: Loan sample; 2010 Census data

**MSA AA**

The bank’s distribution of loans in the Minneapolis MSA AA reflects excellent penetration among businesses of different sizes and households of different income levels.

**Business Loans**

The bank’s distribution of business loans reflects excellent penetration among businesses of different sizes. The bank originated or purchased 85 percent of business loans sampled in the AA to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered excellent as it exceeds the demographic data that shows 73 percent of businesses in the AA are considered small businesses.

Table 2C below shows the distribution of business loans among different sized businesses in the AA.

<b>Table 2C - Borrower Distribution of Loans to Businesses in Minneapolis MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	73%	5%	22%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	91%	9%	0%	100%

Source: Loan sample; 2010 Census data

**Consumer Loans:**

The bank’s distribution of consumer loans reflects excellent penetration among borrowers of different income levels. The bank’s level of lending to low-income borrowers significantly exceeds the demographic comparator. The bank originated or purchased 35 percent of consumer loans sampled to low-income borrowers, which exceeds the 19 percent of households in the AA that are low-income. The bank’s level of lending to moderate-income borrowers significantly exceeds the demographic comparator. The bank originated or purchased 30 percent of consumer loans sampled to moderate-income borrowers, which exceeds the 17 percent of households in the AA that are moderate-income.

Table 2D below shows the bank’s distribution of consumer loans in the AA among borrowers of different income levels compared to the percent of households in each income level category.

<b>Table 2D - Borrower Distribution of Consumer Loans in Minneapolis MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	19%	35%	17%	30%	22%	5%	42%	30%

Source: Loan sample; 2010 Census data

**Geographic Distribution of Loans**

The bank’s geographic distribution of loans in the AAs reflects reasonable dispersion throughout the census tracts (CTs). We placed the most weight on the geographic distribution of loans in the non-MSA AA because a majority of loans are originated and a majority of deposits are taken in the non-MSA AA.

**Non-MSA AA**

The bank’s geographic distribution of loans in the Minnesota non-MSA AA reflects reasonable dispersion throughout CTs of different income levels. It is reasonable that the non-MSA loan samples did not reflect any lending in the low- and moderate-income CTs. The bank does not have any branch or ATM locations in the low- or moderate-income CTs. This limits FNBs ability to collect deposits and make loans in these CTs.

In addition, we evaluated FNB’s performance lending to borrowers located in the three underserved nonmetropolitan middle-income level CTs. The bank originated 47 percent of the 80 loans sampled in the non-MSA AA to borrowers located in an underserved nonmetropolitan middle-income CT.

Farm Loans

The bank’s geographic distribution of farm loans reflects reasonable dispersion throughout CTs of different income levels. The bank’s performance is reasonable in moderate-income CTs. The bank did not originate or purchase any farm loans in the moderate-income CTs. This is lower than, but still comparable to, the two percent of farms in the AA located in moderate-income CTs. With only two percent of farms in moderate-income CTs, there were limited opportunities to lend.

Table 3A below shows the bank’s performance compared to the percentage of farms in each CT income level.

Table 3A - Geographic Distribution of Loans to Farms in Minnesota Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0%	0%	2%	0%	98%	100%	0%	0%

Source: Loan sample; 2010 U.S. Census data

Consumer Loans

The bank’s geographic distribution of consumer loans reflects poor dispersion throughout CTs of different income levels. The bank’s performance is poor in low- and moderate-income CTs. The bank did not originate or purchase any consumer loans in low- or moderate-income CTs.

Table 3B below shows the bank’s performance compared to the percentage of households in each CT income level.

<b>Table 3B - Geographic Distribution of Consumer Loans in Minnesota Non-MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	4%	0%	8%	0%	85%	97%	3%	3%

Source: Loan sample; 2010 U.S. Census data

### **MSA AA**

The bank's geographic distribution of loans in the Minneapolis MSA AA reflects reasonable dispersion throughout CTs of different income levels.

### Business Loans

The bank's geographic distribution of business loans reflects excellent dispersion throughout CTs of different income levels. The bank's performance is excellent in moderate-income CTs. The bank originated or purchased 55 percent of business loans sampled in their AA to businesses located in moderate-income CTs. This exceeds the 18 percent of businesses in the AA located in moderate-income CTs. The bank's performance is reasonable in low-income CTs. The bank originated or purchased five percent of business loans sampled in their AA to businesses located in low-income CTs. This is comparable to the five percent of businesses in the AA located in low-income CTs.

Table 3C below shows the bank's performance compared to the percentage of businesses in each CT income level.

<b>Table 3C - Geographic Distribution of Loans to Businesses in Minneapolis MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	5%	5%	18%	55%	38%	25%	39%	15%

Source: 2010 U.S. Census data

### Consumer Loans

The bank's geographic distribution of consumer loans reflects poor dispersion throughout CTs of different income levels. The bank's performance is poor in low-income CTs. The bank originated or purchased five percent of consumer loans sampled in their AA to borrowers located in low-income CTs. This is lower than, but still comparable to, the seven percent of consumer loans sampled in their AA to borrowers located in low-income CTs. The bank's performance is poor in moderate-income CTs. The bank originated or purchased five percent of consumer loans sampled in their MSA

AA to borrowers located in moderate-income CTs. This is lower than the 20 percent of households in the AA located in moderate-income CTs.

Table 3D below shows the bank’s performance compared to the percentage of households in each CT income level.

<b>Table 3D - Geographic Distribution of Consumer Loans in Minneapolis MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	7%	5%	20%	5%	40%	75%	33%	15%

Source: Loan sample; 2010 U.S. Census data

**Responses to Complaints**

Neither the bank nor the Office of the Comptroller of the Currency received any complaints regarding the bank’s CRA performance since the last CRA examination dated March 16, 2009.

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

Pursuant to 12 C.F.R. 25.28(c) in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in an AA 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.