



PUBLIC DISCLOSURE

May 19, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank at St. James
Charter Number 14296

202 First Avenue South
St. James, MN 56081

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.

- The bank’s loan to deposit ratio is reasonable given its asset size, financial condition, and lending opportunities within the assessment area (AA).
- First National Bank at St. James (FNB) meets the credit needs of the community by originating a substantial majority of loans inside the AA.
- The distribution of borrowers reflects excellent penetration among individuals of different income levels.

SCOPE OF EXAMINATION

We evaluated FNB’s Community Reinvestment Act (CRA) performance for the period beginning December 4, 2007 through May 19, 2014. In order to assess the bank’s lending performance, we selected primary products based on loan originations and purchases by number and dollar volume made between January 1, 2012 and December 31, 2013. We determined that the bank’s primary products are residential real estate and consumer loans. We used 2010 census information to perform demographic comparisons.

Loan Originations and Purchases in 2012 and 2013		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Residential Real Estate	18.00%	34.74%
Consumer	61.20%	11.96%
Commercial	10.80%	15.31%
Agriculture	10.00%	37.99%

Source: Bank loan origination report for 2012 and 2013

DESCRIPTION OF INSTITUTION

The First National Bank at St. James (FNB) is a \$32 million bank located in St. James, Minnesota. FNB was established in 1918 as the Farmers and Merchants State Bank of St. James and converted to a national charter in 1934. The bank has one ATM located onsite that does not accept deposits. Telephone and internet banking services are available to all customers and allow balance inquiries and transfers.

FNB offers traditional loan and deposit products. As of March 31, 2014, net loans and leases were 55.51 percent of average assets. According to FNB’s Call Report data the outstanding loan mix by dollar volume as of March 31, 2014 is as follows: residential real estate (43.56 percent), agricultural (36.53 percent), commercial (13.13 percent), and consumer (7.04 percent).

The bank is owned solely by The First National Bank at St. James ESOP, a one-bank holding company headquartered in St. James, Minnesota. FNB received an “Outstanding” rating at its December 3, 2007 CRA evaluation. There are no legal, financial, or other factors that impede the bank’s ability to meet the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREA

The bank’s AA consists entirely of Watonwan County a non-Metropolitan Statistical Area county in south-central Minnesota. The AA contains three census tracts, all of which are designated as middle-income. The AA includes the census tract where the bank is located as well as those surrounding tracts where the bank originates the majority of their loans. The AA does not arbitrarily exclude any low- or moderate-income census tracts. The bank’s AA meets regulatory requirements and does not reflect discrimination. The following table shows demographic information for the Watonwan County AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE Watonwan County AA	
Population	
Number of Families	2,837
Number of Households	4,399
% of Low-Income Families	18.33%
% of Moderate-Income Families	19.21%
% of Middle-Income Families	27.60%
% of Upper-Income Families	34.86%
Geographies	
Number of Census Tracts	3
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$58,135
2013 HUD-Adjusted MFI	\$61,700
Economic Indicators	
2013 Unemployment Rate	5.7%
2010 Median Housing Value	\$90,972
% of Households Below Poverty Level	12.28%

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

Unemployment levels in Watonwan County are slightly higher than the statewide average. According to the U.S. Bureau of Labor Statistics, the 2013 unemployment rate

for Watonwan County was 5.7 percent, compared to the state unemployment rate of 5.1 percent for this period.

Competition in the bank’s AA is moderate. FNB’s market share of deposits equals 7.70 percent. The bank ranks sixth out of eight financial institutions operating within their AA in deposit market share. Two institutions hold approximately 50 percent of the market share of deposits.

Primary industry sectors of the AA are agriculture, retail trade, and other professional services. Major employers in the Saint James area include Conagra Foods, Tony Downs Foods, and St. James Public Schools.

We contacted a community member from the bank’s AA to discuss the performance of financial institutions in the area and local credit needs. The contact indicated that the financial institutions do a reasonable job of meeting the credit needs of the community when able. However, our contact stated that there is a large transient population who are unable to establish adequate credit history and credit scores to obtain financing for long-term housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and credit needs in the AA. The bank’s quarterly average LTD ratio equals 71.56 percent for the 26 quarters since the prior CRA evaluation. The following table shows the average LTD ratio of similarly situated banks. These similarly situated banks operate within the bank’s AA and have similar asset sizes.

Loan-to-deposit Ratio Institution (Headquarters)	Assets as of 3/31/14 (\$000s)	Average LTD Ratio (%)
<i>The First National Bank at St. James (St. James, MN)</i>	\$32,263	71.56%
Triumph State Bank (Trimont, MN)	\$64,742	73.13%
Odin State Bank (Odin, MN)	\$41,195	74.33%
St James FS & LA (St. James, MN)	\$28,850	84.94%

Source: Call Report data as of March 31, 2014.

Lending in Assessment Area

The bank originates a substantial majority of its loans to borrowers located within its designated AA. We sampled 20 loans of each primary product type originated between January 1, 2012 and December 31, 2013 to evaluate lending in the bank’s AA. Based

on our sample, FNB originated 87.5 percent by number and 75 percent by dollar volume of loans within the AA. The following table shows loans originated inside and outside the bank's AA by number and dollar volume.

Lending in Watonwan County AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
RRE	17	85.00%	3	15.00%	20	\$899M	74.47%	\$308M	25.53%	\$1,207M
Consumer	18	90.00%	2	10.00%	20	\$93M	87.73%	\$13M	12.26%	\$106M
Totals	35	87.50%	5	12.50%	40	\$992M	75.55%	\$321M	24.48%	\$1,313M

Source: Residential Real Estate and consumer loan samples.

Lending to Borrowers of Different Incomes

Borrower Distribution of Residential Real Estate Loans

The distribution of borrowers reflects excellent penetration among borrowers of different income levels. The bank's percentage of loans to both low- and moderate-income individuals significantly exceeds the demographic comparator of AA families who are low-and moderate-income. The following table compares the bank's residential real estate lending by borrower income to the AA demographics.

Borrower Distribution of Residential Real Estate Loans in Watonwan County 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
RRE	18.33%	35.00%	19.21%	30.00%	27.60%	20.00%	34.86%	15.00%

Source: Loan sample; 2010 US Census Data

Borrower Distribution of Consumer Loans

FNB has excellent penetration of consumer lending to borrowers of different income levels. The bank's percentage of loans to both low- and moderate-income individuals significantly exceeds the demographic comparator of AA households who are low-and moderate-income. The following table compares the bank's consumer lending by borrower income to the AA demographics.

Borrower Distribution of Consumer Loans in Watonwan County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	23.37%	40.00%	18.30%	35.00%	22.57%	15.00%	35.76%	10.00%

Source: Loan Sample; 2010 US Census Data

Geographic Distribution of Loans

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

Responses to Complaints

The bank has not received any complaints regarding its CRA performance since the last CRA evaluation dated December 3, 2007.

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 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.