



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 03, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Winnebago
Charter Number: 10393

1 Main Street South
Winnebago, MN 56098

Office of the Comptroller of the Currency

Minneapolis South
920 Second Avenue South Suite 800
Minneapolis, MN 55402

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 following summarizes the criteria considered in assessing the bank's performance:

- The bank's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment of credit needs
- The bank originates a majority of its loans to borrowers located within the assessment area.
- The bank has an excellent distribution of credit among farms of different sizes and reasonable distribution of credit among businesses of different income levels.

SCOPE OF EXAMINATION

We evaluated the bank's CRA-related activities in meeting the credit needs of its assessment area for the period beginning July 29, 2002 through September 30, 2007. In order to determine the bank's performance, we selected primary products based on dollar and number volume of originations for the period beginning January 1, 2005 and ending September 30, 2007. We determined that agricultural and commercial loans are the bank's primary products. We selected a random sample of 20 loans from each of the primary products in order to evaluate lending performance within the assessment area. We used demographic information from the 2006 Geodemographic data to compare the bank's performance within its assessment area.

DESCRIPTION OF INSTITUTION

First National Bank in Winnebago (FNB), Winnebago, Minnesota is a \$34 million commercial bank. The bank has only one main office located in downtown Winnebago. The main office is a full-service facility that also offers a drive-up window. The bank operates one automated teller machine (ATM) located at the facility. The ATM does not accept deposits.

FNB is predominately located in a rural area. The bank's primary business focus is agricultural and commercial lending. As of September 30, 2007, the bank has the following outstanding loans by dollar volume: agricultural (49.95 percent), commercial (31.34 percent), residential real estate (11.39 percent), and consumer (7.32 percent). Net loans represent 59.10 percent of total assets.

FNB is 100 percent owned by Krause Financial, Incorporated, a one-bank holding company headquartered in Winnebago, Minnesota. The bank has one related organization, First National Agency, an insurance agency also located in Winnebago, Minnesota.

The bank received a "Satisfactory" rating at its July 29, 2002 CRA exam. There are no financial, legal, or other factors that impede the bank's ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's Assessment Area (AA) consists of all of Faribault County, Minnesota. Census tracts included in this AA are: 9601, 9602, 9603, 9604, 9605, and 9606. All six census tracts are considered middle-income. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

According to the U.S Department of Housing and Urban Development, the 2007 updated non-metropolitan area median income estimate for Minnesota is \$54,700. According to the 2000 Census Data, the population of the AA is 16,181 persons. There are a total of 4,489 families in the AA, of which 18.65 percent are low-income, 22.08 percent are moderate-income, 27.27 percent are middle-income, and 32.01 percent are upper-income. 5.48 percent of families are below the poverty level.

According to the Department of Labor, unemployment within the AA is slightly higher than the State of Minnesota. As of June 2007, unemployment in Faribault County was 5.2 percent compared to 4.4 percent in the State of Minnesota. The top five major employers in Winnebago are Parker Oaks, Crown Tonka, Corn Plus, Continental, and Zierke Built.

Overall, the local economy is stable. The economy is primarily agricultural and has benefited from good crop prices over the last few years. The community's industrial economy is also relatively stable. Even though the City of Winnebago lost one of its largest employers, J-M, in early 2007, the effect on the local economy is not expected to be significant as there are a number of other small manufacturers that can absorb the workforce.

Competition among financial institutions in the assessment area is strong. There are thirteen banks with a presence in Faribault County. FNB ranks fourth among the thirteen banks in terms of total deposit market share of 6.50 percent. The leading banks have deposit market share ranging from 9.61 percent to 30.09 percent.

Our community contact with a representative of a Community Development Corporation indicated that credit needs of the local community are being met by financial institutions in the area. The financial institutions are active in working with local businesses. Primary credit needs identified in the AA are affordable housing and assisted living facilities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of the AA. The bank's net LTD ratio has remained relatively stable during the assessment period, subject to seasonal fluctuations from agricultural demand. The bank's quarterly net LTD ratio averaged 63.81 percent over the 22 quarters from June 30, 2002 through September 30, 2007. Six similarly-situated banks with total assets of \$18 million to \$23 million with a presence within the AA have net LTD ratios ranging from 69.58 percent to 93.59 percent over the same time period.

Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its AA. We sampled a total of 20 agricultural and 20 commercial loans originated from January 1, 2005 to September 30, 2007 and found 72.50 percent by number and 49.40 percent by dollar volume were made to farms and businesses located within the bank’s AA. The following table summarizes loans originated inside and outside AA by number and dollar volume:

Lending in Faribault County, Minnesota										
Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	13	65.00%	7	35.00%	20	765	74.49%	254	24.73%	1,027
Commercial	16	80.00%	4	20.00%	20	429	30.86%	961	69.14%	1,390
Totals	29	72.50%	11	27.50%	40	1,194	49.40%	1,215	50.27%	2,417

Source: Bank records (verified by examiners).

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

FNB has an excellent distribution of loans to farms of different sizes within the AA. Based on our sample of 20 Agricultural loans, the percentage of loans by number and by dollar volume exceeded the AA demographics. The following table compares the bank’s farm lending activity by revenue size to AA demographics:

Borrower Distribution of Loans to Farms in Faribault County, Minnesota				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.06%	2.31%	0.63%	100%
% of Bank Loans in AA by #	100%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100%	0.00%	0.00	100%

Source: Loan sample; 2006 Business Geodemographic Data

FNB has reasonable distribution of loans to businesses of different sizes within the assessment area. Based on our sample of 20 commercial loans, the percentage of loans by number and by dollar volume is within the assessment area demographics. The demographic data shows a large percentage (37.23 percent) of loans originated to businesses within the AA have unknown revenue reported. Our community contact indicated that business owners in the AA are primarily sole proprietors with revenues less than \$1 million. Therefore, the bank’s performance is reasonable. The following table compares the bank’s commercial lending activity by revenue size to AA demographics:

Borrower Distribution of Loans to Businesses in Faribault County, Minnesota				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	58.92%	3.85%	37.23%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Bank Loans in AA by \$	91.80%	8.20%	0.00%	100%

Source: Loan sample; 2006 Business Geodemographic Data

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The bank’s AA contains no low-or-moderate income census tracts.

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.