



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

November 27, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Waseca
Charter Number: 6544**

**101 North State Street
Waseca, MN 56093**

**Comptroller of the Currency
Minneapolis South
920 2nd Avenue South, 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 bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loan originations are made within the bank's assessment area.
- The distribution of loans reflects reasonable penetration among businesses of different sizes and individuals with different income levels.

SCOPE OF EXAMINATION

We evaluated First National Bank Waseca's Community Reinvestment Act performance covering the period from January 28, 2003 through September 30, 2007. In evaluating the bank's lending performance, we reviewed lending data for the bank's primary loan products, commercial and residential real estate loans. Based on originations from January 1, 2005 through September 30, 2007, commercial loans totaled 21.17% of loan originations by number of loans and 41.05% by dollar volume. During this time, residential real estate loans totaled 12.52% of loan originations by number, and 31.98% by dollar volume. We selected a random sample of 20 loans from each of these product types in order to evaluate the bank's lending within the assessment area and borrower income distribution, using 2000 census information for demographic comparison purposes.

DESCRIPTION OF INSTITUTION

FNB Waseca is a \$109 million bank with its main office located in Waseca, Minnesota. The bank also has a branch office on the north side of Waseca, and two additional branch locations in Ellendale and Hope, Minnesota. The bank is owned by Frankson Investment Corporation, a one-bank holding company located in Waseca. The bank does not have any affiliate relationships that impact the bank's CRA performance.

Waseca is located approximately 75 miles southwest of the Minneapolis/St. Paul metro area, and has a population of approximately 8,500 people. The Ellendale and Hope branches are located in Freeborn and Steele County, respectively. FNB offers telephone and internet banking for its customers, and owns four ATMs. One ATM is located in each of the Waseca branches, one is in a grocery store in Waseca, and the remaining ATM is located at a convenience store in Ellendale. None of the bank's ATMs accept deposits.

FNB Waseca offers a wide range of loan and deposit products which are designed to meet the community's needs. As of September 30, 2007, the bank's \$86 million loan portfolio consisted of 53% commercial loans, 23% residential real estate loans, 9% agricultural loans and 15% consumer loans. As of September 30, 2007, net loans made up 78% of total assets. The bank's primary lending focus is commercial and residential real estate loans.

There are no financial, legal or other factors that impede FNB Waseca's ability to meet its CRA obligations. The bank's last CRA rating was a "Satisfactory" dated January 28, 2003.

DESCRIPTION OF ASSESSMENT AREA

FNB Waseca's assessment area (AA) includes all of Waseca County, three census tracts (CT's) in the adjacent northern part of Freeborn County (9801, 9802, and 9608) and two CT's in the southern portion of Steele County (9605 and 9608). All of the bank's tracts are middle-income. The bank's assessment area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Based on 2000 census information, 13.64% of the families within this AA are low-income, 17.45% are moderate-income, 26.89% are middle-income, and 42.02% are upper-income. The 2000 census median family income for the AA was \$49,753. Based on the Department of Housing and Urban Development's 2007 estimate, the updated median family income is \$54,700 for non-metropolitan areas in the State of Minnesota. The 2000 census data indicated that 397 households (4.61%) within the AA are below the poverty level. This compares to 5.08% of persons living in the State of Minnesota that are below the poverty level.

According to 2005 data provided by the Minnesota Department of Employment and Economic Development, the population of Waseca County has remained stable since the 2000 census. Population in Steele County has increased by 5.9% since 2000, while the population of Freeborn County has decreased by 2.1% since the 2000 census. This compares to population growth of 5.8% for the entire State of Minnesota during this timeframe.

Unemployment levels in the AA are relatively consistent when compared to the State of Minnesota. According to the Minnesota Workforce Center, unemployment levels in the State of Minnesota as of October of 2007 were 4.1%. This compares to unemployment levels of 3.9% in Waseca County, 3.6% in Steele County, and 4.5% in Freeborn County. The largest employer in Waseca County is Brown Printing, with 1,100 employees. Other major employers in the area include Itron Inc, the Waseca School District, ELM Homes, and the Federal Correctional Facility located in Waseca. Major industry in the county is manufacturing, followed by Government, Education and Health Services, and Trade, Transportation and Utilities.

The median value of owner occupied housing in the AA per 2000 census data was \$92,231. This compares to a median housing value for the State of Minnesota of \$122,400. Census data indicated that 78.6% of the housing units in the AA were owner occupied.

There are 12 financial institutions with a presence in FNB Waseca's AA, some of which are branches of large banks. FNB Waseca is ranked 5th in deposit market share, with 6.69% of the market share, based on June 2007 deposit information obtained from the Federal Deposit Insurance Corporation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 20 quarters since the previous CRA exam is 93.27%. Similarly situated banks have quarterly average loan-to-deposit ratios

ranging from 79.82% to 107.82% over the same time period. Similarly situated banks include the banks that have a presence in FNB Waseca’s AA with total assets ranging between \$49 million and \$210 million.

| Institution | Asset Size as of 9/30/07 | Average Loan-to-Deposit Ratio 4Q/03 to 3Q07 |
|--|--------------------------|---|
| Roundbank | \$208 million | 92.74% |
| FNB Waseca | \$109 million | 93.27% |
| State Bank of New Richland | \$70 million | 107.82% |
| Farmers STB of Hartland | \$65 million | 93.12% |
| Farmers and Merchants STB Blooming Prairie | \$60 million | 98.26% |
| Janesville State Bank | \$47 million | 79.82% |

Lending in Assessment Area

A majority of loan originations are made within the bank’s AA. We reviewed a random sample of 20 business loans, and 20 residential real estate loans originated between January 1, 2005 and September 30, 2007. The majority of loans, 80% by number and 70.24% by dollar volume, were originated within the bank’s AA. The following table shows loans originated inside their AA by number and dollar volume:

| Lending in Assessment Area | | | | |
|----------------------------|-----------------|---------------|--------------------|---------------|
| Loan Type | Loans Inside AA | | | |
| | Number | Percent by # | Dollar Amount | Percent by \$ |
| Commercial | 16 | 80.00% | \$1,498,620 | 65.30% |
| Residential RE | 16 | 80.00% | \$1,805,008 | 74.94% |
| Total | 32 | 80.00% | \$3,303,628 | 70.24% |

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

The distribution of loans reflects reasonable penetration among businesses of different sizes and borrowers of different income levels. Our random sample of 20 loans indicated that the majority of FNB Waseca’s commercial loans are made to small businesses (those with gross annual revenues less than \$1 million). This is comparable to the AA demographics, however the demographic data includes a significant percentage (39.63%) of businesses in the area that have not reported their gross revenues. One of our community contacts indicated that the Waseca area does have several larger employers, and suggested that a significant percentage of these unknown businesses are likely larger in size. Given this information, FNB Waseca’s lending to businesses of different sizes shows reasonable loan penetration compared to the demographics of the AA.

| Borrower Distribution of Loans to Businesses | | | | |
|---|---------------------|------------------------|---------------------------------|--------------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 56.32% | 4.05% | 39.63% | 100% |
| % of Bank Loans in AA by # | 75.00% | 25.00% | 0% | 100% |
| % of Bank Loans in AA by \$ | 57.90% | 42.10% | 0% | 100% |

*Source: 2006 Business Demographic Data

FNB has a reasonable distribution of credit among consumers of different income levels. In a random sample of 20 residential real estate loans, the bank did not have any loans to low-income borrowers, however this is impacted by the small percentage of low-income borrowers within the AA population. The low-income population also includes those families living below the poverty level which would likely have difficulty purchasing a home. These families represent 4.61% of the total AA population. For moderate-income borrowers, the percentage of residential real estate loans originated to these borrowers exceeds the moderate-income demographic for the AA. Furthermore, when combining the population for low (13.64%) and moderate-income (17.45%) borrowers living within the AA, the bank's lending practices in these two areas (35%) exceeds the total demographic population for these income segments. Taking this into consideration, the bank is meeting the overall needs of low and moderate-income borrowers within the AA.

| Borrower Distribution of Residential Real Estate Loans | | | | | | | | |
|---|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Residential RE | 13.64% | 0% | 17.45% | 35.00% | 26.89% | 40.00% | 42.02% | 25.00% |

*Sources: Borrower income levels are from 2005-2007 HUD Estimated Median Family Income for non-metro area of MN. Percentage of families within the AA in each income category is per 2000 census data.

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as the bank's AA has no low or moderate-income CT's.

Responses to Complaints

The bank has not received any complaints regarding its CRA performance since the last 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.