



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 03, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank at St. James
Charter Number 14296

202 First Avenue South
St. James, MN 56081-0000

Office of the Comptroller of the Currency

MINNEAPOLIS SOUTH
920 Second Avenue South 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, 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 Outstanding.

- The bank's loan to deposit ratio is reasonable given the asset size, financial condition, and lending opportunities within the assessment area.
- FNB meets the credit needs of the community by originating a majority of loans inside the assessment area.
- The income distribution to borrowers reflects excellent penetration among small businesses, small farms, and low-and-moderate-income individuals.

SCOPE OF EXAMINATION

We evaluated First National Bank at St. James' CRA performance for the period beginning September 30, 2002 through September 30, 2007. In order to assess the bank's lending performance, we selected primary products based on loan origination and purchases by number and dollar volume made between January 1, 2005 and September 30, 2007. We determined that the bank's primary lending focus to be agricultural, commercial, and consumer products. We used 2000 census information to perform demographic comparisons.

DESCRIPTION OF INSTITUTION

The First National Bank at St. James (FNB) is a \$26 million agricultural and commercial bank located in St. James, Minnesota. FNB was established in 1918 as the Farmers and Merchants State Bank of St. James and converted to a national charter in 1934. The bank has three ATMs located in St. James, MN and one ATM in Butterfield, MN. None of the bank's ATMs accept deposits. Telephone and internet banking services are available to all customers and allow balance inquiries and transfers.

FNB offers traditional loan and deposit products. As of September 30, 2007, net loans were 68.8 percent of total assets. According to FNB's Call Report data the outstanding loan mix by dollar volume as of September 30, 2007 is as follows: residential real estate (31.8 percent), agricultural (30.5 percent), commercial (26.0 percent), and consumer (11.7 percent).

The bank is owned solely by The First National Bank at St. James ESOP, a one bank holding company headquartered in St. James, Minnesota.

FNB received a "Satisfactory" rating at its October 16, 2002 CRA examination. There are no legal, financial, or other factors that impede the bank's ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area consists entirely of Watonwan County in Minnesota. The assessment area contains three census tracts (9501, 9502, 9503), all of which are designated by the 2000 U.S. Census as middle income. The assessment area complies with regulatory requirements. The assessment area includes all ATMs, as well as a majority of the banks loans. The area does not arbitrarily exclude any low or moderate income census tracts.

Per the 2000 U.S. Census, median housing value is estimated to be \$62,026 and 71 percent (3,564 units) of homes are owner occupied. The updated 2007 Department of Housing and Urban Development (HUD) estimated median family income (MFI) was \$54,700. As of the 2000 Census, 7.8 percent of families and 9.5 percent of households were below the poverty level. The following table summarizes the income levels of individual geographies and families located within the bank's assessment area:

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Number of Census Tracts				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Watonwan County	0	0	3	0	18%	23%	28%	31%

The Watonwan County labor force is 5,736 with an unemployment rate of 4.4 percent per Minnesota Department of Employment and Economic Development labor market information. This is comparable to state and national unemployment levels of 4.1% and 4.4%, respectively. Major employers in the assessment area include ConAgra (400 employees), Westin Automotive (250 employees), and St. James Public Schools (235 employees). Agriculture also provides many jobs within the assessment area. The county has an estimated 2006 population of 11,164 persons per the U.S. Census Bureau.

There is reasonable competition from other financial institutions in the assessment area. FNB's market share of deposits is 8.9 percent, and ranks fourth out of eight institutions operating within the assessment area. Three other institutions in Watonwan County control the market share with 63.2 percent of deposits.

We did not identify any unmet credit needs in the assessment area. During the examination we made one community contact with a local representative. The representative indicated that financial institutions in the area do an exceptional job of meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs in the assessment area. The bank's quarterly loan-to-deposit ratio

averaged 68.7 percent for the 21 quarters beginning September 30, 2002 and ending September 30, 2007. Based on this ratio, the bank ranked third out of four community banks of similar size (total assets between \$25 million and \$60 million) in the assessment area.

Institution Name	Total Assets \$(000)s (as of 9/30/07)	Average Loan to Deposit Ratio 3Q02 – 3Q07
Farmers State Bank of Madelia, Incorporated	\$56,761	90.41%
Odin State Bank	\$37,615	81.52%
The First National Bank at St. James	\$26,245	68.65%
Triumph State Bank	\$45,718	62.53%

Source: Call Report Data

Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within the defined assessment area. We sampled 20 for each primary product originated between January 1, 2005 and September 30, 2007. Approximately 86.7 percent by number and 70.0 percent by dollar volume of the loans sampled were made to borrowers within the assessment area. The following table shows the loans made inside and outside of the assessment area by number and dollar volume for each primary product:

Lending in Watonwan County, Minnesota										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	17	85.0%	3	15.0%	20	\$769,475	79.72%	\$195,778	20.28%	\$965,253
Commercial	18	90.0%	2	10.0%	20	\$405,584	56.18%	\$316,300	43.82%	\$721,884
Consumer	17	85.0%	3	15.0%	20	\$77,243	75.59%	\$24,944	24.41%	\$102,187
Totals	52	86.67%	8	13.33%	60	\$1,252,302	69.99%	\$537,022	30.01%	\$1,789,324

Source: Loan Sample

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

Overall, the income distribution to borrowers reflects excellent penetration among farms and small businesses. The income distribution among low-and-moderate-income individuals also reflects excellent penetration to these borrowers.

FNB's agricultural lending activity exceeds the community demographics. All 20 agricultural loans sampled during our examination were made to small farm operations. The following table compares FNB's agricultural lending activity by farm revenues to assessment area demographics:

Borrower Distribution of Loans to Farms in Watonwan County, Minnesota				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.29%	1.94%	0.78%	100%
% of Bank Loans in AA by #	100.0%	0.0%	0.0%	100%
% of Bank Loans in AA by \$	100.0%	0.0%	0.0%	100%

Source: Loan sample; 2006 Business Geodemographic Data.

FNB's commercial lending to businesses with gross annual revenues under \$1 million exceeds assessment area demographics. The following table compares FNB's commercial lending activity by business revenues to assessment area demographics:

Borrower Distribution of Loans to Businesses in Watonwan County, Minnesota				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	50.84%	4.25%	44.91%	100%
% of Bank Loans in AA by #	90.0%	10.0%	0.0%	100%
% of Bank Loans in AA by \$	83.93%	16.07%	0.0%	100%

Source: Loan sample; 2006 Business Geodemographic Data.

FNB's consumer lending activity exceeds assessment area demographics for both low-and-moderate-income households. The following table compares FNB's consumer lending activity by borrower income level to assessment area demographics based on a random sample of 20 consumer loans.

Borrower Distribution of Consumer Loans in Watonwan County, Minnesota								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	21.76%	40.0%	19.03%	40.0%	23.93%	15.0%	35.28%	5.0%

Source: Loan Sample and 2000 U.S. Census data.

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The assessment area consists of only middle-income Census Tracts.

Responses to Complaints

FNB 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 the community credit needs.