



PUBLIC DISCLOSURE

May 19, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Harvey
Charter Number 15460

920 Lincoln Avenue
Harvey, ND 58341

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 Satisfactory

The major factors supporting the institution's rating include:

- The bank's average loan-to-deposit (LTD) ratio is reasonable.
- The bank originates a substantial majority of its loans within its assessment area (AA).
- The bank has a reasonable penetration of loans to farms of different sizes.
- The bank has excellent dispersion of loans to farms throughout its AA.

SCOPE OF EXAMINATION

We evaluated The National Bank of Harvey's (NBH's) Community Reinvestment Act (CRA) performance using small bank procedures. We assessed the bank's performance by selecting primary products based on the number and dollar volume of loans originated between January 1, 2012 and December 31, 2013. Based on this analysis, we determined agricultural loans to be the bank's primary product. Agricultural loans accounted for 45 percent of loan originations by number and 66 percent by dollar volume during the evaluation period. We selected a random sample of 20 agricultural loans in order to evaluate lending activities within the bank's AA. We also contacted a community organization official not affiliated with the bank to assess area credit needs and opportunities for bank involvement. The following table indicates the bank's primary products based on the number and dollar amount of loan originations:

Loan Portfolio Composition	Volume by #	Volume by \$
Agriculture	45%	66%
Commercial	25%	27%
Consumer	23%	1%
Residential Real Estate	7%	6%

Source: Loan Originations for 2012 and 2013

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation to find similarly situated banks. The most recent deposit information is as of June 30, 2013.

DESCRIPTION OF INSTITUTION

NBH is a \$55 million bank located in the city of Harvey in Wells County, ND. NBH has no branch locations and two non-deposit taking ATMs, one located in the bank lobby and the other in the Harvey Bottle Shop. NBH is wholly-owned by First Bank Holding Company, a one-bank holding company. There have been no acquisitions or mergers since the prior CRA evaluation.

NBH is a full service bank offering traditional banking products. Lending activity is concentrated in commercial and agricultural borrowers. As of March 31, 2014, NBH's

loan portfolio totaled \$18.2 million and consisted of agricultural loans (42%), commercial loans (41%), residential real estate loans (14%), and consumer loans (3%).

NBH received a “Satisfactory” rating at the previous CRA evaluation dated March 20, 2009. There are no known financial or legal impediments that would affect NBH’s ability to meet the credit needs of the communities it serves.

DESCRIPTION OF ASSESSMENT AREA(S)

NBH’s AA consists of six census tracts in Sheridan, Wells, Benson, Pierce, and McHenry counties located in central North Dakota. All of Sheridan and Wells counties are included in the AA, along with neighboring portions of Benson, Pierce, and McHenry counties. The AA is not located within a Metropolitan Statistical Area (MSA). The AA includes one moderate-income census tract (Sheridan County) and five middle-income census tracts. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

Competitive pressures are present in the AA. There are twelve deposit-taking institutions located in the AA. NBH ranks eighth in deposit market share with a total market share of 6.86 percent. Major competitors include First International Bank & Trust, Bremer Bank, and First State Bank of Harvey. Other competitors include area credit unions and agricultural financing businesses.

The economy of the AA is steady and primarily supported by agricultural activity. Harvey Public Schools, St. Aloisius Medical Center, Canadian Pacific Railroad, Cobblestone Inn and Suites, and other small businesses provide additional employment opportunities. The average unemployment rate of the AA counties for 2013 totaled 5.04 percent, compared to 2.9 percent for the state of North Dakota.

We contacted a local community official to gain a better understanding of the primary credit needs of the AA and opportunities for bank involvement. The community contact noted that local financial institutions are active in meeting the credit needs of the community. The contact specifically identified NBH as being essential in keeping local community businesses open and operating. Credit needs of the AA continue to be small business and agricultural financing.

The following table displays the demographics and economic characteristics of the AA. The data is based on 2010 census data with updated information when available.

Demographic and Economic Characteristics of the AA	
Population	
Number of Families	3,757
Number of Households	5,757
% of Low-Income Families	23.56%
% of Moderate-Income Families	19.48%
% of Middle-Income Families	26.22%
% of Upper-Income Families	30.74%
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	16.67%
% Middle-Income Census Tracts	83.33%
% Upper-Income Census Tracts	0%
Median Family Income (MFI)	
2010 MFI for AA	\$58,557
2013 HUD-Adjusted MFI	\$64,800
Economic Indicators	
2013 Unemployment Rate	5.04%
2010 Median Housing Value	\$61,196
% of Households Below Poverty Level	15.58%

Source: 2010 U.S. Census Data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The lending test is based on the following five factors: LTD Ratio, lending within the AA, income distribution, geographic distribution, and responses to CRA related complaints.

Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable given the bank's size and the credit needs of the AA. The bank's LTD ratio averaged 58 percent over the 21 quarters since the last CRA examination. The LTD ratio ranged from a high of 77.07 percent in the first quarter 2009 to a low of 36.90 percent in the first quarter 2014. The decline is due to high competition in the area and a decrease in loan demand.

The bank's LTD ratio is comparable to similarly situated institutions, defined as those banks with similar asset size and a presence in the bank's AA. The average LTD ratio of these similarly situated institutions was 58.01 percent. The following table shows average LTD ratios for similarly situated institutions:

Loan-to-deposit Ratio	Assets as of	Average LTD Ratio
Institutions	3/31/2014 (\$000s)	(%)
First State Bank of Harvey (Harvey, ND)	\$81,370	39.42
Merchants Bank (Rugby, ND)	\$106,689	55.79
<i>National Bank of Harvey (Harvey, ND)</i>	<i>\$54,537</i>	<i>58.00</i>
North Country Bank (McClusky, ND)	\$66,692	62.50
Peoples State Bank of Velva (Velva, ND)	\$90,590	74.34

Source: Call Report Data as of March 31, 2014

Lending in Assessment Area

NBH originates a substantial majority of its loans within its AA. NBH originated 95 percent of loans by number and 93 percent by dollar volume in their AA during the evaluation period. The following table shows loans originated inside and outside NBH's AA by number and dollar volume:

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	19	95.00	1	5.00	20	1,631	93.00	119	7.00	\$1,750
Totals	19	95.00	1	5.00	20	1,631	93.00	119	7.00	\$1,750

Source: OCC Agricultural Loan Sample

Lending to Farms of Different Sizes

The distribution of farm loans reflects reasonable penetration among farms of different sizes given the AA demographics. The bank's lending to farms with revenues less than \$1 million was comparable to AA demographics. The following table shows the bank's lending performance to farms of different sizes:

Borrower Distribution of Loans to Farms in the AA				
Annual Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.42	0.58	0.00	100.00
% of Bank Loans by #	95.00	5.00	0.00	100.00
% of Bank Loans by \$	85.00	15.00	0.00	100.00

Source: OCC Agricultural Loan Sample; 2013 Business Geodemographic Data

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the AA. Lending to farms located in the moderate-income census tract significantly exceeds the percent of AA farms in the moderate-income census tract. The following table shows the bank’s lending performance compared to AA demographics:

Geographic Distribution of Loans to Farms in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farms	0.00	0.00	14.93	50.00	85.07	50.00	0.00	0.00

Source: OCC Agricultural Loan Sample; 2013 Business Geodemographic Data

Responses to Complaints

NBH has not received any CRA-related complaints since its last CRA evaluation dated March 20, 2009.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a bank’s 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.