

PUBLIC DISCLOSURE

January 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Osakis
Charter Number: 6837**

**213 Central Avenue, P.O. Box 580
Osakis, Minnesota 56360**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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 of Osakis** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 4, 1999**. 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 loan-to-deposit ratio is reasonable.
- The bank's record of extending credit to businesses and farms of all sizes and to consumers of all income levels is satisfactory.
- A substantial majority of loans are extended within the bank's assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Osakis (FNB) is a \$40 million bank located in downtown Osakis in central Minnesota (MN). The bank has no branches or ATMs. FNB is owned by Osakis Bancshares, Inc. (HC), a one-bank holding company also located in Osakis. The HC has total assets of \$5.2 million as of June 30, 1998.

The bank offers traditional loan and deposit products and services. Total loans account for 60% of total assets as of December 31, 1998. The following table illustrates FNB's loan product line and mix:

| Loan Type | Dollar Volume (000's) | % of Total |
|---|------------------------------|-------------------|
| 1-4 Family Residential Real Estate | \$7,850 | 33% |
| Commercial/Small Business | \$6,613 | 28% |
| Agricultural Related | \$6,233 | 26% |
| Consumer | \$3,024 | 13% |
| Total Portfolio Volume | \$23,720 | 100% |

* Source: Call Report info as of 12/31/98

FNB was rated "Satisfactory Record of Meeting Community Credit Needs" in January 1996. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of the community. The bank has not opened or closed any offices since the last examination.

DESCRIPTION OF FNB's ASSESSMENT AREA

FNB's assessment area (AA) includes 3 contiguous Block Numbering Areas (BNAs) along the border of Douglas and Todd Counties. All BNAs in the AA are considered middle income. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

DESCRIPTION OF FNB's ASSESSMENT AREA (continued)

The economy in the AA is reliant on agriculture, small business and the resort/tourism trade. Major employers in the AA, outside of small farms and small business, include the local school district and the local nursing home. Some community members also commute to the nearby community of Alexandria for employment. The unemployment rate of the AA is below 3%.

Based on 1990 census data information, the population of the AA is 9,662 with 2,713 families residing in the AA. The family income breakdown within the AA is 19% low income, 21% moderate income, 26% middle income, and 34% upper income. Approximately 13% of households in the AA are below poverty level. The AA contains 2,962 owner occupied housing units accounting for 63% of total housing units. The median housing value is \$50,247. The 1998 updated statewide median family income is \$40,500.

Local competition consists of financial institutions whose trade areas overlap FNB's AA. Several of these institutions border FNB's AA, but there are no other financial institutions within FNB's AA. These institutions range from small community banks to branches of large regional banks.

During the examination process, we contacted a local businessman who is on the board of the Osakis Economic Development Corporation. He had a favorable overall impression of the bank and its efforts to serve the community. He did not identify any specific community needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is acceptable. The quarterly LTD ratio has averaged 67.3% since the last CRA examination. The bank ranks third out of 5 banks of similar size who share at least part of the bank's AA. The range of the LTD ratio is 63% to 77% for those banks. FNB has a small amount of loans sold and has also purchased some commercial loans. These loans sold and purchased do not materially alter the bank's LTD ratio.

Lending in the Assessment Area

A substantial majority of the loans FNB originates are to residents and businesses within the AA. This was determined by using a bank generated report of all loans originated between June 1, 1997 and December 31, 1998. These loans were reviewed by bank personnel to determine which ones were made within the AA. We also conducted a sample of these loans and found the bank's analysis to be accurate.

| | Loans Originated |
|-----------------------------------|-------------------------|
| Total number of Loans Originated | 1,399 |
| Number of Loan Originations in AA | 1,337 |
| Percentage in AA | 96% |
| Total Dollar Amount of Loans | \$13,438 |
| Dollar Amount in AA | \$12,111 |
| Percentage in AA | 90% |

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the Assessment Area

FNB has a good record of lending to individuals of different income levels and businesses of different sizes. The bank's primary product lines include real estate, consumer, small business, and agricultural loans.

Consumer and Residential Real Estate Loans

The table on the following page illustrates consumer lending activities. We sampled 45 loans within the AA totaling \$773,644. This represents 9.8% of the total number and 13.2% of the dollar volume of loans originated and currently outstanding from June 1, 1997 to December 31, 1998. We were able to verify income information in 23 of the 45 loans in our sample. The following table reflects the distribution of these loans by income levels in comparison to 1990 census data information:

| Income Level | % Families in the AA (1990 Census Data) | % Number of Loans Sampled | % Dollar Volume Loans Sampled |
|---|--|----------------------------------|--------------------------------------|
| Low-Income < 50% Median Family income* | 19% | 17% | 10% |
| Moderate-Income at least 50% < 80% Median Family Income* | 21% | 35% | 15% |
| Middle-Income at least 80% < 120% Median Family Income* | 26% | 17% | 37% |
| Upper-Income 120% and > Median Family Income* | 34% | 31% | 38% |

* 1998 Outstate Median Family Income \$40,500

Business and Small Farm Loans

The next table illustrates loans to various businesses and farmers within the bank's AA. We sampled 28 small business and agricultural loans within the AA totaling \$611,597. This represents 12.2% of the total number and 21.2% of the dollar volume of loans originated and currently outstanding from June 1, 1997 and December 31, 1998. We were able to verify sales data information for 21 of the 28 files we reviewed. The table below reflects the distribution of these loans by sales level:

| Annual Gross Sales (000's) | % Number of Loans | % Dollar Volume |
|-----------------------------------|--------------------------|------------------------|
| \$100 or less | 52% | 33% |
| \$101 - \$250 | 38% | 62% |
| \$251 - \$1,000 | 5% | 2% |
| > \$1,000 | 5% | 3% |

Geographic Distribution of Loans

All three of the bank's BNAs are middle income. Therefore, an analysis of the geographic distribution of loans among different income geographies is not meaningful.

Record of Response to Complaints

FNB received no complaints concerning its performance in meeting the credit needs of its AA.

Record of Compliance with Anti-discriminatory Laws

Based on our review, the bank is complying with anti-discriminatory laws. We found no substantive violations of the fair lending laws.