



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 22, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of River Falls
Charter Number 7087

104 East Locust Street
River Falls, WI 54022

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street, 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 Satisfactory

The primary factors supporting this rating include:

- The bank's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of its assessment area.
- The bank originates a substantial majority of its loans within its assessment area.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the bank's assessment area.

SCOPE OF EXAMINATION

This Community Reinvestment Act (CRA) examination assessed the First National Bank of River Falls' performance in meeting the credit needs of its community for the time period covering January 1, 2010 through December 31, 2011 (evaluation period). The bank was evaluated under the standard test for Small Banks which includes the lending test only. The lending test focused on the bank's primary loan products based on loan originations and purchases by number and dollar volume during the evaluation period. Home mortgage refinance loans and business loans were determined to be the bank's primary loan products. In terms of dollar volume, approximately 62% of loans originated/purchased were home refinance loans and 25% were for business purposes. Based on the higher dollar volume of originations, home refinance loans received more weight in our analysis of the bank's lending performance.

Prior to conducting this evaluation, we tested the accuracy of the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) data. We determined the loan data to be accurate and it is used without exception in this evaluation. HMDA data was compared to 2000 U.S. Census demographic data to determine lending performance. In addition, we selected a random sample of 20 business loans originated/purchased from January 1, 2010 through December 31, 2011 to evaluate the bank's lending activity within the assessment area. Sample results were compared to 2011 Business Geodemographic data to determine lending performance.

We made a community contact to discuss area economic conditions and the bank's efforts in meeting the credit needs of the community.

DESCRIPTION OF INSTITUTION

First National Bank of River Falls (FNB) is a \$263 million bank located in River Falls, WI. FNB is owned by First National Bancorp of River Falls, Inc., a one bank holding company. FNB's main office is located in River Falls, WI with an additional full-service branch located in Prescott, WI. The bank also operates a limited service branch facility at the University of Wisconsin – River Falls (UWRF), which provides deposit services and consumer installment loans. Another limited service branch is located in the Wellhaven Senior Apartment complex in River Falls. This location has very limited days/hours of operation and only accepts deposits and provides check cashing services. All other locations provide access to cash dispensing automated teller machines (ATMs). One ATM, located on the UWRF campus, accepts deposits. Both full-service locations offer drive-up services. The bank offers on-line and mobile banking services which provide 24-hour access to deposit and loan account information. FNB closed a full service branch located in a middle-income census tract in New Richmond, WI in September of 2011. The bank's remaining locations are also located within middle-income census tracts.

FNB continues to offer traditional banking products and services to individuals and businesses. Commercial lending continues to be the bank's primary business focus, in terms of volume of loans retained in-house. As of December 31, 2012, business loans comprised 65% of outstanding loans, residential real estate loans 25%, consumer loans 7% and agriculture loans 3%. FNB's loan portfolio totaled \$164 million, or 63% of total assets as of December 31, 2012. FNB sells a high volume of 1-4 family residential mortgage loans originated at the bank on the secondary market, and retains the servicing rights. The bank sold approximately \$94 million in 1-4 family residential real estate loans on secondary market in 2010 and 2011.

There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its assessment area (AA). At its last CRA examination, dated February 16, 2010, the bank was rated Satisfactory under the Intermediate Small Bank procedures.

DESCRIPTION OF ASSESSMENT AREA

FNB's AA consists of Pierce and St. Croix Counties in Wisconsin. Both counties are part of the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). Pierce County is comprised of eight census tracts and St. Croix County has ten census tracts. The AA consists of two upper-income, fourteen middle-income, and two moderate-income census tracts. The two moderate-income census tracts are located on the eastern border of the AA, opposite of all the bank's locations which are near the MN border. The AA does not contain any low-income census tracts. The AA includes the census tracts in which the bank has operations, as well as the surrounding census tracts where

the bank originates a majority of its loans. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 U.S. Census data indicates the bank's AA has a total population of approximately 100 thousand. The median housing value is \$136 thousand and 73% of units are owner-occupied, with 25% rentals. Based on the Department of Housing and Urban Development's 2011 estimate, the updated median family income for the AA is \$82,700. Approximately 19% of the households within the AA have incomes designated as low income with 18% designated as moderate-, 24% as middle-, and 39% as upper-income households. Approximately 5.4% of households in the AA are below the poverty level. According to the U.S. Bureau of Labor Statistics, unemployment rates in Pierce and St. Croix Counties in WI were 4.8%-4.9% in December 2012. These compare favorably to the Wisconsin state-wide unemployment rate of 5.5% and the nation-wide unemployment rate of 7.9% during that same time period.

The community contact from the River Falls Economic Development Corporation characterized the current local economic conditions as positive, and improved over state- and nation-wide economic conditions. The community contact also indicated the primary credit needs of the community include industrial and corporate financing, multi-family and affordable housing, and non-owner occupied commercial real estate. The community contact described the overall performance of local financial institutions in meeting the community credit needs as good.

Competition among financial institutions in the bank's AA is strong. Numerous national and state banks have a presence in the AA, including four large/midsize financial institutions. FNB ranks second in deposit market share with 14.5% of the AA's deposits based on June 30, 2012 deposit information obtained from the Federal Deposit Insurance Corporation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

The bank's performance under the lending test is Satisfactory.

Loan-to-Deposit Ratio

FNB's net loan-to deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. The bank's LTD ratio averaged 74% over the 11 quarters since the last CRA examination. This ratio ranged from a quarterly low of 71% in September 2011 to a quarterly high of 78% in March 2010. FNB's average quarterly LTD ratio ranks second among four similarly situated banks (defined as banks

located in the AA with total assets between \$169 million and \$314 million as of September 30, 2012).

| Institution | Assets (as of 9/30/12) | Average Loan-to-Deposit Ratio; 1Q10 – 3Q12 |
|---|---------------------------|---|
| Security Financial Bank | \$314 million | 79.54 |
| First National Bank of River Falls | \$263 million | 74.39 |
| First National Community Bank | \$169 million | 73.47 |
| First State Bank and Trust | \$85 million | 64.23 |

Lending in Assessment Area

FNB originates a substantial majority of its loans to borrowers located within its defined AA. The bank originated 89% by number and 87% by dollar volume of loans to businesses and individuals located within its AA. The following table shows lending in the AA by product type:

| Lending in Assessment Area by Number and Dollar Amount | | | | | | | | |
|--|--------------------|---------------|---------------|---------------|------------------------|---------------|---------------|---------------|
| Loan Type | In Assessment Area | | | | Out of Assessment Area | | | |
| | # | % | \$(000's) | % | # | % | \$(000's) | % |
| Commercial | 19 | 95.00% | 2,074 | 99.50% | 1 | 5.00% | 10 | .5% |
| Home Refinance | 493 | 89.15% | 77,897 | 87.56% | 60 | 10.85% | 11,070 | 12.44% |
| Total | 512 | 89.35% | 79,971 | 87.83% | 61 | 10.65% | 11,080 | 12.17% |

Source: OCC loan sample & HMDA Data from January 1, 2010 – December 31, 2011

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

FNB's overall distribution of loans to borrowers of different incomes is reasonable.

FNB's distribution of residential real estate refinance loans reflects reasonable penetration among individuals of different income levels. The bank meets the demographics for home refinance loans to moderate-income borrowers. However, it falls short of meeting the demographics for low-income borrowers. Somewhat mitigating this shortfall is the fact that 2.6% of families in the AA are living below the poverty level, and would likely not have the demand for home loan refinance products and the ability to qualify for refinancing. As such, performance in this area is considered reasonable. The following table compares the bank's home refinance lending activity by borrower income to AA demographics:

| Borrower Distribution of Home Refinance Loans by Income Level | | | | | | | | |
|---|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Home Refinance | 16.84 | 8.32 | 21.66 | 20.49 | 29.66 | 30.63 | 31.83 | 35.29 |

Source: 2000 Census Data & HMDA Data from January 1, 2010 – December 31, 2011

Lending to Businesses of Different Sizes

FNB’s borrower distribution of loans reflects reasonable penetration among businesses of different sizes. Seventy-five percent of the bank’s business loans, by number, were originated to businesses with gross annual revenues of \$1 million or less (small businesses). This is considered reasonable when compared to demographic data that shows 75% of the AA businesses are small businesses. By dollar volume, 84% of loans were originated to small businesses.

Demographic data contains a high level of businesses of unknown size, as they chose not to report the information. Although this 22% could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The following table compares the distribution of commercial loans among businesses of different sizes in the AA:

| Borrower Distribution of Loans to Businesses in the AA | | | |
|--|---------------|---------------|--------------|
| Business Revenues | < \$1,000,000 | > \$1,000,000 | Not reported |
| % of AA Businesses | 75.23% | 2.91% | 21.86% |
| % of Bank loans in AA by # | 75.00% | 25.00% | 0.00% |
| % of Bank loans in AA by \$ | 83.78% | 16.22% | 0.00% |

Source: OCC Loan Sample & 2011 Business Geodemographic Data

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. There are no low-income CTs in the bank’s AA.

FNB’s geographic distribution of residential real estate refinance loans reflects reasonable dispersion throughout census tracts of different income levels. The distribution of home refinance loans falls slightly short of the demographic for moderate-income census tracts due to the distance of those two tracts from the bank’s office locations. Both of the moderate-income census tracts in the AA are located on the far eastern boundary of Pierce County, opposite of the bank’s office locations. The moderate-income census tracts are also served by several other local financial institutions. The following table shows the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income tier:

| Geographic Distribution of Home Refinance Loans | | | | | | | | |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan type | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans | % of AA Owner Occupied Housing | % of Number of Loans |
| Home Refinance | 0.00 | 0.00 | 7.10 | 1.62 | 78.37 | 95.54 | 14.53 | 2.84 |

Source: 2000 U.S. Census Data & HMDA Data from January 1, 2010 – December 31, 2011

FNB’s geographic distribution of business loans reflects a reasonable dispersion throughout census tracts of different income levels. The distribution of business loans to moderate-income geographies meets the demographic comparator. The following table shows the bank’s performance as compared to the percentage of businesses in each census tract income tier:

| Geographic Distribution of Commercial Loans | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 0.00% | 0.00% | 4.89% | 5.00% | 81.93% | 95.00% | 13.18% | 0.00% |

Source: OCC Loan Sample & 2011 Business Geodemographic Data

Responses to Complaints

FNB has not received any CRA-related complaints since the prior CRA examination in February 2010.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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