



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 10, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 21793
109 North St. Paul Avenue
Fulda, Minnesota 56131

**Office of the Comptroller of the Currency
Sioux Falls Field Office
300 North Dakota Avenue, Suite 504
Sioux Falls, South Dakota 57101**

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 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 **First National Bank, Fulda, Minnesota**, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **February 10, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- First National Bank meets the credit needs of the community, as demonstrated by its average loan-to-deposit ratio of 76.5% since the bank's prior CRA examination.
- A majority of loans by both number (81%) and by dollar volume (70%) are located within the bank's defined assessment areas.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers), small farms, and businesses of various sizes.
- Geographic distribution of loans throughout the assessment areas is reasonable.

DESCRIPTION OF INSTITUTION

First National Bank (FNB), Fulda, Minnesota is a \$98 million wholly-owned subsidiary of Fulda Bancorporation, Inc. The bank's main office is a full-service facility located in downtown Fulda. Other full-service branch locations include: Slayton, Lakefield, Spring Valley, LeRoy, and Hastings. FNB acquired the Slayton location on August 11, 1995. The bank also has four cash dispensing automated teller machines, located in Fulda, Hastings, Slayton, and Lakefield.

FNB's business focus is consumer, commercial, and agricultural lending. The bank has the following outstanding loans by dollar volume on September 30, 1997: commercial (41%), agricultural (27%), consumer (22%) and residential real estate (10%).

FNB received an "Outstanding" rating at its June 21, 1995, CRA examination. There are no legal impediments or other factors, including the financial condition of the bank, which limit its ability to perform in accordance with CRA regulations.

DESCRIPTION OF ASSESSMENT AREAS

FNB has identified three separate assessment areas, two of which are rural areas. The Fulda/Slayton/Lakefield assessment area includes Cottonwood, Jackson, Murray, and Nobles Counties in Minnesota. The Spring Valley/LeRoy assessment area includes all of Fillmore and Mower Counties in Minnesota and parts of Howard and Mitchell Counties in Iowa. Populations of these assessment areas are about 54,000 and 67,000 persons, respectively. Major industries include agriculture and light manufacturing. No part of these two assessment areas is located in a metropolitan statistical area (MSA).

The 1997 non-MSA median family income (MFI) is \$38,400 for Minnesota and \$39,200 for Iowa. The following summarizes the income levels of individual block numbering areas (BNAs) and families located within the bank's two non-MSA assessment areas:

	<u># BNAs</u>	<u>Percentage of Families</u>
Low Income (<50% Non-MSA MFI)	0	18%
Moderate Income (50-79%)	1	20%
Middle Income (80-119%)	34	26%
High Income (120+%)	1	36%

DESCRIPTION OF ASSESSMENT AREAS (Continued)

The Hastings assessment area includes a small portion of Dakota County, Minnesota. This county is included in the Minneapolis/St. Paul MSA, which has a 1997 median MSA family income of \$57,300. The assessment area contains seven census tracts, six of which are middle income. The remaining tract consists of a veterans home; therefore, income information is not applicable. Income by percentage of families in this assessment area is similar to that of the two preceding assessment areas: 15% low income, 20% moderate income, 32% middle income, and 33% upper income.

Population of the Hastings assessment area is about 25,000 persons. Many residents of this growing bedroom community commute to the Twin Cities and neighboring suburbs for employment. Housing construction is strong to accommodate and attract growth.

FNB's three assessment areas meet all regulatory requirements and do not arbitrarily exclude any low- or moderate-income areas.

We did not identify any unmet credit needs in any of FNB's assessment areas. Community contacts and other information indicate a relatively strong, stable state-wide economy and many financial institutions willing and able to provide all types of credit.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio:

FNB's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's net LTD ratio averaged 76.52% from June 30, 1995, through September 30, 1997. FNB's net LTD ratio is on a steadily increasing trend over the last six quarters, and totals 86% at September 30, 1997.

FNB's ratio compares favorably with other community banks of similar asset size (<\$200 million) in the assessment areas. Those 36 other similarly-situated banks had net LTD ratios averaging 73% and ranging from 32% to 92% at September 30, 1997.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

Lending in Assessment Areas:

FNB originates a majority of its loans to borrowers located within its defined assessment areas. Of loans originated in 1997, about 81% by number and 70% by dollar volume were made to individuals, businesses, and farms located within the assessment areas. The following table shows loans originated inside the assessment areas by dollar volume:

	<u>Non-MSA Areas</u>	<u>MSA Areas</u>	<u>Combined Areas</u>
Consumer	89%	43%	71%
Commercial	34%	78%	48%
Agricultural	95%	100%	95%
Residential	97%	66%	78%
Total	75%	59%	70%

The bank purchases a significant volume of commercial loan participations from affiliate banks and indirect consumer loans from the Twin Cities. These practices moderately reduce the percentages of loans originated inside the assessment areas.

We used bank-generated reports to determine the location of loan customers. We verified this data for accuracy.

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

Overall, the distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

FNB affirmatively lends to low- and moderate-income consumer loan applicants within the assessment areas. Lending levels exceed demographic percentages. Examiners sampled 15% of non-MSA and 8% of MSA consumer loans originated in 1997.

	<u>% of Non-MSA Consumer Loans</u>	<u>% of Families</u>	<u>% of MSA Consumer Loans</u>	<u>% of Families</u>
Low Income	18%	18%	15%	15%
Moderate Income	40%	20%	30%	20%
Middle Income	20%	26%	37%	32%
High Income	22%	36%	18%	33%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes (Cont.):

The bank's residential real estate lending patterns are reasonable. Lending to low-income borrowers does not meet community demographics, but many low-income applicants do not qualify for the amount of credit needed to purchase a home. Lending to moderate-income borrowers is especially strong in the Hastings assessment area. This is important as housing costs in Hastings well exceed those in the rural assessment areas. Examiners reviewed 100% of originated residential loans included on the bank's 1997 Home Mortgage Disclosure Act - Loan Application Register (HMDA-LAR). We verified the bank's HMDA-LAR for accuracy.

% of	% of Non-MSA	% of	% of MSA	
	<u>Residential Loans</u>	<u>Families</u>	<u>Residential Loans</u>	<u>Families</u>
Low Income	9%	18%	4%	15%
Moderate Income	17%	20%	46%	20%
Middle Income	43%	26%	19%	32%
High Income	31%	36%	31%	33%

Our review did not identify any substantive violations of antidiscrimination laws and regulations. Fair lending policies, practices, training, and review systems are good.

FNB lends to farms and businesses of all sizes, with special emphasis on small farm lending. Demographic data from those farms and businesses reporting revenues shows that 97% of farms and 88% of businesses in the assessment areas have annual revenues of less than \$1 million. We used loan size as a proxy for farm and business size, after verifying that there is a positive correlation between loan amount and borrower size. Information below is as of June 30, 1997:

Original <u>Loan Amount</u>	Farm Loans	Farm Loans	Business Loans	Business Loans
	<u>By Number</u>	<u>By Dollars</u>	<u>By Number</u>	<u>By Dollars</u>
<\$ 100,000	89%	54%	79%	15%
\$ 100,000-\$ 250,000	9%	38%	6%	7%
\$ 250,000-\$1 million	2%	8%	13%	50%
>\$1 million	0%	0%	2%	28%

Again, the bank's practice of purchasing large commercial loan participations is reflected in the number and dollar volume of business loans with original amounts over \$250,000.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

Geographic Distribution of Loans:

Geographic distribution of loans in the Spring Valley/LeRoy assessment area is reasonable. This assessment area contains one moderate-income BNA (#4.10), which is located in the city of Austin, Minnesota. Austin is comprised of a total of seven BNAs. FNB originated only one loan in Austin in 1997, and it was not located in BNA #4.10. This is reasonable given that Austin is located approximately 30 miles from both the Spring Valley and LeRoy offices. There are several other financial institutions in or near Austin to serve the needs of that community.

Geographic distribution analysis for the Fulda/Slayton/Lakefield and Hastings assessment areas is not meaningful since the BNAs and census tracts in those areas are homogenous (all middle income).

Response to Complaints:

The bank has not received any CRA-related complaints since the last CRA exam.