



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

October 25, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Sauk Centre
Charter Number 6417**

**235 Main Street
Sauk Centre, MN 56378**

**Comptroller of the Currency
North Dakota & NW Minnesota
1309 Highway 29 N
Alexandria, MN 56308**

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.

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INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of the assessment area it serves, consistent with its resources and capabilities. Factors contributing to this rating include the following:

- Overall lending to borrowers of different incomes and businesses of different sizes is comparable to the demographic information of the bank's assessment area.
- Lending within the designated assessment area shows a willingness to meet the credit needs of the area.
- The loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

First National Bank of Sauk Centre (FNB) is an \$88 million bank located in Sauk Centre, MN and is wholly owned by Sauk Centre Financial Services, Inc., a one-bank holding company also located in Sauk Centre, MN. Holding company assets consist primarily of the bank. FNB is located in central Minnesota in Stearns County. The bank has one branch located in the local grocery store and a deposit-accepting ATM in the lobby of the main bank.

The bank's loan portfolio is diverse. As of June 30, 2004, the composition of the portfolio was as follows:

Loan Portfolio Composition	\$ (000)	%
Commercial (including real estate)	28,285	58%
Agricultural (including real estate)	9,062	18%
Residential Real Estate Loans	7,868	16%
Consumer Loans	3,733	8%
Total	48,948	100%

FNB meets the credit needs by offering traditional banking products and services. During the assessment period, lending practices focused on small business, consumer, and real estate loans. As of June 30, 2004, net loans represented 54% of total assets and the bank's Tier One Leverage Capital was 10.1% or \$8.9 million. There are no legal or financial impediments that restrict the bank's ability to meet the credit needs of the community.

FNB was rated Satisfactory at the last CRA examination dated October 18, 1999.

Description of First National Bank of Sauk Centre's Assessment Area

FNB's assessment area (AA) includes six contiguous census tracts (CT) located in Stearns and Todd Counties. The three CT in Stearns County are located in the St. Cloud metropolitan statistical area (MSA). The remaining three CT are not located in an MSA. All of the CT in the AA are middle-income. There are no low-, moderate-, or upper-income tracts. The AA meets the requirements of the regulation and does not exclude low- or moderate-income geographies. Cities in the AA include Sauk Centre, Melrose, Freeport, New Munich, and Meire Grove with the largest being Sauk Centre with a population of 3,930 based on 2000 census information. The total population of the AA is 20,405.

Primary competition comes from other financial institutions located in the town of Sauk Centre. Additional competition exists in communities whose AA overlaps that of FNB. The opening of a credit union several years ago has intensified competition, especially for real estate and consumer loans. Based on 2000 demographic information, FNB has a 16% share of the deposit market within the AA.

The bank's AA is dependent on residential real estate, small business, and agriculture. Major local employers include the local school system, nursing care facilities, and light manufacturing.

Information from the Bureau of Labor Statistics lists the 2003 unemployment rate for Stearns and Todd counties at 4.8% and 6.5%, respectively. The average unemployment rate is 5% for Minnesota and 6.0% nationwide.

During our evaluation, we contacted a community agency to better understand the credit needs of the AA. Based on this information, we determined that residential real estate and small business loans help to support the local economy. The contact states that area financial institutions effectively meet the credit needs of the community.

The demographics of the AA are illustrated on the next page. The information is based on the 2000 census information unless otherwise noted.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	5,693
Number of Households	7,807
Number of Low-Income Families	1,146
% of Low-Income Families	20%
Number of Moderate-Income Families	1,199
% of Moderate-Income Families	21%
Number of Middle-Income Families	1,659
% of Middle-Income Families	29%
Number of Upper-Income Families	1,689
% of Upper-Income Families	30%
<i>Geographies</i>	
Number of Census Tracts/BNA	6
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$48,700
<i>Economic Indicators</i>	
Unemployment Rate	2%
2004 Median Housing Value	\$87,183
% of Households Below Poverty Level	9%

Loan Sampling

The bank's primary loan types were determined by reviewing all loans originated from January 1, 2002 through September 30, 2004.

For purposes of this evaluation, the primary loan types are residential real estate loans, consumer loans, and business loans. Residential real estate loans comprise 22% of the dollar volume of all loans originated during our evaluation period. Business loans represent 51% of the dollar volume and consumer loans account for 50% of the number of loans originated. The table below depicts the breakdown of all originations.

Loan Products	#	%	\$ (000)	%
Business Loans	440	19%	\$48,166	51%
Agricultural	262	12%	\$15,779	17%
Residential Real Estate Loans	430	19%	\$20,934	22%
Consumer Loans	1,136	50%	\$9,258	10%
Total	2,268	100%	\$94,137	100%

To conduct our analysis, we applied statistically valid sampling techniques to select a sample of

twenty residential real estate loans, twenty consumer loans, and twenty business loans. After initial sampling to determine the bank's lending within the AA, additional files were selected from both the MSA and non-MSA CT so all loans in the sample were from the AA. These loans were then used to conduct the analysis of lending to borrowers of different incomes and to businesses of different sizes.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance given the size, financial condition, assessment area needs, and local economic conditions. Since the last CRA evaluation, the bank's quarterly average LTD ratio is 65%.

When compared to five similarly situated institutions in or around the AA, FNB ranks fifth out of the six banks. These banks have assets sizes ranging from \$54 to \$99 million with LTD ratios of 56% to 87%. The average LTD ratio of all six banks for the evaluation period is 74%.

Institution	Assets (as of 6/30/04)	Average LTD Ratio
North American State Bank	\$99 million	87%
Freeport State Bank	\$60 million	82%
First National Bank of Osakis	\$54 million	77%
Lake Country State Bank	\$82 million	76%
<i>First National Bank of Sauk Centre</i>	<i>\$88 million</i>	<i>65%</i>
First State Bank of Sauk Centre	\$83 million	56%

Lending in Assessment Area

FNB meets the standard for satisfactory performance for lending within the AA. Overall, 77% of the number of loans and 72% of the dollar volume of loans are originated within the AA. The table below illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Real Estate Loan Sample	17	85%	\$601	77%	3	15%	\$180	23%
Consumer Loan Sample	15	75%	\$137	83%	5	25%	\$27	17%
Business Loan Sample	14	70%	\$1,400	70%	6	30%	\$616	30%
Total Reviewed	46	77%	\$2,138	72%	14	23%	\$823	28%

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

Overall lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance.

Residential Real Estate Loans

The borrower distribution of residential real estate loans to low- and moderate-income families is below the demographics of the AA. The following chart illustrates that 10% of the number and 3% of the dollar volume of loans sampled are to low-income families and 10% of the number and 14% of the dollar volume of loans sampled are to moderate-income families. The demographic information indicates that 20% of the families in the AA are low-income and 21% are moderate-income.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	20%		21%		29%		30%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	10%	3%	10%	14%	40%	32%	40%	51%

Consumer Loans

The borrower distribution of consumer loans to low- and moderate-income households meets the demographics of the AA. As illustrated on the table below, 15% of the number and 9% of the dollar volume of loans sampled are to low-income households and 45% of the number and 39% of the dollar volume of loans sampled are to moderate-income households. This compares favorably to the demographic information in which 23% of the households in the AA are low-income and 18% are moderate-income.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	23%		18%		23%		36%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	15%	9%	45%	39%	30%	33%	10%	19%

Business Loans

Lending to small businesses meet the demographic information of the AA. The demographic information indicates that 93% of businesses have revenues of less than \$1 million. Of the businesses included in our sample, 90% of the number and 89% of the dollar volume had revenues in this category. The table on the following page illustrates the lending to businesses of different sizes.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93%	7%
% of Bank Loans in AA #	90%	10%
% of Bank Loans in AA \$	89%	11%

Geographic Distribution of Loans

All six of the bank's CT are middle income. Therefore, an analysis of the geographic distribution of loans among different income geographies is not meaningful.

Responses to Complaints

FNB and the OCC have not received any complaints relating to the bank's CRA performance since the previous examination.

Fair Lending or Other Illegal Credit Practices Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. During our evaluation, we found no evidence of illegal discrimination or other illegal credit practices.