

PUBLIC DISCLOSURE

July 27, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Frederick
Charter No. 8624**

**314 Main Street
P. O. Box 576
Frederick, South Dakota**

**Office of the Comptroller of the Currency
Fargo Field Office
3211 Fiechtner Drive SW
Fargo, ND**

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 Frederick (FNB)** prepared by the **Office of The Comptroller of the Currency**, the institution's supervisory agency, as of July 27, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

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

FNB is meeting the credit needs of its assessment areas.

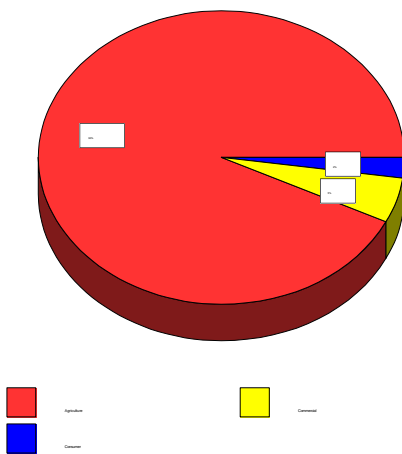
- < FNB's loan-to-deposit ratio is reasonable, with the majority of loans being made within its assessment areas.
- < FNB extended loans to farms in all gross revenue categories, particularly small farms, and is actively involved in community projects.

DESCRIPTION OF INSTITUTION

FNB is a privately held bank with one office located in Frederick, South Dakota. Frederick has become a bedroom community for Aberdeen, SD (approximately 25 miles south of Frederick). As a result, FNB faces competition from numerous financial institutions in that city. The bank’s primary customer base is local farmers and ranchers.

As of June 30, 1999, FNB reported total assets of \$12 million and a 0.65% return on average assets. The bank’s loan-to-deposit ratio on that date was 40%; gross loans represented 34% of total assets. The loan portfolio consisted of the following types of credit: 93% in agricultural loans, 5% in commercial loans, and 2% in consumer loans. The dollar volume of the outstanding loans are as follows: \$3.8 million in agriculture loans, \$204 thousand in commercial loans, and \$80 thousand in consumer loans. FNB offers a variety of agricultural, commercial and consumer loan products, in addition to deposit and insurance services.

Portfolio Composition



The bank’s financial condition, size, local economic condition, and other factors allow it to help meet the credit needs of its assessment area. The bank has neither opened nor closed any branches since the last CRA examination. At the last CRA examination dated February 13, 1996, FNB received a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA: BLOCK NUMBERING AREA 9512

FNB’s assessment area (AA) includes the northwest quarter of Brown County with the block numbering area (BNA) 9512. The BNA is considered middle income. Census information on the assessment area identifies a population of approximately 2,915 and 886 families. The town of Frederick includes approximately 300 residents. The 1998 HUD Non-MSA statewide Median Family income is \$37,800. The breakdown by family income level within the assessment area is: 17% low income, 18% moderate income, 22% middle income, and 43% high income. The median average home in the AA was built in 1953

with a current average value of \$32,500. Owner occupied units account for 69% of all occupied housing within the AA.

Agriculture, including farming and ranching, and agricultural-dependent businesses, drives the AA's economy. Since Frederick is a bedroom community, it is also reliant on the surrounding communities for jobs and economic viability. The economy is relatively stable with low unemployment, but it is greatly influenced by changes in agricultural conditions.

FNB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

Community contacts indicated that FNB is very active in the community and is meeting the local credit needs of its AA. The contacts stated that FNB does everything they can for the community. We conducted two community contacts within the bank's AA. We contacted a quasi-government development agency for northeast South Dakota and a local development corporation. Agricultural related loans, and community development loans were mentioned as types of credit needs which the bank should continue to strive to meet.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Analysis

FNB's level of lending is reasonable. The bank's loan-to-deposit ratio has increased slightly since the last CRA examination. During the past 15 quarters ending June 30, 1999, the average quarterly loan-to-deposit ratio has risen to 40% compared to 33% last examination. There are no similar situated bank's within FNB's AA.

Although the bank's loan-to-deposit ratio appears low, it is reasonable for several reasons:

- ! FNB is located in a sparsely populated area with fewer farmers/ranchers (their primary customer base) than other areas of northeast South Dakota;
- ! Frederick's population is aging and requires limited lending services. We conducted an analysis of the bank's deposit base that showed approximately 93% of FNB's total deposits are owned by individuals that do not have a current lending relationship with FNB. Agricultural loans are still a credit need of the AA. Based on our community contacts and by the level of agricultural lending of this bank, FNB is meeting this need; and
- ! Frederick is a bedroom community for Aberdeen, SD. As a result, FNB faces stiff competition from the banks in Aberdeen. FNB is unable to effectively compete with

these banks because of its small size and location.

Comparison of Credit Extended Inside and Outside of the Assessment Area

FNB extends a majority of its loans within the AA. We sampled 39 agricultural loans to determine the bank's record of lending within its AA. The sample represents every active agricultural credit file with loan originations since the last CRA examination. We choose agricultural loans for sampling purposes because they are the bank's primary product line. As of June 30, 1999, agricultural loans represented 93% of total loan volume. Analysis of commercial or individual loans would not be meaningful because they represent such a small portion of the loan portfolio, 5% and 2% as of June 30, 1999, respectively. Our review showed that 62% by number and 61% by dollar volume of the sample were granted to borrowers within FNB's AA.

Distribution of Credit within the Assessment Area by Geography

The BNA in the bank's AA is considered middle income. Analysis of this assessment criteria would not be meaningful.

Distribution of Credit within the Assessment Area by Borrower Income

The distribution of borrowers reflects a good penetration among farms of different sizes. We analyzed the same sample used in the AA analysis above because agricultural loans are the bank's main product line by volume and number. Annual gross revenues for agricultural loans were obtained from loan file information.

FNB extended loans to farms in all gross revenue categories. Approximately 59% by number of the sampled loans were extended to farms with gross revenues of \$100,000 and less. Overall, the results demonstrate a commitment of the bank to service the needs of farm operations in the AA, particularly the small farm operations.

<p>Distribution of Agricultural Credits within the AA By Different Gross Income Levels</p>
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Gross Income	<\$100,000	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	>\$1,000,000	Total
# of Loans	14	6	2	1	1	24
% of Loans	59%	25%	8%	4%	4%	100%
\$ Volume (000)	571	667	181	278	450	3,823
% of Volume	27%	31%	8%	13%	21%	100%

Response to Complaints

The bank received no CRA-related complaints since the previous CRA examination.

Compliance with Antidiscrimination Laws and Regulations

We did not find any violations of the substantive provisions of the antidiscrimination laws (Home Mortgage Disclosure, Equal Credit Opportunity and Fair Housing Acts) and their implementing regulations.