



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 16, 2009**

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

First National Bank  
Charter Number 21793

109 N. St. Paul Avenue  
Fulda, MN 56131-0000

Office of the Comptroller of the Currency

SIOUX FALLS  
4900 South Minnesota Avenue Suite 300  
Sioux Falls, SD 57108-2865

**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.**

First National Bank (FNB) meets the credit needs of its assessment areas (AAs). The primary lending activities are agricultural and business.

- A majority of the bank's loans are within the AAs.
- The bank's lending efforts result in satisfactory penetration of farms and businesses of different sizes.
- The bank's average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated banks in the AAs.

**SCOPE OF EXAMINATION**

The scope of the CRA examination included the time period of January 1, 2006 to December 31, 2008. Small bank procedures were used to evaluate the bank's performance under the Community Reinvestment Act. A full scope review was completed of the bank's CRA activities in the AA's. FNB's primary loan products in the Non-MSA AA and MSA AA are agricultural and business loans, respectively. To evaluate the bank's agricultural lending performance, we selected a sample of agricultural loans from the Non-MSA AA which were originated between January 1, 2006 and December 31, 2008. To evaluate the bank's business lending performance, we selected a sample of business loans from the MSA AA which were originated between January 1, 2006 and December 31, 2008.

**DESCRIPTION OF INSTITUTION**

FNB is a \$119 million bank headquartered in Fulda, Minnesota, in Murray County. The bank is 100% owned by Fulda Bancorporation, Inc. FNB also has full-service locations in Slayton, Lakefield, Spring Valley, LeRoy, Hastings (2), and Plymouth. The bank has one deposit-taking automated teller machine (ATM) in Hastings and seven other cash dispensing ATMs located at or near each branch location. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA's. The bank received a "Satisfactory" rating at its last CRA examination dated March 18, 2003.

FNB offers traditional loan and deposit products. As of December 31, 2008, the bank's loan portfolio totaled 68% of total assets. We determined FNB's primary loan products in the Non-MSA AA and MSA AA are agricultural and business loans, respectively. The following table shows the breakdown of loans originated and purchased from January 1, 2006 to December 31, 2008.

**Primary Product in Non-MSA Assessment Area (AA)**

<b>Loan Type</b>	<b>% by Dollars of Loans Originated/Purchased during evaluation period</b>	<b>% by Number of Loans Originated/Purchased during evaluation period</b>
Home Loans	3.07%	4.39%
Consumer Loans	7.93%	35.26%
Business Loans	24.55%	12.96%
<b>Agricultural Loans</b>	<b>64.45%</b>	<b>47.39%</b>
Total	100%	100%

Source: Bank Reports.

**Primary Product in MSA AA**

<b>Loan Type</b>	<b>% by Dollars of Loans Originated/Purchased during evaluation period</b>	<b>% by Number of Loans Originated/Purchased during evaluation period</b>
Home Loans	12.63%	14.38%
Consumer Loans	5.57%	44.48%
<b>Business Loans</b>	<b>76.86%</b>	<b>39.46%</b>
Agricultural Loans	4.94%	1.68%
Total	100%	100%

Source: Bank Reports.

**DESCRIPTION OF ASSESSMENT AREA(S)**

FNB has two assessment areas in Minnesota which are described below.

**MSA AA**

The MSA AA consists of 435 census tracts, which includes the whole counties of Hennepin, Washington, and Dakota. All three counties are a part of the Minneapolis-St. Paul- Bloomington MSA. The AA consists of thirty-seven low income, seventy-nine moderate income, one hundred eighty-five middle income, and one hundred thirty-one upper income census tracts; there were three census tracts reported as NA. The bank's AA meets the requirements of the regulations and does not arbitrarily exclude low- or moderate-income geographies. A map of the AA can be obtained from the bank's CRA Public File.

According to the 2000 U.S. Census, the total population of the AA was 1,673,234. The 2000 Census indicated a Minneapolis-St. Paul-Bloomington MSA Median Family income of \$64,885. Approximately 6% of families in the AA are low-income, 18% moderate-income, 45% middle-income, and 31% upper income. Only 6.21% of the AA households are below the poverty level.

The local economy in this AA has seen the effects of the nationwide economic downturn. According to the Minnesota Department of Employment and Economic

Development (MNDEED), unemployment for the entire Minneapolis-St. Paul-Bloomington, MN MSA is high at 7.8% as of January 2009. This figure has risen significantly from the January 2008 unemployment rate of 4.7%. The major employment industries in this AA are retail trade, services, and public administration.

### **Non-MSA AA**

The Non-MSA AA consists of twenty-seven census tracts; which include the whole counties of Murray, Nobles, Cottonwood, Jackson and Fillmore. Also included in the AA is the majority of Mower County, with the exception of census tracts that surround the city of Austin. The bank chose to not include these census tracts due to the high number of financial institutions serving the area. The AA consists of one moderate and twenty-six middle income census tracts; there were no low income or upper income census tracts. The bank's AA meets the requirements of the regulations and does not arbitrarily exclude low- or moderate-income geographies. A map of the AA can be obtained from the bank's CRA Public File.

According to the 2000 U.S. Census, the total population of the AA was 88,443. The Housing and Urban Development (HUD) 2008 weighted average median family income for non-metropolitan statistical areas in Minnesota is \$43,769. Approximately 4% of households in the AA are moderate-income and 96% are middle-income; there were no low or upper-income households reported. Nearly 10% of the AA households are below the poverty level.

The local economy in the Non-MSA AA has remained relatively stable given national economic conditions. According to January 2009 statistics from MNDEED, unemployment figures for the counties contained within this AA have risen. The unemployment rate, for the counties included in the AA, range from 6% to 9%. These figures have increased from January 2008 figures from 4% to 7%. The major employment industries in this AA are services and public administration.

Examiners interviewed a community contact located in Murray County. The community contact described the economic conditions of the area as overall fair. The contact indicated the primary need in the area as agricultural loans. The contact concluded that local financial institutions do a good job at helping to support the needs of the community and offering financial assistance.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNB's average loan-to-deposit (LTD) ratio is reasonable for satisfactory performance given the bank's size, financial condition, and AA's credit needs. The LTD ratio averaged 78.3% over the past twenty-one quarters and was 78.27% as of December 31, 2008. FNB's LTD ratio ranged from a high of 86.07% and a low of 70.37%.

FNB's average LTD ratio compares favorably with other financial institutions that are similarly situated with regards to asset size, location, and product offerings. The ten other similarly situated banks operated with an average net LTD of 82.14%. These same institutions operated with a quarterly LTD ratio range from 64% to 121%.

**Lending in Assessment Area**

A majority of FNB's loans were made within the bank's AA. We reviewed a sample of 20 agricultural loans within the Non-MSA AA and 20 business loans within the MSA AA, originated between January 1, 2006 and December 31, 2008, to determine the bank's lending performance within the AA. We identified 34 loans or 85% of loans were originated within the bank's AA. The following table illustrates the bank's satisfactory performance regarding lending in the AA.

<b>Table 1 - Lending in the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	15	75%	5	25%	20	\$2,824,982	79%	\$749,098	21%	\$3,574,080
Agricultural	19	95%	1	5%	20	\$1,828,426	99%	\$16,850	1%	\$1,845,276
Totals	34	85%	6	15%	40	\$4,653,408	86%	\$765,948	14%	\$5,419,356

Source: Bank Reports.

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

FNB meets the standard for performance and reflects reasonable penetration to businesses and farms with gross annual revenues less than \$1 million.

Performance in the Non-MSA AA

The distribution of loans to farms reflects reasonable penetration among farms of different sizes. 100% of the bank's loans to farms originated and purchased during the loan sampling period were made to small farms. This is considered reasonable compared to demographic data that show 99% of the area's farms are considered small farms. The following table shows the distribution of farm loans among different sized farms in the AA.

<b>Table 2A - Borrower Distribution of Loans to Farms in Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	99.19%	0.45%	0.37%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Performance in the MSA AA

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. 50% of the bank’s loans to businesses originated and purchased during the loan sampling period were made to small businesses. This is considered reasonable as the number is near demographic data that show 64.32% of the area’s businesses are considered small business. The following table illustrates the distribution of business loans among businesses of different sizes.

<b>Table 2A - Borrower Distribution of Loans to Businesses in MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	64.32%	6.14%	29.55%	100%
% of Bank Loans in AA by #	50%	50%	0%	100%
% of Bank Loans in AA by \$	22%	78%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

**Geographic Distribution of Loans**

FNB meets the standard for performance and reflects reasonable penetration throughout the bank’s AA’s. There were no conspicuous gaps identified within FNB’s AA.

Performance in the Non-MSA AA

The bank’s geographic distribution of loans in this AA reflects reasonable dispersion throughout census tracts of different income levels. While the bank originated no farm loans to individuals in the moderate census tract income level, this is reasonable given only 1.5% of farms were in the moderate census tract income level. The following table details the bank’s performance as compared to the percentage of farms in each census tract income level.

<b>Table 3A - Geographic Distribution of Loans to Farms in Non-MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm	N/A	N/A	1.50%	0.00%	98.50%	100%	N/A	N/A

Source: Loan Sample; Dunn and Bradstreet data.

Performance in the MSA AA

The bank’s geographic distribution of loans in this AA reflects reasonable dispersion throughout census tracts of different income levels. The bank originated 5% of loans to individuals located in the low census tract income level, which compares favorably to demographic information that indicated 5.11% of businesses are located in the low census tract income level. Additionally, the bank originated 5% of loans to individuals located in a moderate census tract income level which is reasonable and near the demographic information that indicated 14.28% of businesses are located in the moderate census tract income level. To further explain the reasonableness of this number, the bank has only three branches to service the whole counties of Hennepin, Dakota, and Washington (MSA AA). This AA includes a portion of the Minneapolis-St. Paul-Bloomington MSA. The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

<b>Table 3A - Geographic Distribution of Loans to Businesses in MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	5.11%	5%	14.28%	5%	47.25%	45%	33.13%	45%

Source: Source: Loan Sample; Dunn and Bradstreet data.  
 .23% were listed as N/A with the % of AA businesses

**Responses to Complaints**

The Office of the Comptroller of the Currency and the bank did not receive any complaints about its CRA performance during the evaluation period.

**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.