



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 25, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of McIntosh
Charter Number 6488

260 Cleveland Avenue SW
McIntosh, MN 56556

Office of the Comptroller of the Currency

222 South 9th St., 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, 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 major factors supporting this rating are:

- A substantial majority of the First National Bank of McIntosh's (FNB) lending activity takes place within its assessment area.
- FNB's record of lending to individuals of different income levels and farms of different sizes is reasonable.
- FNB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.

SCOPE OF EXAMINATION

We evaluated FNB's performance in meeting the credit needs of the community consistent with the provisions set forth in the Community Reinvestment Act (CRA). We assessed the bank's lending activity by selecting primary products based on loan originations from January 1, 2010, to December 31, 2011 (evaluation period). We determined the bank's primary loan products were agricultural loans and consumer loans. We placed more weight on agriculture loans since they represented 61% of all loan originations by dollar amount and 30% by number. The following table depicts the number and volume of loans originated during the evaluation period.

Loan Product	% by #	% by \$
Commercial	7.30%	21.51%
Residential RE	2.92%	4.79%
Agricultural	29.56%	61.41%
Consumer	60.22%	12.29%
Total	100.00%	100.00%

Source: Loan origination report

To conduct our analysis, we randomly selected a sample of 20 agricultural loans and 20 consumer loans originated between January 1, 2010, and December 31, 2011. We determined the percentage of loans originated within the bank's assessment area using this initial sample. Additional files were subsequently selected for the analysis of the borrower distribution of lending.

DESCRIPTION OF INSTITUTION

FNB is located in Polk County in northwestern Minnesota. As of December 31, 2012 the bank had total assets of \$27 million. The bank has no branches and no automated teller machines. The Beito family group owns 98 percent of the bank. The family also owns four state-chartered banks in the Minnesota communities of Oklee, Thief River

Falls, New Folden, and Gonvick. No mergers, acquisitions, or material corporate changes have taken place since the last CRA examination.

The bank's loan portfolio is relatively diverse; see the chart below for a breakdown of the portfolio as of December 31, 2012:

Loan Portfolio Composition	\$(000)	%
Commercial Loans	\$2,185	21.48%
Agricultural Loans	\$5,152	50.65%
Residential Real Estate Loans	\$2,058	20.23%
Individual Loans	\$ 777	7.64%

Source: 12/31/2012 Call Report

FNB's strategy and lending philosophy are generally conservative. FNB offers traditional loan and deposit products. The bank's primary focus is on agricultural and consumer lending, although they also offer residential and commercial lending products. As of December 31, 2012, the bank's Tier 1 Leverage Capital ratio was 25.37 percent with loans and investments representing 38 percent and 60 percent, respectively, of total assets.

FNB was rated "Satisfactory" at its previous CRA evaluation dated February 11, 2008.

The bank has no financial or legal impediments that would restrict its ability to meet the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's assessment area includes two contiguous census tracts in Polk County, Minnesota. Each census tract is designated as a middle-income census tract. Polk County is part of the Grand Forks, North Dakota-Minnesota Metropolitan Statistical Area (MSA). The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. Cities included in the assessment area are McIntosh, Fosston, Erskine, Winger, Mentor, Lengby, Gully, Trail, and portions of Oklee.

The demographics of the assessment area are described below. The information is based on the 2000 census data unless otherwise noted.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF FNB's ASSESSMENT AREA	
Population	
Number of Families	2,006
Number of Households	3,039
% of Low-Income Families	22.88%
% of Moderate-Income Families	23.48%
% of Middle-Income Families	23.63%
% of Upper-Income Families	30.01%
Geographies	
Number of Census Tracts	2
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
Median Family Income (MFI)	
2000 MFI for AA	\$38,451
2011 HUD-Adjusted MFI	\$63,800
Economic Indicators	
2012 Unemployment Rate – Polk County, MN	5.3%
2000 Median Housing Value	\$55,614
% of Households Below Poverty Level	12.87%

Source: 2000 U.S. Census information with updated information when available.

The assessment area is located within an agricultural region. Based on 2000 census data, there were 170 farm businesses and 1,214 non-farm businesses in the assessment area. Of the farms that reported revenues, 100 percent were less than \$1 million. Of the non-farm businesses that reported revenues, 96.7 percent were less than \$1 million, and 3.3 percent were over \$1 million.

Competition in the assessment area is moderate. There are six financial institutions reporting deposits in the assessment area per the June 30, 2012, FDIC deposit market share report. FNB ranks fourth in deposit market share with 9.87 percent share of the market. Ultima Bank Minnesota holds the vast majority with a 51.01 percent market share.

The local economy is stable but growth continues to be slow. Agriculture is a primary driver in the economy with a majority of residents engaged in farming activity. Leading employers in the community include McIntosh Senior Living, a local nursing home and Farm Check, an accounting company. Win-E-Mac Public Schools also employs several McIntosh residents as well as individuals from the surrounding

area. The 2012 unemployment rate in Polk County was comparable to the 5.4 percent state average but considerably better than the national average of 7.8 percent.

During our evaluation, we contacted a local government official to better understand the assessment area’s demographics and determine the primary credit needs of the community. Primary credit needs identified by the community contact included agricultural lending, as well as consumer and residential lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB’s Loan-to-Deposit (LTD) ratio is reasonable. From March 31, 2008 to December 31, 2012, the quarterly LTD ratio averaged 45.8 percent. This is consistent with the previous CRA examination, when the average LTD ratio was 45 percent. Loan demand has been low, but stable over this time period. The bank’s deposit base has also been stable in recent years.

The following table depicts the average LTD ratios of similarly situated banks, defined as banks in the assessment area with total assets ranging from \$20 million to \$50 million. FNB ranks third in average LTD ratio out of four similarly situated banks.

	Assets 12/31/2012	Average Ratio
American State Bank of Erskine	\$24.4 Million	61.52%
First State Bank of Fertile	\$39.0 Million	46.17%
The First National Bank of McIntosh	\$27.0 Million	45.77%
Security State Bank of Oklee	\$30.6 Million	26.89%

Source: Call Reports

Lending in Assessment Area

A substantial majority of the bank’s lending activity is within its designated assessment area. Based on our sampling, 92.5 percent of the number of loans, and 95.8 percent of the dollar volume of loans were made within the bank’s assessment area.

LENDING IN FNB’S ASSESSMENT AREA										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
LOAN TYPE	#	%	#	%	#	\$ (000s)	%	\$ (000s)	%	\$ (000s)
Agricultural	18	90.0%	2	10.0%	20	\$1,591	95.5%	\$75	4.5%	\$1,666
Consumer	19	95.0%	1	5.0%	20	\$175	98.9%	\$2	1.1%	\$177
Totals	37	92.5%	3	7.5%	40	\$1,766	95.8%	\$77	4.2%	\$1,843

Source: Loan Sample

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes
 FNB’s lending to individuals of different income levels and farm businesses of different sizes is reasonable.

Agricultural Loans

The distribution of agricultural loans reflects reasonable penetration among farms of different sizes. Lending to farms with revenues less than or equal to \$1 million by number of loans was near to the demographic comparator of assessment area farms with revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Farms in FNB’s Assessment Area				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Not Reported	Total
% of AA Farms	99.4%	0.0%	0.6%	100.0%
% of Bank Loans in AA by #	95.0%	5.0%	0.0%	100.0%
% of Bank Loans in AA by \$	80.9%	19.1%	0.0%	100.0%

Source: Loan Sample and 2011 Business Geo-demographic Data

Consumer Loans

Consumer lending to low- and moderate-income borrowers reflects excellent penetration. Although FNB’s lending to moderate-income borrowers falls just short of the demographic comparator for households that are moderate-income, the bank’s lending to low-income borrowers significantly exceeds the demographic comparator for low-income households. The table below summarizes income levels of consumer loans compared to the demographics of the assessment area.

Borrower Distribution of Residential Real Estate Loans in FNB’s Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	26.92%	55.0%	19.05%	15.0%	20.04%	15.0%	33.99%	15.0%

Source: Loan Sample and 2000 U.S. Census data

Geographic Distribution of Loans

A geographic distribution analysis was not meaningful given that the assessment area contains no low- or moderate- income tracts.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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

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