



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 26, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Milaca
Charter Number 9050

192 Second Avenue SW
Milaca, MN 56353

Office of the Comptroller of the Currency

222 South 9th Street
Suite 800
Minneapolis, MN 55402-3371

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 include:

- The distribution of consumer loans to borrowers reflects excellent penetration among low- to moderate-income households.
- The distribution of loans to borrowers reflections reasonable penetration among businesses and farms of different sizes
- The bank's average Loan-to-Deposit ratio is reasonable
- A majority of the bank's loans were originated inside both Assessment Areas

SCOPE OF EXAMINATION

We assessed the record of the First National Bank of Milaca (FNB) in meeting the credit needs of the local community in accordance with the Community Reinvestment Act (CRA) for the period beginning April 17, 2007 to December 31, 2011 (evaluation period). In order to determine the bank's lending performance, we selected primary products based on the number and dollar amount of loans originations for the period beginning January 1, 2010 to December 31, 2011 (lending review period). Business and consumer loans were determined to be the bank's primary products for FNB's non-Metropolitan Statistical Area (MSA) assessment area. Business and consumer loan products represent 24% and 62%, respectively, of all loans originated during the lending review period for FNB's non-MSA assessment area (Milaca). Agricultural and consumer loans were determined to be the primary products for FNB's MSA assessment area (Gilman), representing 29% and 57%, respectively, of all loans originated during our lending review period. Refer to the description of the assessment area for more information. A random sample of 20 loans for each product type in each assessment area was used to evaluate lending performance within the assessment areas. We expanded our consumer sample to 60 loans for the Milaca assessment area to better analyze lending to borrowers of different incomes. We used 2011 Business Geodemographic information for comparison purposes.

DESCRIPTION OF INSTITUTION

FNB is a \$171 million financial institution with the main office located in Milaca in Mille Lacs County in north central Minnesota. FNB has two branch locations located in the cities of Gilman and Isle and operates five automated teller machines. FNB is wholly owned by Rum River Bancorporation, Inc., a one-bank holding company located in Milaca, MN.

FNB's primary focus is small businesses and consumer loans. As of September 30, 2012, FNB's Tier 1 Capital ratio totaled 11.01%. Net loans and leases as of September

30, 2012 were \$101 million or 58% of total assets. The composition of the loan portfolio is as follows:

Loan Portfolio Composition (9/30/12)	\$000	%
Real Estate	\$61,406	60.68%
Business	23,957	23.68%
Individual	9,006	8.90%
Agricultural	6,641	6.56%
Other	180	0.18%
Total	\$101,190	100%

There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its assessment area. The bank's most recent CRA performance evaluation was dated April 16, 2007 and a rating of "Satisfactory" was assigned.

DESCRIPTION OF ASSESSMENT AREA(S)

Combined FNB's assessment areas (AA) consist of seven contiguous census tracts (CTs). The Milaca AA includes four CTs in Mille Lacs County and one CT in the southwest portion of Aitkin County. The Gilman AA includes two CTs in the northeast portion of Benton County. All seven of the bank's CTs are middle-income. Cities in the AAs include, but are not limited to, Milaca, Foley, Gilman, Oak Park, and Isle. The AAs meet the requirements of the regulation.

Competition from other financial institutions is moderate. In addition to FNB, there are two other financial institutions located in Milaca. There are no banks in Gilman; however, there are two other financial institutions located less than five miles away in Foley. A credit union is also located in Isle. FNB's market share as of September 30, 2012 is 18.02% per the FDIC Market Share Report. FNB identified the Greater Minnesota Credit Union as their primary competition within the local market.

Major employers in the area include the Public School district and Mille Lacs County. Unemployment in the Milaca AA is high at 7.5% and above the Minnesota state average of 5.7%. Employment in the Gilman AA is 5.3% which is slightly below the state average. 2011 median-family income (MFI) for the Milaca AA is \$59,200, up from \$42,282 in 2000. For the Gilman AA, MFI is \$68,400, up from \$59,200 over the same time period. The MFI in both AAs is below the Minnesota state MFI of \$87,000. Refer to the table on the following page for more demographic information.

Demographic & Economic Characteristics of the AAs		
Assessment Area	Milaca	Gilman
Population		
Number of Families	4,920	1,977
Number of Households	6,938	2,553
Number of Low-Income Families	952	379
<i>% of Low-Income Families</i>	<i>19.35</i>	<i>19.17</i>
Number of Moderate-Income Families	1,064	364
<i>% of Moderate-Income Families</i>	<i>21.63</i>	<i>18.41</i>
Number of Middle-Income Families	1,289	597
<i>% of Middle Income Families</i>	<i>26.20</i>	<i>30.20</i>
Number of Upper-Income Families	1,615	637
<i>% of Upper-Income Families</i>	<i>32.83</i>	<i>32.22</i>
Geographies		
Number of Census Tracts	5	2
% of Low-Income Census Tracts	0.00	0.00
% of Moderate-Income Census Tracts	0.00	0.00
% of Middle-Income Census Tracts	100.00	100.00
% of Upper-Income Census Tracts	0.00	0.00
Median Family Income (MFI)		
2000 MFI for AA	\$42,282	\$50,173
2011 HUD-Adjusted MFI	\$59,200	\$68,400
Economic Indicators		
Unemployment Rate	7.5	5.3
% of Households below the Poverty Line	10.39	10.97

Source: Bureau of Labor and Statistics; 2000 US Census Data

The Milaca Area Chamber of Commerce was contacted to help determine the credit needs of the local community. The contact indicated that FNB is meeting the needs of the local community. Unemployment in Milaca is high and small business lending continues to be the main lending need in the area.

FNB's overall rating is based on the two AAs, both of which received full scope reviews. However, greater weight was placed on the Milaca AA and its primary products as this is the area from which FNB derives the greatest volume of deposits and originates the majority of its loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's average Loan-to-Deposit Ratio (LTD) is reasonable based on the size and lending opportunities available. FNB's LTD is 77.09% averaged over 22 quarters from June 30, 2007 to September 30, 2012. In comparison to five similarly situated banks, FNB's LTD is average. These banks have total assets ranging from \$42 million to \$171 million and are located within FNB's AAs. The average for these five banks was 82.12%. The following table summarizes the average assets and LTD for these comparable banks.

Loan to Deposit Ratio		
Institution	Average Assets 000's (as of 9/30/12)	Average Ratio (2Q07 - 3Q12)
Grand Timber Bank	\$42,224	89.72
Falcon National Bank	\$133,722	86.30
Farmers and Merchants State Bank of Pierz	\$168,621	85.95
Security State Bank of Aitkin	\$89,221	81.23
The First National Bank of Milaca	\$174,130	77.09
Peoples National Bank of Mora	\$154,892	67.39

Lending in Assessment Areas

Lending within the AAs meets the standards for satisfactory performance. A majority of FNB's loans were originated inside both AAs with 72.50% by number and 85.11% by dollar volume of loans in our initial sample originated within the AAs. The following table depicts the lending activities within the AA during the evaluation period.

Lending in the Assessment Area										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	31	77.50%	9	22.50%	40	\$217	83.46%	\$43	16.54%	\$260
Agricultural	15	75.00%	5	25.00%	20	\$726	74.92%	\$243	25.08%	\$969
Commercial	12	60.00%	8	40.00%	20	\$3,195	87.95%	\$438	12.05%	\$3,633
Totals	58	72.50%	22	27.50%	80	\$4,138	85.11%	\$724	14.89%	\$4,862

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

Overall, FNB’s lending to businesses and farms of different sizes demonstrates reasonable penetration of the AAs.

Milaca Assessment Area

Business Loans

The borrower distribution of loans to businesses indicates reasonable penetration. FNB originated 65.0% by number to businesses with gross annual revenues under \$1 million relative to the demographic comparator of 76.98%. By dollar volume, FNB originated 14.82% to businesses with gross annual revenues under \$1 million.

Borrower Distribution to Businesses in the Milaca AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	76.98%	1.77%	21.24%	100.00%
% of Bank Loans in AA by #	65.00%	30.00%	5.00%	100.00%
% of Bank Loans in AA by \$	14.82%	83.69%	1.49%	100.00%

Source: Loan Sample; Dun and Bradstreet Data

Consumer Loans

The borrower distribution of loans to consumers indicates excellent penetration among low- to moderate-income (LMI) households. Consumer loans to LMI households exceeded the demographic comparator. Loans to low-income households were 25.0% compared to the 23.90% comparator, while moderate-income loans were 25.0% compared to the 18.29% comparator. Refer to the table below for more information.

Borrower Distribution of Consumer Loans in the Milaca AA									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	% of Number of Loans
% of Total	23.90%	25.00%	18.29%	25.00%	21.89%	21.67%	35.92%	25.00%	3.33%

Source: Loan sample; 2000 U.S. Census Data

Gilman Assessment Area

Farm Loans

The borrower distribution of loans to farms indicates excellent penetration. 100% of the number and dollar volume are to farms with revenues under \$1 million. These percentages exceed the demographic information. Refer to the table below for additional information.

Borrower Distribution to Farms in the Gilman AA				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Farms	98.58%	0.47%	0.94%	100.00%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100.00%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100.00%

Source: Loan Sample; Dun and Bradstreet Data

Consumer Loans

The borrower distribution of loans to consumers indicates excellent penetration among low- to moderate-income (LMI) households. Consumer loans to LMI households exceeded the demographic comparator. Loans to low-income households were 30.0% compared to the 21.78% comparator, while moderate-income loans were 30.0% compared to the 16.18% comparator. Refer to the table below for more information.

Borrower Distribution of Consumer Loans in the Gilman AA									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	% of Number of Loans
% of Total	21.78	30.00%	16.18%	30.00%	20.96%	15.00%	41.09%	20.00%	5.00%

Source: Loan sample; 2000 U.S. Census Data

Geographic Distribution of Loans

Analysis of the geographic distribution of loans is not meaningful as both of FNB's AAs consist solely of middle-income census tracts.

Responses to Complaints

FNB has not received any CRA complains during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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