



PUBLIC DISCLOSURE

August 13, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Waseca
Charter Number 6544

101 North State Street
Waseca, MN 56093-0000

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, and should not 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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Overall CRA Rating

The overall CRA rating is: Satisfactory.

The primary factors supporting The First National Bank of Waseca's (FNB Waseca) rating include:

- The bank originated a majority of its loans inside the designated AA;
- The bank's distribution of loans reflects reasonable penetration among borrowers of different income levels; and
- The average loan-to-deposit (LTD) ratio is reasonable based on the institution's size, financial condition, and assessment area (AA) credit needs.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinances, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Businesses: A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

FNB Waseca is a \$134 million single-state national bank headquartered in Waseca, MN in Waseca County. FNB Waseca also has branches in Ellendale, MN and Hope, MN in Steele County. The main branch, located in Waseca, has an onsite ATM that is available 24/7 for customers. The bank has one additional ATM located at a grocery store in Waseca. None of the ATMs accept deposits.

Residential real estate continues to be the bank's primary focus. As of June 30, 2018, the bank's outstanding loan portfolio totaled \$105 million. The loan portfolio by dollar volume is comprised of 48 percent commercial loans, 46 percent real estate loans, 4 percent agricultural loans, and 3 percent consumer loans. Total loans and leases are 78 percent of average assets, and Tier 1 capital is \$12 million.

The bank is 100 percent owned by Frankson Investment Corporation, a single bank holding company located in Waseca, MN. FNB Waseca does not have any subsidiaries or affiliates, aside from the holding company. No merger or acquisition activities affected the bank during the evaluation period.

Competition within the AA is strong. Twenty-two financial institutions operate within the AA with Wells Fargo holding the largest share of deposits. Based on the June 30, 2017 FDIC Deposit Market Share Report, FNB Waseca ranks fifth in deposit market share with 6.81 percent of deposits. The bank's deposits totaled \$119 million at the time of the report. FNB Waseca has one AA, which includes the five census tracts in Waseca County, two tracts in northern Freeborn County, and two tracts in southern Steele County. The bank's AA reasonably excludes several census tracts in Steele and Freeborn counties as the bank does not have a presence in these areas.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its AA. The bank received a "Satisfactory" rating at the prior CRA examination dated March 25, 2013.

Scope of the Evaluation

Evaluation Period/Products Evaluated

FNB Waseca was evaluated under the CRA small bank procedures, which is limited to the lending test. The lending test evaluated the bank's record of meeting the credit needs of its AA through its lending activities during the evaluation period. The evaluation period for the LTD analysis and complaint review portions of the lending test covered March 25, 2013 to August 13, 2018. The evaluation period for the remaining portions of the lending test covered January 1, 2015 to December 31, 2017.

The lending test focused on the bank's primary loan products based on loan origination volume during 2015, 2016, and 2017. Residential real estate loan originations totaled 27 percent of all originations by number in 2015-2016 and 29 percent by number in

2017. Consumer loan originations totaled 40 percent of all originations by number in 2015-2016 and 2017. We analyzed 2015-2016 loans separately from 2017 loans given changes in AA demographic data. Demographic data is used in part to determine the bank's lending performance. The U.S. Census Bureau released updated demographic data from the 2015 American Community Survey (ACS) effective January 1, 2017. The updated demographic data also caused one CT in the bank's AA to change from upper-income to middle-income.

Data Integrity

To evaluate FNB Waseca's lending performance, we selected a random sample of 80 primary product loans. The sample included 20 residential real estate loans and 20 consumer loans from 2015-2016 and 20 residential real estate loans and 20 consumer loans from 2017. We used information from the bank's loan files to complete our review.

Selection of Areas for Full-Scope Review

FNB Waseca has one AA, which is referred to as the Waseca Non-MSA AA throughout this report. The Waseca Non-MSA AA received a full-scope review. Refer to Appendix A for an outline of the examination scope and Appendix B for a full description of the AA and the community profile.

Ratings

FNB Waseca's overall rating is based on the lending performance within the Waseca Non-MSA AA. The bank's lending performance was evaluated on five performance criteria: the loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes, geographic distribution of loans, and responses to CRA related complaints. Residential real estate loans and consumer loans were given equal weight in the analysis.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) 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. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB Waseca's performance under the lending test is rated satisfactory. The bank's lending activity reflects satisfactory responsiveness to AA credit needs for residential real estate and consumer loans. The LTD ratio is satisfactory. A majority of loans are originated within the AA. The borrower distribution tests reflect excellent penetration of different income levels.

Loan-to-Deposit Ratio

FNB Waseca's net LTD ratio is reasonable given the bank's size, financial condition, and credit needs of the AA. The bank's LTD ratio averaged 89.49 percent over 18 quarters since the prior CRA examination. The bank's quarterly LTD ratio ranged from a low of 81.21 percent in March 2014 to a high of 96.01 percent in September 2016. FNB Waseca ranked third among four similarly situated banks. Similarly situated banks are defined as banks with total assets between \$102 million to \$149 million, as of June 30, 2018, and a location in either Waseca, Steele, or Freeborn County. Net LTD ratios for these banks during the same period ranged from an average of 87 percent to 122 percent.

Loan-to-Deposit Ratios for Similarly Situated Banks		
Bank	Total Assets (in thousands, as of 6/30/18)	Average LTD (1Q14-2Q18)
State Bank of New Richland	\$102,518	121.51%
Security Bank Minnesota	\$127,053	89.52%
The First National Bank of Waseca	\$133,859	89.49%
Farmers State Bank of Hartland	\$148,910	87.30%

Source: CRAwiz – Summary of Deposits & Market Share Report

Lending in Assessment Area

FNB Waseca originates a majority of its loans inside its AA. We analyzed 20 residential real estate loans and 20 consumer loans originated between January 1, 2015 and December 31, 2017. FNB Waseca originated 47 percent of loans by dollar and 75 percent by number within its AA. The following table shows the lending by product type inside and outside the AA.

Lending in Waseca AA 2015-2017										
Loan Type	Number of Loans					Dollars of Loans (<i>in thousands</i>)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	20	60%	8	40%	40	\$ 944,986	41.2%	\$ 1,347,035	58.8%	\$ 2,292,021
Consumer	18	90%	2	10%	40	\$ 141,128	91.8%	\$ 12,650	8.2%	\$ 153,778
Totals	60	75%	20	25%	80	\$ 2,609	47.4%	\$ 2,895	52.6%	\$ 2,445,799

Source: Loan sample.

Lending to Borrowers of Different Incomes and Different Sizes

FNB Waseca's overall distribution of loans to borrowers of different income levels reflects excellent penetration in 2015, 2016, and 2017.

Residential Real Estate Loans

The borrower distribution of residential real estate loans in the AA reflects excellent penetration. The distribution of residential real estate loans to low-to-moderate income (LMI) borrowers is near the percentage of LMI families living in the AA. The table below shows the bank's performance lending to borrowers of different income levels compared to the percentage of families in each income level.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Loans by Number	% of AA Families	% of Loans by Number	% of AA Families	% of Loans by Number	% of AA Families	% of Loans by Number
2015-2016	14%	15%	18%	5%	24%	45%	43%	35%
2017	15%	20%	17%	30%	24%	5%	61%	45%

Source: Loan sample; Census Data

Consumer Loans

The borrower distribution of consumer loans reflects excellent penetration. The distribution of consumer loans to LMI borrowers exceeds the percentage of LMI families living in the AA. The table below shows the bank's performance lending to borrowers of different income levels compared to the percentage of households in each income level.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Loans by Number	% of AA Households	% of Loans by Number	% of AA Households	% of Loans by Number	% of AA Households	% of Loans by Number
2015- 2016	18%	40%	15%	25%	20%	10%	48%	25%
2017	19%	35%	15%	30%	19%	20%	47%	15%

Source: Loan sample; Census Data.

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as the bank's AA has no low- or moderate-income census tracts.

Responses to Complaints

There have been no consumer complaints pertaining to FNB Waseca's CRA performance during this evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Evaluation Period: 3/25/2013 to 8/13/2018 Lending Test: 1/1/2015 to 12/31/2017	
Financial Institution	Products Reviewed	
The First National Bank of Waseca Waseca, Minnesota	Residential Real Estate Loans Consumer Loans	
List of Assessment Areas and Type of Examination		
Affiliate(s)		Affiliate Relationship
<i>Frankson Investment Corporation. – We did not review any affiliate activity or products.</i>		N/A
Assessment Area	Type of Exam	Other Information
Waseca Non-MSA AA	Full Scope	The AA includes all of the CTs from Waseca County. The AA also includes two CTs in northern Freeborn County and two CTs in southern Steele County.

Appendix B: Community Profiles for Full-Scope Areas

Waseca Non-MSA AA 2015-2016

Demographic Information for Full-Scope Area: Waseca Non-MSA AA 2015-2016*					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (CTs)	9	0.0%	0.0%	77.8%	22.2%
Population by Geography	31,324	0.0%	0.0%	81.0%	19.0%
Housing Units by Geography	12,945	0.0%	0.0%	90.2%	9.8%
Owner-Occupied Units by Geography	10,064	0.0%	0.0%	80.9%	19.1%
Occupied Rental Units by Geography	1,970	0.0%	0.0%	89.0%	11.0%
Vacant Units by Geography	1,037	0.0%	0.0%	81.6%	18.4%
Businesses by Geography	1,800	0.0%	0.0%	80.1%	19.9%
Farms by Geography	554	0.0%	0.0%	62.1%	37.9%
Family Distribution by Income Level	8,521	14.4%	18.2%	24.0%	43.4%
Household Distribution by Income Level	12,034	17.6%	14.9%	19.9%	47.5%
Median Family Income (Non-MSA)	\$57,683	Median Housing Value		\$144,457	
Median Gross Rent	\$577				
Average 2015-2016 Unemployment Rate*	4.7%	Families Below Poverty Level		5.2%	

Source: 2010 U.S. Census, 2015-2016 Dun and Bradstreet data, and US Bureau of Labor Statistics 2015-2016 unemployment data.

Waseca Non-MSA AA 2017

Demographic Information for Full-Scope Area: Waseca Non-MSA AA 2017*					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (CTs)	9	0.0%	0.0%	88.9%	11.1%
Population by Geography	30,878	0.0%	0.0%	90.6%	9.4%
Housing Units by Geography	12,945	0.0%	0.0%	90.2%	9.8%
Owner-Occupied Units by Geography	9,616	0.0%	0.0%	89.2%	10.8%
Occupied Rental Units by Geography	2,236	0.0%	0.0%	94.6%	5.4%
Vacant Units by Geography	1,093	0.0%	0.0%	90.2%	9.8%
Businesses by Geography	1,800	0.0%	0.0%	88.9%	11.1%
Farms by Geography	520	0.0%	0.0%	79.4%	20.6%
Family Distribution by Income Level	8,323	15.3%	16.8%	23.8%	44.1%
Household Distribution by Income Level	11,852	18.8%	14.6%	19.4%	47.1%
Median Family Income (Non-MSA)	\$63,182	Median Housing Value		\$140,363	
Median Gross Rent	\$583				
Average 2017 Unemployment Rate*	5.0%	Families Below Poverty Level		5.7%	

Source: 2015 American Community Survey (ACS Census), 2017 Dun and Bradstreet data, and US Bureau of Labor Statistics 2017 unemployment data

The FNB Waseca is a \$134 million single-state national bank headquartered in Waseca, MN. FNB Waseca also has branches in Ellendale, MN and Hope, MN. The three full-service branches offer traditional banking products and services to individuals and businesses. In addition, the main branch has an ATM and drive-up window.

FNB Waseca has one AA, which includes Waseca County, and portions of Steele and Freeborn counties. The AA includes the five census tracts in Waseca county, two tracts in northern Freeborn county (1801 & 1802), and two tracts in southern Steele county (9605 & 9608). Eight of the bank's tracts are middle-income and one is upper-income. The bank's AA reasonably excludes several census tracts in Steele and Freeborn counties as the bank does not have a presence in these areas.

The bank's stated AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. During 2015 and 2016, seven census tracts were middle-income, and two census tracts were upper-income. In 2017, one CT changed from upper-income to middle-income as a result of updated demographic data from the 2015 American Community Survey (i.e. the Census). We included separate tables for 2015-2016 and 2017 given the demographic data changes.

The AA economy is diverse and not heavily dependent on any one major industry. According to the 2015 ACS, the largest industry type is services at 34 percent, followed by agriculture, forestry and fishing at 22.4 percent and retail trade at 9.3 percent. The population in the bank's AA totaled roughly 31 thousand during 2015-2017. In 2015-2016, 77.8 percent of the population lived in the middle-income CTs while 22.2 percent lived in upper-income CTs. In 2017, 88.9 percent of population lived in the middle-income CTs while 11.1 percent lived in upper-income CTs.

According to the U.S. Bureau of Labor Statistics, unemployment rates in Freeborn, Steele, and Waseca County showed a slight increase over the evaluation period. In 2016, unemployment rates for the three counties averaged 4.5 percent and rose to 5 percent in 2017. The counties' average unemployment rates were higher than Minnesota's unemployment rates of 3.9 percent and 3.5 percent, respectively. The counties' average unemployment rates more closely align with the national unemployment rates of 4.9 percent in 2016 and 4.4 percent in 2017.

As part of this review, we contacted Gary Sandholm, the Economic Development Coordinator for the City of Waseca to gain an understanding of the economic conditions of the area, credit needs in the area, and involvement of local financial institutions. Mr. Sandholm stated that the local economy is doing well overall, despite the closure of two major plants, resulting in a loss of about 350 jobs. He indicated that the primary banking needs consists of home mortgage, small business and agricultural financing. He stated that FNB Waseca is involved in the community and that a number of their staff serve on various city and county boards.