



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**January 3, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Starbuck  
Charter Number 9596**

**100 West Fifth Street  
Starbuck, MN 56381**

**Comptroller of the Currency  
North Dakota & NW Minnesota  
1309 Highway 29 North, P. O. Box 849  
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.**

## **Institution's CRA Rating: Satisfactory**

First National Bank of Starbuck's lending performance reflects a satisfactory response to community credit needs. Factors contributing to this rating include the following:

- The loan-to-deposit ratio is reasonable.
- The majority of loans originated are within the bank's assessment area.
- The bank's record of lending to borrowers of different incomes and businesses of different sizes exceeds the standard for satisfactory performance.

## **Description of Institution**

The First National Bank of Starbuck (FNB) is a \$24 million financial institution with its main office in Starbuck, Minnesota, which is located in Pope County in central Minnesota. The bank has no branches and operates no depository automatic teller machines. FNB is owned by Starbuck Bancshares, a one-bank holding company located in Starbuck, Minnesota. There have been no acquisitions or mergers since the previous CRA examination.

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

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>%</b>
Farm Loans (including real estate)	6,594	50.6%
Business Loans (including real estate)	2,988	22.9%
Residential Real Estate Loans	2,377	18.3%
Consumer Loans	1,034	7.9%
Other Loans	34	.3%
<b>Total</b>	<b>13,027</b>	<b>100.0%</b>

FNB offers a wide variety of financial products and services and its lending focus is on farm loans. Net loans represent 53% of total assets. FNB's Tier 1 Leverage Capital is 9.98% of average assets, or \$2.4 million. There are no legal or financial impediments that would restrict the bank's ability to meet the credit needs of the community.

FNB was rated "Satisfactory" at the last CRA examination dated August 9, 1999.

## **Description of First National Bank of Starbuck's Assessment Area**

FNB's assessment area (AA) includes four contiguous census tracts (CTs) located in Pope County of Minnesota. Based on the 2000 census information, the AA includes four middle income CTs. There are no low- or moderate-income tracts in the AA.

The AA meets the requirements of the regulation, and does not exclude any low- or moderate-income geographies. Cities in the AA include, but are not limited to Starbuck, Glenwood, Lowry, Cyrus and Villard. Based on the 2000 census, the community of Starbuck has a population of 1,314. The community of Glenwood is the largest city in the AA with a population of 2,591.

Primary competition in the AA includes five area banks, a branch of a large financial institution in Alexandria, MN and a credit union. The bank also identifies AgCountry Farm Credit Services as the primary competitor for farm loans.

Based on 2000 Census data, the following is a breakdown of Pope County industries employing over five percent of total employees in the county: Health care and social assistance (16%), Manufacturing (15%), Agriculture (12%), Retail trade (11%), and Education (8%).

Information from the Bureau of Labor Statistics lists the 2003 unemployment rates for Pope County as 4.1%. The average unemployment rate for Minnesota is 5.0% and is 6.0% nationwide.

During our evaluation, we contacted an official of the City of Starbuck to better understand the credit needs of the AA. Based on this information we found that FNB Starbuck effectively meets the community's needs. Primary credit needs identified were the need for affordable housing rental units.

The demographics of the AA are illustrated in the table below. The information is based on 2000 census data unless otherwise indicated.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	3,102
Number of Households	4,520
Number of Low-Income Families	522
% of Low-Income Families	17%
Number of Moderate-Income Families	668
% of Moderate-Income Families	22%
Number of Middle-Income Families	872
% of Middle-Income Families	28%
Number of Upper-Income Families	1,010
% of Upper-Income Families	33%
<i>Geographies</i>	
Number of Census Tracts/BNA	4
% 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>	
1990 MFI for AA	\$28,933
2000 MFI for AA	\$45,925
2003 HUD-Adjusted MFI	\$51,700
<i>Economic Indicators</i>	
Unemployment Rate	4.1%
2000 Median Housing Value	\$80,616
% of Households Below Poverty Level	10%

## Loan Sampling

The bank's primary loan types were determined by reviewing all loans originated in 2003 and 2004.

<b>Loan Products</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Farm Loans	200	26.7%	6,334	40.1%
Business Loans	45	6.0%	1,464	9.3%
Consumer Loans – Automobile	257	34.4%	1,294	8.2%
Consumer Loans – Other	182	24.3%	834	5.3%
Residential Real Estate Loans	27	3.6%	2,128	13.5%
Business Real Estate Loans	8	1.1%	1,256	7.9%
Farm Real Estate Loans	29	3.9%	2,486	15.7%
<b>Total</b>	<b>748</b>	<b>100.0%</b>	<b>15,796</b>	<b>100.0%</b>

Loans originated from January 1, 2003 to December 31, 2004.

For the purposes of this evaluation, the primary loan types are farm loans and consumer automobile loans. Farm loans account for 40% of the dollar volume of loan originations during the evaluation period and consumer automobile loans represent 34% of the number of all originations during the evaluation period.

To conduct our analysis, we performed statistically valid sampling techniques selecting a sample of 24 farm loans and 23 consumer automobile loans. After initial sampling to determine the bank's lending within the AA, additional files were selected so that all loans in the sample were made within the AA. This resulted in a final sample of 20 farm loans and 20 consumer automobile loans.

## Conclusions about Performance Criteria

### Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance given the size, financial condition, assessment area needs, and local economic conditions. Since the last CRA evaluation, the bank's average quarterly LTD ratio is 66%.

A comparison to the other four similarly situated banks in the AA shows FNB is ranked fifth of five banks. These banks are the bank's primary competitors. While FNB's LTD ratio is low in comparison to these banks, it is still considered reasonable because of the strong competition for loans. In addition, FNB does not purchase a significant dollar volume of loans. The quarterly LTD ratios for these banks range from 66% to 92%. The following table illustrates the total assets and LTD ratios for these banks.

<b>Institution</b>	<b>Assets in 000's (as of 09/30/2004)</b>	<b>Average LTD Ratio</b>
Glenwood State Bank, Glenwood, MN	\$110,401	92%
Eagle Bank, Glenwood, MN	\$84,452	88%
Lowry State Bank, Lowry, MN	\$26,105	75%
Hometown Community Bank, Cyrus, MN	\$21,125	72%
<i>First National Bank of Starbuck, Starbuck, MN</i>	\$23,844	66%

## Lending in Assessment Area

FNB meets the standard for satisfactory performance for lending within its AA. Eighty-five percent of the number and ninety-one percent of the dollar volume of loans are originated in the AA. We used our sample of farm and consumer automobile loans to determine the bank's lending patterns. The following table illustrates the lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Farm Loans	20	83.3%	641	90.0%	4	16.7%	71	10.0%
Consumer Automobile Loans	20	87.0%	156	88.6%	3	13.0%	20	11.4%
Total Reviewed	40	85.1%	797	90.0%	7	14.9%	91	10.0%

Source: Loans originated from January 1, 2003 to December 31, 2004.

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

Overall, lending to borrowers of different incomes and to businesses of different sizes exceeds the standard for satisfactory performance. Lending for farm and consumer auto loans both exceed the standard for satisfactory performance.

### Borrower Distribution of Farm Loans

Lending to small businesses exceeds the standards for satisfactory performance. Of the loans included in our sample, 95% of the number and 99% of the dollar volume are to businesses with revenues under \$1 million. The demographic information indicates that 99% of the businesses in the AA have revenues under \$1 million. Refer to the following table:

Borrower Distribution of Farm Loans				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	98.8%	.8%	.4%	100%
% of Bank Loans in AA by #	95.0%	None	5.0%	100%
% of Bank Loans in AA by \$	99.3%	None	.7%	100%

Source: Loan sample; Dunn and Bradstreet data.

## Borrower Distribution of Consumer Automobile Loans

The borrower distribution of consumer loans to low- and moderate-income households exceeds the demographics of the AA.

The following chart illustrates that 30% of the number of loans sampled are to low-income households and 50% of the number of loans sampled are to moderate-income households. The demographic information indicates that 25% of the households are low-income and 17% of the households are moderate-income.

Borrower Distribution of Consumer Automobile loans								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24.6%		17.3%		22.4%		35.7%	
Loan Sample	% of Number	% of Amount						
Total	30.0%	21.4%	50.0%	59.0%	15.0%	18.1%	5.0%	1.5%

Source: Loans originated during the evaluation period from January 1, 2003 to December 31, 2004.

## Geographic Distribution of Loans

This criterion was not rated during this evaluation because the bank's AA is homogenous, consisting of four middle-income CTs.

## Responses to Complaints

FNB and the OCC have not received any complaints about its performance in helping to meet AA credit needs during this evaluation period.

## 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. The latest comprehensive fair lending exam was performed in 2003. Using the loan terms approach for consumer loans secured by used automobiles we compared approved male loans to approved female loans. We found no evidence of illegal discrimination or other illegal credit practices.