



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**February 1, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank of Frederick  
Charter Number 8624**

**314 Main Street  
Frederick, SD 57441**

**Comptroller of the Currency  
North Dakota & NW Minnesota  
3211 Fiechtner Drive SW  
Fargo, ND 58103**

**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**

*First National Bank of Frederick is rated Satisfactory.*

- The bank’s loan-to-deposit ratio (LTD) is reasonable.
- The bank’s lending in its AA meets the standard for satisfactory performance. A majority of the bank’s loans are made within the AA.
- The bank’s record of lending to farm borrowers of different sizes meets the standard for satisfactory performance.

## DESCRIPTION OF INSTITUTION

First National Bank of Frederick (FNB) is located in the city of Frederick, Brown County in northeastern South Dakota. FNB does not have any branches or automated teller machines (ATMs). FNB’s assets total \$13 million as of December 31, 2004. There have been no acquisitions or mergers since the previous CRA evaluation.

The bank remains conservative in its business strategy and lending philosophy. FNB offers traditional banking products. The bank is primarily an agricultural lender. Net loans represent 33% of total bank assets. Tier One Leverage Capital for the bank is 17% of average assets, or \$2.2 million as of December 31, 2004.

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>%</b>
Farm Loans	3,730	81
Business Loans	689	15
Consumer Loans	161	4
<b>Total</b>	<b>\$4,580</b>	<b>100%</b>

\*Source: December 31, 2004 Call Report

There are no legal impediments that would restrict the bank’s ability to meet the credit needs of the community. The evaluation period is from July 28, 1999 to December 31, 2004. The most recent CRA rating was “Satisfactory”, dated July 27, 1999.

## DESCRIPTION OF FNB’S ASSESSMENT AREA

FNB’s assessment area (AA) includes the northwest quarter of Brown County, South Dakota and the western portion of Dickey County, North Dakota. The AA consists of census tract (CT) 9512 in Brown County and CTs 9733 and 9734 in Dickey County. All of the CTs are designated as middle-income areas. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate- income areas.

The bank’s AA is dependent on agricultural operations. Employment opportunities outside of the agricultural industry are located in the surrounding areas. The economy remains relatively stable with low unemployment, yet it is greatly influenced by changes in agricultural conditions.

During our evaluation we contacted a local community organization to better understand the AA demographics and to determine the primary credit needs of the AA. We also relied on previous

community contacts made by this agency and other governmental agencies. The top credit needs of the AA remain farm loans.

## LOAN SAMPLING

The bank's primary loan product was determined by taking all loans originated during the evaluation period with an outstanding balance as of December 31, 2004. The following table depicts the number and volume of loans.

Loan Products	#	%	\$ (000)	%
Farm Loans	89	74	3,452	84
Business Loans	16	13	614	15
Consumer Loans	15	13	61	1
<b>Total</b>	120	100	4,127	100

\* Source: Loans originated during the evaluation period with outstanding balances as of 12/31/04.

For the purposes of this evaluation, the primary loan product is farm loans. As demonstrated in the above table, farm loans account for 84% by volume and 74% by number. Business loans are considerably less at 15% by volume with only 13% by number. Community contacts continue to identify farm loans as the primary credit need of the community.

To conduct our analysis, we reviewed a sample of twenty farm loans. The twenty farm loans totaled \$3,451,880. After initial sampling to determine the bank's lending within the AA, additional files were selected so all loans sampled were made within FNB's AA.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the assessment area needs, area population, and local economic conditions. The bank's loan-to-deposit ratio has remained stable since the last CRA examination. During the past twenty quarters ending September 30, 2004, the average quarterly loan-to-deposit ratio remains at 40%.

FNB's loan-to-deposit ratio appears low, but is considered reasonable. As discussed in the prior CRA examination, the loan-to-deposit ratio remains reasonable based on the following reasons:

- The AA does not contain any other banks that are similarly situated. Competition is limited to the Aberdeen area, which is located approximately 30 miles south of Frederick;
- FNB is located in a sparsely populated area with fewer farmers/ranchers than most areas in northeastern South Dakota and southeastern North Dakota. Farmers and ranchers continue to be the bank's primary customer base; and
- Frederick's population is aging, therefore requiring limited lending services. As the community contact indicated, farm loans remain a credit need of the community. Based on

the volume of farm loans, FNB is meeting the need.

### Lending in Assessment Area

FNB makes a majority of its loans to farm operations within the AA. Based on a sample of twenty farm loans, 90% by number and 89% by volume were within the AA as demonstrated in the following table.

Lending in FNB's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Farm Loans	18	90	2	10	20	1,043	89	128	11	1,171

Source: Sample of farm loans.

### Lending to Farms of Different Sizes

The bank's record of lending to farms of different sizes meets the standard for satisfactory performance. All farm loans sampled, with the exception of three, were to farms with revenues under \$1 million. Revenue information was not available for the three exceptions. As the table reflects, FNB did not make any loans to farms with revenues greater than \$1 million. Therefore, it appears reasonable the three loans without revenue information were to farms with revenues less than \$1 million. Based on this information, FNB's lending to farm operations with revenues under \$1 million meets the demographics of the AA. The following table illustrates FNB's lending to farm operations.

Borrower Distribution of Loans to Farms in FNB's AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98	1	1	100%
% of Bank Loans in AA by #	85	0	15	100%
% of Bank Loans in AA by \$	76	0	24	100%

Source: Loan sample.

### Geographic Distribution of Loans

Geographic distribution of loans was not completed since the bank's AA does not contain any low- or moderate-income CTs; therefore an analysis of geographic distribution is irrelevant.

### Responses to Complaints

FNB has not received any CRA related complaints during the evaluation period.

## **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.