



PUBLIC DISCLOSURE

November 9, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Fairfax
Charter Number 9771

16 South East First Street
Fairfax, MN 55332

Office of the Comptroller of the Currency
222 Ninth Street 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, and should not 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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Overall CRA Rating

Institution's CRA Rating: This institution is rated **Outstanding**.

The lending test is rated: Outstanding.

The major factors supporting this rating include:

- The bank's loan-to-deposit (LTD) ratio is more than reasonable.
- The bank originated a substantial majority of its loans inside its assessment area (AA).
- The distribution of loans reflects an excellent distribution among farms of different sizes.

Loan-to-Deposit Ratio

The First National Bank of Fairfax's (FNB Fairfax) LTD ratio is more than reasonable considering the bank's size, financial condition, and credit needs of its AA.

FNB Fairfax's LTD ratio averaged 101 percent over the 20 quarters since the previous CRA evaluation, with a low of 87.6 percent in the fourth quarter of 2018 and a high of 122.7 percent in the second quarter of 2015. FNB Fairfax ranked first out of three similarly situated institutions. Similarly situated institutions operate in or near the bank's AA and have a similar asset size. The following table shows the bank's LTD compared to similarly situated institutions.

Institution (Headquarters)	Total Assets (\$000s)	Average LTD Ratio (%)
The First National Bank of Fairfax (Fairfax, MN)	\$30,600	101.0
Franklin State Bank (Franklin, MN)	\$33,232	72.0
Cenbank (Buffalo Lake, MN)	\$67,188	68.4

**Source: Total assets are based on December 31, 2019, Call Report Data*

Lending in Assessment Area

A substantial majority of the bank's loans are inside its AA.

FNB Fairfax originated and purchased 90 percent of its total loans by number and 89 percent of its loans by dollar volume inside its AA during the evaluation period. To determine lending inside the AA, we analyzed 20 agricultural loans originated between January 1, 2017, and December 31, 2019. Refer to the table below to view lending inside and outside the bank's AA.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Agriculture	18	90.0	2	10.0	20	2,044	89.0	253	11.0	2,297

**Source: Agricultural loan sample.*

Description of Institution

FNB Fairfax is a \$31 million single-state, national bank with one location in Fairfax, Minnesota (MN). The bank does not have any deposit-taking ATMs. There were no mergers, acquisitions, branch openings, or branch closings during the evaluation period. FNB Fairfax is wholly owned by Fort Ridgely National Bancorporation, Inc, a holding company also headquartered in Fairfax, MN.

FNB Fairfax offers a traditional mix of banking products and services. The bank's primary lending focus is agricultural loans. As of December 31, 2019, net loans and leases represent 58.5 percent of total assets. Based on dollar volume outstanding, the loan portfolio was comprised of 66.9 percent agriculture loans, 30.6 percent commercial loans, 1.7 percent home mortgage loans, and 0.8 percent consumer loans. At the end of the evaluation period, tier 1 capital totaled \$11.8 million and represented 38.6 percent of total assets.

FNB Fairfax is actively helping to revitalize the local community and economy. The bank made an investment in RS Fiber to help bring broadband internet options to rural MN and provided the company construction financing to build the broadband network. The bank also purchased a bond from the local school system for new school busses.

There are no known financial, legal, or other factors impeding FNB Fairfax's ability to help meet its AA's credit needs. FNB Fairfax received an 'Outstanding' rating in its previous CRA examination, dated February 17, 2015.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The evaluation period for the LTD ratio analysis covered January 1, 2015, to December 31, 2019. The evaluation period for the complaint review covered February 17, 2015, to December 31, 2019. The evaluation period for the Lending Test covered January 1, 2017, to December 31, 2019. We determined the bank's primary product by reviewing the number and dollar volume of loan originations and purchases during the evaluation period. The bank's primary product is agricultural loans and we reviewed an agricultural loan sample to perform our analysis. Refer to the table below to view loan originations and purchases by dollar and number during the evaluation period.

Total Loan Originations by Product Type		
	Percentage by Number of Loans	Percentage by Dollar Volume
Agriculture	66.4	81.5
Commercial	15.7	16.6
Consumer	16.4	0.6
Home Mortgage	1.5	1.3
Total	100.0	100.0

Demographic data was used in part to determine the bank's lending performance. All agricultural loans were compared to the Dunn and Bradstreet business data for the origination year. We selected an initial sample of 20 agriculture loans. Additional loans were selected as needed to have sufficient information to analyze borrower distributions within the AA.

We reviewed the AA's financial, economic, and environmental factors to determine the bank's lending performance. We also contacted a community member with knowledge of the area's economic conditions and demographics to gather additional insight on lending needs in the AA.

With a December 31, 2019, evaluation period end date, qualifying activities performed in response to the significant impact the coronavirus pandemic has had on economies across the United States is not addressed in this evaluation. Bank qualifying activities will be appropriately considered in the subsequent evaluation.

Ratings

FNB Fairfax's overall CRA rating is based solely on the State of MN rating, as it is the bank's only rating area. We evaluated lending performance using five performance criteria: the LTD ratio; lending in the AAs; distribution of farm loans to geographies of different income levels; lending to farms of different sizes; and responses to CRA-related complaints.

FNB Fairfax has one AA, which is referred to as the FNB Fairfax AA. Refer to Appendix A-1 for an outline of the examination scope.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Minnesota

CRA rating for the State of Minnesota: Outstanding

The Lending Test is rated: Outstanding

The major factors supporting this rating include:

- The distribution of loans among farms of different sizes is more than reasonable.
- The bank did not receive any CRA related complaints during the evaluation period.

Description of Institution's Operations in Minnesota

FNB Fairfax's only AA consists of Renville County. The AA is in a non-MSA area of MN and consists of six census tracts (CTs). During the evaluation period, all six CTs were middle-income.

Competition in the AA is strong. The June 30, 2019, FDIC Deposit Market Share Report indicates there were nine institutions with 13 branches operating in the bank's AA. FNB Fairfax is ranked eighth with a 5.4 percent market share. The top three institutions in the market are Frandsen Bank & Trust, F&M Bank Minnesota, and HomeTown Bank, with a combined market share of 62.9 percent.

We contacted a community member working for a federal rural development agency. The contact is familiar with the local economy and lending opportunities in the area. The contact indicated economic conditions in the area are stable, and the local economy is driven primarily by agriculture. The contact did not identify any specific lending needs and stated banks maintain a positive perception in the AA.

The following table on the following page provides information on the FNB Fairfax's demographic composition for 2019.

Table A – Demographic Information of the Assessment Area						
Assessment Area: FNB Fairfax AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	6	0.0	0.0	100.0	0.0	0.0
Population by Geography	15,171	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	7,330	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	5,044	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,297	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	989	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	993	0.0	0.0	100.0	0.0	0.0
Farms by Geography	336	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	4,101	18.9	16.8	24.2	40.2	0.0
Household Distribution by Income Level	6,341	21.7	15.6	21.4	41.3	0.0
Median Family Income Non-MSAs - MN		\$63,045	Median Housing Value			\$96,242
<i>Source: 2015 ACS and 2019 D&B Data Due to rounding, totals may not equal 100.0% (*) The NA category consists of geographies that have not been assigned an income classification</i>			Median Gross Rent			\$608
			Families Below Poverty Level			7.5%

Scope of Evaluation in Minnesota

The rating for the State of MN is based wholly on the bank's performance in the FNB Fairfax AA as it is the bank's only AA in the state. The FNB Fairfax AA received a full-scope review.

Refer to Appendix A-1 for additional information.

LENDING TEST

The bank's performance under the Lending Test in Minnesota is rated Outstanding.

Distribution of Loans by Income Level of the Geography

The geographic distribution of loans did not provide a meaningful analysis because the AA consists entirely of middle-income CTs.

Refer to Table S in the State of MN section of Appendix D-2 for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of small loans to farms.

Distribution of Loans by Income Level of the Borrower

The bank exhibits an excellent distribution of loans to farms of different sizes.

Small Loans to Farms

Refer to Table T in the State of MN section of Appendix D-2 for the facts and data used to evaluate the borrower distribution of the bank's originations and purchases of small loans to farms.

The distribution of loans to farms of different sizes is excellent. FNB Fairfax's loans to small farms is near the demographic comparator and significantly exceeds the aggregate comparator.

Responses to Complaints

FNB Fairfax did not receive any CRA related complaints during the evaluation period.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

Time Period Reviewed:	1/1/2017 – 12/31/2019	
Bank Products Reviewed:	Small farm	
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Minnesota		
FNB Fairfax AA	Full-scope	Renville county

Appendix B: Summary of MMSA and State Ratings

RATING – The First National Bank of Fairfax	
Overall Bank:	Lending Test Rating
The First National Bank of Fairfax	Outstanding
State:	
Minnesota	Outstanding

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder' and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rating Area: A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

Table S. Assessment Area Distribution of Loans to Farms by Income Category of the Geography - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents aggregate peer data for the years the data is available. Because aggregate small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank’s assessment area.

Table T. Assessment Area Distribution of Loans to Farms by Gross Annual Revenues - Compares the percentage distribution of the number of small loans (loans less than or equal to \$500 thousand) originated and purchased by the bank to farms with revenues of \$1 million or less to: 1) the percentage distribution of farms with revenues of greater than \$1 million; and, 2) the percentage distribution of farms for which revenues are not available. The table also presents aggregate peer small farm data for the years the data is available.

State of Minnesota

Table S: Assessment Area Distribution of Loans to Farms by Income Category of the Geography																	2017-2019		
Assessment Area:	Total Loans to Farms			Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available- Income Tracts			
	#	\$	% of Total	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	
FNB Fairfax	20	2,285	100.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total	20	2,285	100.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	100.0	100.0	0.0	0.0	0.0	0.0	0.0	0.0	

*Source: 2019 D&B Data; 01/01/2017 - 12/31/2019 Bank Data; 2018 CRA Aggregate Data "--" data not available.
Due to rounding, totals may not equal 100.0*

Table T: Assessment Area Distribution of Loans to Farms by Gross Annual Revenues										2017-2019	
Assessment Area:	Total Loans to Farms			Farms with Revenues <= 1MM			Farms with Revenues > 1MM		Farms with Revenues Not Available		
	#	\$	% of Total	% Farms	% Bank Loans	Aggregate	% Farms	% Bank Loans	% Farms	% Bank Loans	
FNB Fairfax	20	2,285	100	97.0	90.0	61.7	1.5	5.0	1.5	5.0	
Total	20	2,285	100	97.0	90.0	61.7	1.5	5.0	1.5	5.0	

Source: 2019 D&B Data; 01/01/2017 - 12/31/2019 Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0