



SMALL BANK

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

PUBLIC DISCLOSURE

July 12, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Osakis
Charter Number 6837**

**213 Central Avenue
Osakis, MN 56360**

**Comptroller of the Currency
North Dakota & NW Minnesota
1309 Highway 29 N
Alexandria, MN 56308**

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. An institution in this group has a satisfactory record of helping to meet the credit needs of the assessment area it serves, consistent with its resources and capabilities. Factors contributing to this rating include the following:

- The loan-to-deposit ratio is reasonable.
- Lending within its designated assessment area shows a willingness to meet the credit needs of the area.
- Overall lending to borrowers of different incomes and businesses of different sizes exceeds the demographic information of the assessment area.

Description of Institution

First National Bank of Osakis (FNB) is a \$53 million bank located in Osakis, MN and is wholly owned by Osakis Bancshares, Inc., a one-bank holding company also located in Osakis, MN. Holding Company assets consist primarily of the bank. FNB is located in central Minnesota on the border of Douglas and Todd Counties. The bank does not have any branch locations.

The bank's loan portfolio is diverse. As of March 31, 2004, the composition of the portfolio is as follows:

Loan Portfolio Composition	\$ (000)	%
Residential Real Estate Loans	16,430	46%
Commercial (including real estate)	10,005	28%
Agricultural (including real estate)	6,151	17%
Consumer Loans	3,323	9%
Other Loans	152	0%
Total	36,061	100%

FNB offers traditional banking products and services. During the assessment period, lending practices focused on residential real estate, consumer, and small business loans. As of March 31, 2004, net loans represent 67% of total assets and the bank's Tier One Leverage Capital is 11.06% or \$5.9 million. There are no legal or financial impediments that restrict the bank's ability to meet the credit needs of the community.

FNB was rated Satisfactory at the last CRA examination dated January 4, 1999.

Description of First National Bank of Osakis's Assessment Area

FNB's assessment area (AA) includes three contiguous census tracts (CT) located in Douglas and Todd counties. All of the CTs in the AA are middle-income. There are no low-, moderate-, or upper-income tracts in the AA. The AA meets the requirements of the regulation and does not exclude any low- or moderate-income geographies. Cities in the AA include Osakis, Nelson, Carlos, West Union, and Forada. These communities are small with the largest being Osakis with a population of 1,567 based on 2000 census information. The total population of the AA is 10,813.

Competition among financial institutions exists in communities whose AA overlaps that of FNB. The communities of Alexandria, Sauk Centre, and Long Prairie border FNB's AA and have several financial institutions in each community.

The bank's AA is dependent on residential real estate, small businesses, and agriculture. Local employers include retail businesses, the school system, and a nursing home. In addition, Osakis attracts resort and tourism business as a result of the proximity to Lake Osakis. An industrial park has been developed within the city of Osakis to attract manufacturing businesses to the area.

Information from the Bureau of Labor Statistics lists the 2003 unemployment rate for Douglas and Todd counties at 3.6% and 6.5%, respectively. The average unemployment rate for Minnesota is 5.0% and 6.0% nationwide.

During our evaluation, we contacted a community agency to better understand the credit needs of the AA. Based on this information, we determined that residential real estate loans help to support the local economy. The contact stated that FNB effectively meets the credit needs of the community.

The demographics of the AA are illustrated on the next page. The information is based on the 2000 census information unless otherwise noted.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	3,026
Number of Households	4,031
Number of Low-Income Families	517
% of Low-Income Families	17%
Number of Moderate-Income Families	575
% of Moderate-Income Families	19%
Number of Middle-Income Families	767
% of Middle-Income Families	25%
Number of Upper-Income Families	1,167
% of Upper-Income Families	39%
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$45,925
<i>Economic Indicators</i>	
Unemployment Rate	2%
2004 Median Housing Value	\$93,526
% of Households Below Poverty Level	8%

Loan Sampling

The bank's primary loan types were determined by reviewing all loans originated from January 4, 1999 through June 30, 2004.

For purposes of this evaluation, the primary loan types are residential real estate loans, consumer loans, and business loans. Residential real estate loans comprise 30% of the dollar volume of all loans originated during our review period. Business loans represent 32% of the dollar volume and consumer loans account for 58% of the number of loans originated.

To conduct our analysis, we applied statistically valid sampling techniques to select a sample of twenty residential real estate loans, twenty consumer loans, and twenty business loans. After initial sampling to determine the bank's lending within the AA, additional files were selected as needed so all loans in the sample were from the AA. These loans were then used to conduct the analysis of lending to borrowers of different incomes and to businesses of different sizes.

The table on the next page shows a breakdown of all originations in our evaluation period.

Loan Products	#	%	\$ (000)	%
Residential Real Estate Loans	430	9%	\$18,683	30%
Consumer Loans	2,628	58%	\$13,878	22%
Business Loans	759	17%	\$20,145	32%
Agricultural Loans	693	15%	\$9,086	14%
Other	25	1%	\$1,100	2%
Total	4,535	100%	\$62,892	100%

Conclusions about Performance Criteria

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance given the size and financial condition of the bank, AA needs, and local economic conditions. Since the last CRA evaluation, the bank's quarterly average LTD ratio is 76%.

When compared to five similarly situated institutions in or around the AA, FNB ranks second out of the six banks. These banks have asset sizes ranging from \$63 to \$86 million with LTD ratios of 56% to 78%. The average LTD ratio of all six banks for the evaluation period is 69%.

Institution	Assets (as of 3/31/04)	Average LTD Ratio
First State Bank of Alexandria	\$82 million	78%
<i>First National Bank of Osakis</i>	<i>\$53 million</i>	<i>76%</i>
Lake Country State Bank	\$78 million	76%
First National Bank of Sauk Centre	\$86 million	65%
First State Bank of Kensington	\$63 million	62%
First State Bank of Sauk Centre	\$83 million	56%

Lending in Assessment Area

FNB meets the standard for satisfactory performance for lending within its AA. Eighty-five percent of the number and fifty-four percent of the dollar volume of loans are originated from within the AA.

The dollar volume of loans is lower than the number of loans made within the AA due to a large business loan in our sample that was purchased from a financial institution outside of the bank's lending area. The loan is equivalent to 25% of the dollar volume of all sampled loans. Taking this into consideration, and as demonstrated by the number of loans made within the AA, the performance indicates that the bank is meeting the credit needs of its AA. The table on the next page illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Real Estate Loan Sample	16	80%	\$1,627	74%	4	20%	\$568	26%
Consumer Loan Sample	18	90%	\$149	97%	2	10%	\$5	3%
Business Loan Sample	17	85%	\$301	26%	3	15%	\$1,167	74%
Total Reviewed	51	85%	\$2,077	54%	9	15%	\$1,740	46%

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

Lending to borrowers of different incomes and businesses of different sizes exceeds the standard for satisfactory performance.

Residential Real Estate Loans

The borrower distribution of residential real estate loans to low- and moderate-income families exceeds the demographics of the AA. The following chart illustrates that 25% of the number and 17% of the dollar volume of loans sampled are to low-income families and 30% of the number and 22% of the dollar volume of loans sampled are to moderate-income families. The demographic information indicates that 17% of the families in the AA are low-income and 19% are moderate-income.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	17%		19%		25%		39%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	25%	17%	30%	22%	20%	27%	25%	34%

Consumer Loans

The borrower distribution of consumer loans to low-and moderate-income households exceeds the demographics of the AA. As illustrated in the table on the next page, 25% of the number and 15% of the dollar volume of loans sampled are to low-income households and 35% of the number and 40% of the dollar volume of loans sampled are to moderate-income households. This compares favorably to the demographic information in which 20% of the households in the AA are low-income and 17% are moderate-income.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	20%		17%		20%		43%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	25%	15%	35%	40%	35%	41%	5%	4%

Business Loans

Lending to small businesses exceeds the demographics of the AA. The majority of small businesses located in the AA have revenues less than \$1 million. All loans in our sample are in this category as shown in the table below.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96%	4%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Geographic Distribution of Loans

All three of the bank’s CTs are middle-income. Therefore, an analysis of the geographic distribution of loans among different income geographies is not meaningful.

Responses to Complaints

FNB and the OCC have not received any complaints relating to the bank’s CRA performance since the previous examination.

Fair Lending and the PE

An analysis of public comments and consumer complaint information was performed according to the OCC’s risk-based, fair lending approach. During our evaluation, we found no evidence of illegal discrimination or other illegal credit practices.