



PUBLIC DISCLOSURE

June 8, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank and Trust
Charter Number 3982**

**101 Northwest Second Street
Pipestone, Minnesota 56164**

**Office of the Comptroller of the Currency
Post Office Box 1405
Sioux Falls, South Dakota 57101**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank and Trust, Pipestone, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of June 8, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The bank's overall lending is satisfactory. A substantial majority of lending is within its CRA assessment area. The bank's lending shows good penetration among small businesses and farms. Residential real estate lending penetration among low- and moderate-income borrowers is satisfactory.

DESCRIPTION OF INSTITUTION

The First National Bank and Trust (FNB&T) is a \$155 million bank headquartered in Pipestone, Minnesota. Pipestone, with a population of 4,000, is the Pipestone County seat and is located in Southwestern Minnesota. The bank has three branches (Luverne, Magnolia, and Beaver Creek) located in Rock County Minnesota. The Pipestone and Luverne banks have on-premise ATMs with an additional ATM in a local Pipestone restaurant. A two bank holding company, Pipestone Bancshares, Inc., owns the institution.

FNB&T is a full service institution. Credit products focus on agriculture and small business. Residential real estate and consumer related loans are also available. The dollar volume of commercial and farm loans total 49% and 25% of gross loans, respectively, as of March 31, 1998. Residential real estate and consumer loans represent 14% and 12% of gross loans, respectively.

The bank's CRA Public File contains a list of specific products and services.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank's CRA assessment area (AA) is all of Pipestone and Rock Counties in Minnesota; portions of Lincoln, Nobles, Murray, and Lyon Counties in Minnesota; and portions of Brookings, Moody, and Minnehaha Counties in South Dakota. Partial county areas are included due the branch locations and significant land area of the surrounding counties. The AA contains sixteen whole Block Numbering Areas (BNAs) and two whole Census Tracts (CTs). CTs are in rural Minnehaha County which includes the bank's affiliated financial institution. CTs are middle income and economically comparable to AA BNAs. According to 1990 census data, the remaining AA area contains the following BNAs: fourteen middle income, one moderate income, and one upper income. Refer to the Public File for a map outlining this AA. The AA has a total population of 83,000. 1998 median family income is represented in the following table:

1998 Median Family Income	MSA	Statewide Non-MSA
Minnesota	Not Applicable	\$40,500
South Dakota	\$45,700	\$36,800

Housing stock is primarily owner occupied as detailed below:

	Minnesota	South Dakota
Owner Occupied	71%	64%
Rental Occupied	19%	30%
Vacant	10%	6%

Local economic conditions of Pipestone and Rock Counties are concentrated in agriculture, agribusiness, light manufacturing, healthcare, and government. In Pipestone itself, the largest employers include a marine manufacturer, meat packing plant, and county government. In Luverne, a recently opened Veterans Administration facility, local health care facility, and a large insurance firm are major employers. Based on Housing and Urban Development (HUD) information, unemployment is very low at 2%.

Examiners made one community contact with the local Chamber of Commerce leader. The city of Pipestone and surrounding communities have recently focused on improving availability of low- and moderate-income housing, specifically rental housing. Those goals are being met with the construction of an assisted living facility which may release existing housing stock for purchase and rental. Future economic programs are planned for improving expansion of area businesses and small business ventures. Other credit needs in the community include home improvement loans and restoration funding for the downtown historic district. This contact noted active involvement by area banks regarding the type and availability credit programs and did not feel any credit needs are unmet within Pipestone and surrounding communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Analysis

The bank's overall lending is satisfactory and reflects a reasonable response to AA credit needs. As of March 31, 1998 the loan to deposit ratio was 87%. This compares favorably to the average December 31, 1997 loan to deposit ratio of 68% for the remaining 37 banks in the AA. The bank's average loan to deposit ratio since June 30, 1996 is 95%.

Lending in Assessment Areas

A substantial majority of the bank's loan originations are to borrowers within its AA.

Examiners sampled 94 commercial, farm, and residential real estate loan originations since June 1996, totaling \$7.2 million. This included 30 commercial loans totaling \$4.0 million, 29 farm loans totaling \$1.8 million, and 35 residential real estate loans totaling \$1.4 million. Samples indicated 97% of commercial loans, 97% of farm loans, and 89% of residential real estate loans by number were made within the AA. This demonstrates average lending within the AA at 94%.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank’s lending shows good penetration among small businesses and farms. In addition, a reasonable volume of residential real estate and consumer lending to low- and moderate-income families is demonstrated. 1990 business and farm data as reported by Dun & Bradstreet indicates approximately 75% of businesses and farms within the AA have annual sales under \$1 million with 92% of those with sales under \$500 thousand. Further, 1992 Minnesota census data indicate 94% and 73% of farms in Pipestone and Rock Counties, respectively, had gross annual revenue under \$500 thousand. 1990 federal census data also show that low- and moderate-income families represent a combined 41% and 31% the total number of families in the Minnesota and South Dakota AA’s, respectively.

The bank’s focus on small business and farm lending is demonstrated by a majority of loans originated to borrowers with gross revenues under \$500 thousand. The following tables break down these findings in more detail:

Commercial Loans	Volume	Dollar
gross revenues < \$100,000	37%	18%
\$100,001 to \$250,000	20%	25%
\$250,001 to \$500,000	3%	1%
\$500,001 to \$1,000,000	20%	17%
> \$1,000,000	20%	39%

The bank’s commitment to small business lending is also demonstrated by its status as a Certified Lender under the Small Business Administration’s (SBA) loan program. Since June 1996, the bank originated 20 SBA loans totaling \$7.4 million.

Agricultural Loans	Volume	Dollar
gross revenues < \$100,000	38%	17%
\$100,001 to \$250,000	38%	32%
\$250,001 to \$500,000	10%	23%
\$500,001 to \$1,000,000	4%	1%
> \$1,000,000	10%	27%

The bank is a Designated Lender for Farm Services Administration (FSA) loan programs. Since June 1996 the bank originated 10 FSA loans totaling \$1.2 million.

The bank is an active residential real estate (home purchase, home improvement, home equity) and consumer lender to low- and moderate-income families. The table below consolidates findings from a sample of 25 home purchase, 5 home improvement, and 5 home equity loans originated since June 1996. The table also details residential real estate lending among low- and moderate-income families.

Residential Real Estate	Volume	Dollar	Percentage of Families within the AA	
			Minnesota	So Dakota
low-income	26%	12%	21%	15%
moderate-income	26%	18%	20%	16%
middle-income	23%	25%	26%	24%
upper-income	25%	45%	33%	45%

The bank is a participant in the Minnesota Housing Finance Agency program, a government program which provides home improvement and home energy loans to low- and moderate-income homeowners. The has originated 21 loans totaling \$267 thousand since June 1996.

An analysis of consumer loans originated since June 1997 indicates a reasonable level of small dollar lending. This analysis showed 72% of the number 29% of the dollar volume of consumer loans originated were less than \$5,000.

Geographic Distribution of Lending

Geographic distribution of loans within the assessment area is reasonable. The AA is predominately middle income. Seventeen of the AA's eighteen BNAs are middle or upper income. An analysis of our loan sample showed that 6% of the number of credits reviewed were distributed within the moderate income BNA.

Response to Complaints

No complaints have been received since the last examination.

Record of Compliance with Antidiscrimination Laws

Examiners found no substantive violations of the antidiscrimination laws and regulations. The bank has appropriate policies, procedures and training programs in place to prevent discriminatory credit practices.