



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 27, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank in Wadena
Charter Number 12507

25 SW Bryant Avenue
Wadena, MN 56482-0000

Office of the Comptroller of the Currency

Minneapolis Field Office
222 South Ninth Street Suite 800
Minneapolis, MN. 55402

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 bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition and local economic conditions.
- A substantial majority of the loan originations were made within the bank's assessment area.
- The distribution of borrowers reflects reasonable penetration among businesses of different sizes and among individuals of different income levels.

SCOPE OF EXAMINATION

We evaluated First National Bank in Wadena (First National Bank) Community Reinvestment Act performance under the Lending test. Our review included loan data from January 1, 2007 through June 30, 2009. In evaluating the bank's lending performance, we reviewed the bank's two primary products, which were business and residential real estate loans. Business loans were compared to 2008 Business Geodemographic data and residential real estate loans were compared to the 2000 U.S. Census data.

DESCRIPTION OF INSTITUTION

The First National Bank in Wadena is a \$50 million bank located in Wadena County in Wadena, Minnesota. The bank offers a full line of commercial and retail services. The bank does not operate any branches and has one deposit taking ATM that is accessible 24-hours a day. The First National Bank is owned through a tiered holding company structure with First National Agency of Wadena owning 100% of the bank stock, which is in turn owned 100% by the parent holding company; First National Bank Acquisitions Holding Corp. There was an acquisition since the last CRA evaluation. First National Bank Acquisitions Holding Corp is now the parent holding company.

As of March 31, 2009, the bank's loan portfolio totaled \$34 million or 68% of total assets. The following table reflects the distribution of the bank's loan portfolio as of March 31, 2009.

Loan Portfolio Mix		
	\$ 000's	%
Real Estate Loans	\$25,235	74%
Business Loans	\$3,228	10%
Consumer Loans	\$1,636	5%
Agriculture Loans	\$1,427	4%
Other Loans	\$2,343	7 %
Total	\$33,869	100%

There are no legal, financial, or other factors that prevent the bank from meeting the CRA needs of the community.

The last CRA examination was dated March 11, 2002 and resulted in an "Outstanding" rating.

DESCRIPTION OF ASSESSMENT AREA

First National Bank's assessment area (AA) includes portions of Wadena County, Ottertail County, and Todd County. All the census tracts within the AA are middle-income tracts, except for the portion of Todd County, which is a moderate-income tract. The AA meets the requirements of the regulation.

According to the U.S. Census Bureau, the 2008 estimated population of Wadena County is 13,311 and the estimated 2008 median family income is \$56,700. Based on 2000 U.S. Census data, there are 1,938 or 14.9% of families below the poverty level in Wadena County.

Employment in Wadena County is centered primarily in residential healthcare, educational services and wholesale food services. Based on statistics from the U.S. Bureau of Labor, the April 2009 unemployment rate for Wadena County is 11%, which is above the state average of 8%.

First National Bank competes with several other community banks for loans and deposits. There are 5 other financial institutions operating in Wadena County. According to the Federal Deposit Insurance Corporation, as of June 30, 2008 First National Bank is ranked 3rd with 17.54% of market share. Wadena State Bank of Wadena is the bank's primary competition.

In order to gather more current information on the nature of the community and potential lending opportunities within the AA, we contacted a community leader during this evaluation. The contact indicated that the local banks are active in the community and strive to meet the credit needs of the community. The contact also stated that there is a need for affordable housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The First National Bank's loan-to-deposit ratio is reasonable given the size and financial condition of the bank, AA needs, and local economic conditions. The bank's quarterly average loan-to-deposit ratio from June 30, 2002 to March 31, 2009 was 68.35%. The quarterly loan-to-deposit ratio for three similarly situated banks ranged from 65.09% to 80.01%. These banks have asset sizes ranging from \$48 to \$84 million with branches located within the AA.

Lending in Assessment Area

First National Bank originates a substantial majority of its loans to borrowers located within the bank’s AA and exceeds the performance standard. A random sample of 20 business loans and 20 residential real estate loans from January 1, 2007 through June 30, 2009 were reviewed. Based on our sample, 93% by number and 94% by dollar volume were made to businesses and individuals located within the bank’s AA.

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

The distribution of borrowers reflects satisfactory penetration among businesses of different sizes and among individuals of different income levels.

Based on a review of 20 loans, business lending activities within the AA are reasonable compared to the local demographics. However, the local demographics indicate that there are a large number of businesses that do not report their revenues. Information received from the community contact indicated that the majority of businesses within the community are smaller business. As smaller businesses sometimes have limited or no credit needs, lending opportunities for banks may be somewhat limited. Credit needs for smaller businesses are sometimes also met through home equity lending or other personal loans, rather than standard commercial lending. The following table compares the bank’s business lending activity to the local demographics:

Borrower Distribution of Loans to Businesses within the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	51.21%	3.92%	44.87%	100%
% of Bank Loans in AA by #	75.00%	25.00%	NA	100%
% of Bank Loans in AA by \$	51.00%	49.00%	NA	100%

Source: Loan Sample; 2008 Business Demographic Data

Residential real estate lending activity in the AA is excellent. First National Bank’s lending to low-income borrowers is near to the demographics as especially when considering a 15% poverty level within the AA. In addition, the bank’s lending to moderate-income borrowers exceeds the demographic for moderate-income borrowers. The following table compares the bank’s residential real estate lending activity by borrower income to the local demographics:

Borrower Distribution of Residential Real Estate Loans within the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Refinance Loans	24.22%	15.00%	21.82%	40.00%	25.85%	15.00%	28.11%	30.00%

Source: Loan Sample; 2000 U.S. Census Information

Geographic Distribution of Loans

The bank has a reasonable dispersion of loans throughout the AA.

The distribution of residential real estate loans in census tracts of different income levels is satisfactory. There are no low-income census tracts in the AA. The number of residential real estate loans originated in moderate-income tracts is near to the demographic.

Geographic Distribution of Residential Real Estate Loans within the AA								
Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Units	% of Number of Loans	% of AA Owner Occupied Units	% of Number of Loans	% of AA Owner Occupied Units	% of Number of Loans	% of AA Owner Occupied Units	% of Number of Loans
Residential RE	0%	0%	10.30%	9.00%	89.70%	91.00%	0%	0%

Source: Loan Sample; 2000 U.S. Census Information

The bank did not originate any business loans within the moderate-income tract in our loan sample. This was due to limited business growth, competition of other local banks in the AA and the fact that the moderate-income tract is not located in Wadena County where the bank is located. Therefore, opportunities for the bank to make business loans in this tract are limited.

Geographic Distribution of Loans to Businesses within the AA								
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	0%	0%	6.62%	0%	93.38%	100%	0%	0%

Source: Loan Sample; 2008 Business Demographic Data

Responses to Complaints

First National Bank has not received any CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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