



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 15, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 8280

414 Main Street
Milnor, ND 58060-0000

Office of the Comptroller of the Currency

Minneapolis Field Office
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.

- Lending to farms and businesses of different sizes is reasonable.
- The bank's loan to deposit ratio is reasonable.
- A majority of bank loans were originated within the bank's assessment area.
- There were no CRA related complaints during this evaluation period.

SCOPE OF EXAMINATION

We assessed First National Bank's (FNB) record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA). In order to determine the bank's lending performance, we selected primary products based on loan originations for the period beginning January 1, 2007 and ending June 30, 2009. We determined that agricultural (65%) and commercial (24%) loans are the bank's primary products. We selected a random sample of 20 loans from each of the primary products in order to conduct our analysis.

DESCRIPTION OF INSTITUTION

FNB is headquartered in Milnor, North Dakota. It is owned by a single bank holding company, FNB Bankshares, Inc. The bank's main office is located in Milnor with a branch located in the neighboring community of Lisbon, ND. The bank has four non-deposit taking ATM's which are located in area businesses. The bank did not open or close any branches during the assessment period.

FNB is a small community bank located in rural North Dakota, with a focus on agricultural lending. In addition, the bank offers traditional consumer, residential real estate and commercial lending products. As of June 30, 2009, the bank has \$59 million in total assets and net loans to total assets are 59%.

FNB received a satisfactory rating at the August 4, 2003 CRA evaluation. There are no legal or financial constraints on FNB that impede the bank's ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's Assessment Area (AA) consists of Ransom and Sargent counties located in the southeast corner of North Dakota. The AA includes 6 middle-income census tracts, three in each county. Despite the fact that the AA does not contain any low- or moderate-income census tracts, it meets the requirements of the regulation and does not arbitrarily exclude any of these tracts.

The 2000 US census population of the AA was 10,256 and the weighted average of median housing was \$52,253. The 2009 weighted average of Department of Housing and Urban Development updated median family income is \$55,100. According to the U.S. Department of Labor, Bureau of Labor Statistics, the September 2009 unemployment rate for the state of North Dakota was 4.2% which falls below the national average of 9.8%.

Competition from other financial institutions in the AA is moderate. There are two similarly situated banks in the AA. In addition, there are three credit unions and two branches of regional offices in the AA. The AA has a strong need for agricultural lending as farming is the main source of income and employment for the local population.

We contacted a local business organization to learn more about the condition of the local economy and their perception on the communities credit needs. The contact indicated that the local financial institutions are meeting the financial needs of the community. The contact described the local economy as stable with a strong agricultural and industrial presence.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

The bank’s LTD ratio is reasonable based on its financial capacity and lending opportunities. The quarterly LTD ratio averaged 71% in the 26 calendar quarters from June 30, 2003 to June 30, 2009.

Institution	Assets in \$000’s (as of 6-30-09)	Average Quarterly LTD Ratio
Sargent County Bank	77,101	64%
First National Bank	59,174	71%
Cornerstone Bank	364,737	108%

Lending in Assessment Area

FNB's record of lending within its AA is reasonable. The majority of the loans originated during the evaluation period are located in the AA. The bank originated 85% by number and 83.5% by dollar of the loans within its AA. The table below shows the results of our analysis.

Lending in FNB's AA	In AA By Number	In AA by Dollar
Agriculture/Farm Loans	87%	98%
Commercial Loans	83%	69%
Aggregate Results	85%	83.5%

Data Source: Loan sample

Lending to Farms and Businesses of Different Sizes

FNB's overall lending to farms and businesses of different sizes is reasonable.

Farm Loans

FNB's lending to farms with different revenue levels is reasonable. Based on our sample, FNB originated 98% by dollar and 95% by number to farms with gross revenues of \$1 million or less. The following table illustrates the distribution of agricultural loans.

BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS			
Annual Farm Revenues	≤\$1,000,000	>\$1,000,000	Not Reported
% of AA Farms	98.38%	0.97%	0.65%
% of Bank Loans in AA by #	95.00%	5.00%	0
% of Bank Loans in AA by \$	98.00%	2.00%	0

Data Source: 2009 Business Geodemographic data

Business Loans

The banks record of lending to businesses of different sizes is reasonable. Based on our sample, the bank originated 85% by dollar and 76% by number of its loans to businesses with revenues of \$1 million or less. The gross annual business revenues of sampled loans ranged from \$23 thousand to \$6 million. The demographics of the AA show a significant amount of unreported revenues. However, our sample contained a low percentage of businesses with unreported revenues.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES			
Business Revenues	≤\$1,000,000	>\$1,000,000	Not Reported
% of AA Businesses	72.31%	2.52%	25.17%
% of Bank Loans in AA #	76.00%	20.00%	4.00%
% of Bank Loans in AA \$	85.00%	14.00%	1.00%

Data Source: 2009 Business Geodemographic data

Geographic Distribution of Loans

Geographic distribution analysis is not meaningful due to the lack of low- or moderate-income census tracts located within the AA.

Responses to Complaints

FNB has not received any CRA related complaints since the last CRA evaluation.

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.