

PUBLIC DISCLOSURE

January 25, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number: 7772**

**Highway 10
Hawley, Minnesota**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank (FNB), Hawley, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 25, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**. The following factors highlight FNB's performance:

- FNB showed good loan penetration among businesses and farms of different revenue sizes.
- FNB's loan-to-deposit ratio is reasonable and is comparable to other banks of similar size situated in its assessment area.

DESCRIPTION OF INSTITUTION

First National Bank, Hawley (FNB) is a \$40 million institution located in northwestern Minnesota. FNB has its main office in Hawley, MN and a branch office located in Dilworth, MN. The bank has two ATMs, one located at each banking location.

The bank is wholly owned by First Hawley Bancshares, Inc., Hawley, Minnesota. Insurance and real estate brokerage services are also offered through affiliated companies.

FNB is a full service bank offering traditional loan and deposit products and services. The lending focus includes agriculture loans, small business loans, residential real estate loans, and consumer loans. The following table illustrates FNB's loan mix:

Loan Type	Dollar Volume (000's)	% of Total
Business	\$8,415	24%
Agriculture	\$6,597	31%
Residential Real Estate	\$6,547	24%
Consumer Instalment and Other Loans	\$4,617	17%
Home Equity Lines	\$1,151	4%
Total Portfolio Volume	\$27,327	100%

* Source: Bank balance sheet as of 12/31/98

There are no legal or financial factors impeding the bank's ability to help meet the credit needs within its assessment area. FNB was rated "Outstanding" in February 1996. The bank has not opened or closed any offices since the last examination.

DESCRIPTION OF FNB's ASSESSMENT AREA

The assessment area (AA) of FNB consists of five contiguous census tracts, all located in Clay County in northwestern Minnesota. The AA is part of the Fargo/Moorhead Metropolitan Statistical Area (MSA). All of the census tracts in the assessment area are middle income.

The cities of Hawley and Dilworth are considered to be bedroom communities of the Fargo/Moorhead area. Other cities within the AA include but are not limited to: Ulen, Barnesville, Glyndon, Georgetown, Hitterdahl, and Felton. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

The population of the assessment area is 19,426. The unemployment rate is 3% with 11% of the total population living below the poverty level. Major employers in the AA include the local school districts, Burlington Northern Railroad, small manufacturing companies, and the retail industry. Economic conditions in the AA are considered good.

The 1998 updated median family income for the AA is \$46,400. The profile of family income levels within the census tracts is: low income 17.55%, moderate income 19.96%, middle income 27.76%, and upper income 34.73%. Owner-occupied units account for 75% of total housing units with a median housing value of \$53,000.

FNB's primary competition includes three full service, similarly sized banks and several bank branches within its assessment area. FNB's secondary competition includes branches of regional and mid-size banks located in the Fargo/Moorhead and Detroit Lakes areas. These areas are adjacent to the bank's assessment area.

Credit needs of the AA are varied. They include all types of loans for small businesses, agriculture, and housing. Small business credit needs include working capital for start-ups as well as expanding businesses. Credit needs for agriculture include operating, real estate, and equipment loans. Housing needs include single-family, home improvement, and multi-family. We determined these credit needs by contacting a local city government official and a local governmental housing official.

DESCRIPTION OF SAMPLES:

Our review of FNB's lending activities was conducted through sampling various bank loan products. These products include small business, small farm, Home Mortgage Disclosure Act (HMDA) - Loan Application Register reportable loans, and consumer auto loans. The following table illustrates our sample sizes in relation to the total population of the various loan product categories.

	Commercial	Farm	HMDA	Consumer Auto
Number of Total Originations	290	334	254	*
Sample Size	51	40	254	61
% of Total Number Sampled	18%	12%	100%	NA
Dollar Amount of Total Originations	\$6,467,729	\$5,433,972	\$13,789,000	*
Dollar amount of Sample	\$2,827,214	\$1,039,632	\$13,789,000	\$501,256
% of Dollar Amount Sampled	44%	19%	100%	NA

Source: Loan originations from March 31, 1996 through December 31, 1998.

* Used for In/Out analysis only.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the Assessment Area

FNB has a reasonable distribution of lending to borrowers of different incomes and to businesses of different sizes within the assessment area.

Business and Small Farm Loans

FNB has a good record of lending to businesses and farms of all revenue sizes. This lending activity helps meet the identified credit needs of the communities FNB serves. The following tables illustrate loans to various businesses and farmers within the bank's AA.

Business Loans - 29 loans totaling \$914,265		
Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	41%	25%
\$101 - \$250	7%	2%
\$251 - \$500	35%	52%
\$501 - \$1,000	7%	11%
> \$1,000	10%	10%

Farm Loans - 31 loans totaling \$1,219,386		
Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	36%	10%
\$101 - \$250	32%	40%
\$251 - \$500	10%	42%
\$501 - \$1,000	3%	1%
> \$1000	19%	7%

Residential Real Estate Loans

Overall, the bank's distribution of HMDA reportable loans to borrowers of different income levels is acceptable. The residential real estate lending activity helps meet the identified housing credit needs of the AA.

FNB's record of lending to low- and moderate-income individuals is mixed. FNB's record of residential real estate lending to all income level borrowers does not approach the demographics of the assessment area for low-income borrowers. Escalating housing costs and the level of low-income families living below the poverty level impede low-income borrowers' ability to qualify for conventional housing loans. FNB's lending to moderate-income borrowers was directly comparable to the demographics for families in that income category.

The following table illustrates residential real estate lending activities. Our review included all HMDA reported loans made within the bank's AA during 1998. This equaled 55 loans totaling \$3,214,000.

Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family income*	17%	6%	2%
Moderate-Income at least 50% < 80% Median Family Income*	20%	20%	16%
Middle-Income at least 80% < 120% Median Family Income*	28%	29%	26%
Upper-Income 120% and > Median Family Income*	35%	45%	56%

* 1998 Updated MSA income \$46,400

We were not able to utilize the consumer auto loan sample for this test because the bank does not consistently obtain income information from its consumer instalment loan customers.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and lending opportunities within its AA. The quarterly LTD ratio has

averaged 84.76% since the last CRA examination. FNB's ratio is comparable to other banks within its assessment area. FNB's LTD ratio ranks third of the four banks within in the AA with the competing banks' ratios ranging from 67% to 98%.

Lending in the Assessment Area

FNB originates a majority of their loans inside their AA. The following table illustrates the level of lending penetration inside the bank's AA by product type:

Penetration of Lending Inside the Assessment Area Loans Originated from March 31, 1996 to December 31, 1998				
Loan Type	Number of Loans Sampled	% of Number In AA	Dollar Amount of Loans Sampled (000's)	% of Total Dollar Amount in AA
Business Loans	51	57%	\$2,827	32%
Farm Loans	40	78%	\$1,040	77%
HMDA Loans	254	72%	\$13,789	70%
Auto Loans	61	70%	\$501	64%
Total Samples	406	70%	\$18,157	65%

Geographic Distribution of Loans

A geographic distribution of loans was not completed. All of the census tracts within the AA are middle income; therefore, an analysis of the geographic distribution of loans would not be meaningful.

Record of Response to Complaints

The bank has not received any CRA related complaints since the previous evaluation.

Record of Compliance with Anti-discriminatory laws

Based on our review, the bank is complying with anti-discriminatory laws. We found

no substantive violations of the fair lending laws.