



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 26, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Starbuck
Charter Number 9596

100 W. 5th Street
Starbuck, MN 56381

Office of the Comptroller of the Currency

Minneapolis (Alexandria) Field Office
1309 Highway 29, North P O Box 849
Alexandria, MN. 56308-0849

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.

First National Bank of Starbuck's (FNB) lending performance reflects a satisfactory response to community credit needs. Factors contributing to this rating include the following:

- The loan-to-deposit ratio is reasonable.
- The majority of loans originated are within the bank's assessment area (AA).
- The bank's record of lending to borrowers of different incomes and businesses and farms of different sizes is excellent.

SCOPE OF EXAMINATION

The examination focused on reviewing loans to determine the institution's performance in meeting the credit needs of the assessment area. Specifically, loans were analyzed to determine the amount of lending in the AA and the distribution of lending among businesses of different sizes and borrowers of different incomes. The bank's loan-to-deposit performance was also evaluated to help determine the bank's willingness to extend credit.

The period of time addressed in this evaluation is January 1, 2008 through July 19, 2010. The bank's primary loan types were determined by taking all originated loans for the period since January 1, 2008 with an outstanding balance on July 19, 2010.

For the purpose of this evaluation, FNB's primary loan types are commercial, agriculture and consumer loans. These products are consistent with the credit needs of the AA. The table below shows loans to finance agriculture production were combined with farmland since these types of loans are originated to similar borrowers. Commercial and industrial loans were combined with commercial real estate loans and reviewed as one category since these loans are originated to similar borrowers.

Loan Products	#	%	\$(000's)	%
Agriculture Loans (including real estate)	42	36%	1,874	35%
Commercial Loans (including real estate)	26	22%	2,377	44%
Consumer Loans	34	29%	327	6%
Residential Real Estate Loans	16	13%	836	15%
Total	118	100%	5,414	100%

Three loan types were sampled as these represent a majority of FNB's loan portfolio. Commercial loans are the largest category of loans originated by dollar while agriculture

and consumer loans are the largest category of loans by number of loans originated. To conduct our analysis we reviewed all of the loans with an outstanding balance on July 19, 2010 that originated during the evaluation period. Only loans originating in the AA were analyzed for the criterion “Lending to Borrowers of Different Incomes and Businesses of Different Sizes”.

DESCRIPTION OF INSTITUTION

The First National Bank of Starbuck (FNB) is a \$17 million financial institution with its main office in Starbuck, Minnesota, which is located in Pope County in central Minnesota. The bank has no branches and operates one cash dispensing automatic teller machine. FNB is owned by Starbuck Bancshares, a one-bank holding company located in Starbuck, Minnesota. There have been no acquisitions or mergers since the previous CRA examination. The bank does not have any affiliates that were considered as part of this performance.

The bank’s loan portfolio is diverse. As of June 30, 2010, the composition of the portfolio is as follows:

Loan Portfolio Composition	\$ (000)	%
Farm Loans (including real estate)	1,861	18%
Business Loans (including real estate)	6,387	62%
Residential Real Estate Loans	1,646	16%
Consumer Loans	368	4%
Total	10,262	100%

Source: June 30, 2010 Call Report

FNB offers a wide variety of financial products and services and its lending focus is on loans to small businesses, small farms and consumer loans. These products are suited to the banking needs of the AA.

Net loans represent 61% of total assets. FNB’s Tier 1 Leverage Capital is 11.12% of average assets, or \$1.9 million. Other than the legal lending limit, there are no legal or financial impediments that would restrict the bank’s ability to meet the credit needs of the community.

FNB was rated “Satisfactory” at the last CRA examination dated January 3, 2005.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB’s assessment area (AA) includes four contiguous census tracts (CTs) located in Pope County of Minnesota. Based on the 2000 census information, the AA includes four middle income CTs; there are no low- or moderate-income tracts in the AA. All of the CTs in Pope County are considered distressed due to population loss.

The AA meets the requirements of the regulation, and does not exclude any low- or moderate-income geographies. Cities in the AA include, but are not limited to, Starbuck, Glenwood, Lowry, Cyrus and Villard. Based on the 2000 census, the community of Starbuck has a population of 1,314. The community of Glenwood is the largest city in the AA with a population of 2,594.

The AA is predominantly rural in nature, and agricultural production plays a significant role in the AA's economy. Many local farmers had a successful year in 2009 and prospects are good for 2010. The local population is generally aging. Major employers are local government, schools, hospitals, agriculture supported businesses and light manufacturing. Local businesses have been impacted by the national recession.

Primary competition in the AA includes five area banks, a branch of a large financial institution in Alexandria, MN and a credit union. The bank also identifies AgCountry Farm Credit Services as the primary competitor for farm loans.

Based on 2000 Census data, the following is a breakdown of Pope County industries employing over five percent of total employees in the county: Health care and social assistance (16%), Manufacturing (15%), Agriculture (12%), Retail trade (11%), and Education (8%).

During our evaluation, we contacted a member of the bank's AA to gather perceptions on credit needs and performance of local banks in meeting those needs. Bank management was also interviewed to help evaluate current economic conditions and assess the manner in which the bank is responding to credit needs of the AA. Based on information from bank management and the community contact, consumer, business and agricultural credit are the primary credit needs within the AA. The community contact indicated that the lending emphasis of the local banks is consistent with the credit needs of the AA.

The demographics of the AA are illustrated in the table below. The information is based on 2000 census data unless otherwise indicated.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Population	11,236
Number of Families	3,102
Number of Households	4,520
Number of Low-Income Families	552
% of Low-Income Families	17.79%
Number of Moderate-Income Families	668
% of Moderate-Income Families	21.53%
Number of Middle-Income Families	872
% of Middle-Income Families	28.11%
Number of Upper-Income Families	1,010
% of Upper-Income Families	32.56%
<i>Geographies</i>	
Number of Census Tracts	4
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$45,608
2009 HUD-Adjusted MFI	\$58,500
<i>Economic Indicators</i>	
April 2010 Unemployment Rate	6.5%
Median Housing Value	\$80,616
% of Households Below Poverty Level	10.42%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance given the size, financial condition, assessment area needs, and local economic conditions. Since the last CRA evaluation, the bank's average quarterly LTD ratio was 72%.

A comparison to the other four similarly situated banks in the AA shows FNB is ranked fifth of five banks. These banks are the bank's primary competitors. While FNB's LTD ratio is low in comparison to these banks, it is still considered reasonable because of the strong competition for loans. The quarterly LTD ratios for these banks range from 72% to 113%. The following table illustrates the total assets and LTD ratios for these

banks.

Institution	Assets in 000's as of 3/31/10	Average LTD Ratio
Glenwood State Bank, Glenwood, MN	\$117,937	112%
Eagle Bank, Glenwood, MN	\$95,251	105%
Lowry State Bank, Lowry, MN	\$36,166	103%
Hometown Community Bank, Cyrus, MN	\$25,694	78%
<i>First National Bank of Starbuck, Starbuck, MN</i>	\$17,985	72%

Source: Reports of Condition (9/30/04 through 6/30/10)

Lending in Assessment Area

FNB meets the standards for satisfactory performance for lending within its AA with a majority of the number of loans originated inside the AA. Eighty-two percent of the number and 45% of the dollar volume of loans are originated in the AA. We used our sample of agriculture, commercial and consumer loans to determine the bank's lending patterns. The following table illustrates the lending activity within the AA during the evaluation period.

Lending in Pope County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture	38	90%	4	10%	42	1,588	81%	376	19%	1,964
Commercial	16	64%	9	36%	25	301	13%	2,067	87%	2,368
Consumer	27	84%	5	16%	32	112	81%	27	19%	139
Totals	81	82%	18	18%	99	2,001	45%	2,470	55%	4,471

Source: Loan Sample

The low percentage of the dollar volume of small business loans in the AA is skewed by four loans in the sample totaling \$1,542,151 that are located outside the AA. Therefore more weight is given to the number of loans that were made within the bank's AA. FNB's overall performance is reasonable.

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

FNB's lending to borrowers of different incomes and businesses and farms of different sizes is excellent and exceeds the standard for satisfactory performance. FNB's lending performance in each of the categories analyzed exceeds the demographics of

the AA. Refer to a discussion of each sample below.

Borrower Distribution of Business Loans

The analysis of small business loans shows that FNB’s performance in lending to small businesses is excellent and exceeds the demographics of the AA. Of the loans originated during our evaluation period, 100% of the number and 100% of the dollar volume are to businesses with revenues under \$1 million. The demographic information indicates that 79% of the businesses in the AA have revenues under \$1 million. Refer to the following table:

Borrower Distribution of Loans to Businesses in Pope County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	79%	4%	17%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample; Dun and Bradstreet data

Borrower Distribution of Farm Loans

The analysis of small farm loans reveals that FNB’s performance in lending to small farms is excellent and mirrors the demographics of the AA. Of the loans originated during our evaluation period, 100% of the number and 100% of the dollar volume are to farms with revenues under \$1 million. The demographic information indicates that 99% of the farms in the AA have revenues under \$1 million. Refer to the following table:

Borrower Distribution of Loans to Farms in Pope County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	99%	1%	0%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample; Dun and Bradstreet data

Consumer Loans

The analysis of consumer loans reveals that FNB’s performance in lending to low- or moderate income consumers is excellent and exceeds the demographics of the AA. The following chart illustrates that 45% of the number of loans sampled are to low-income households and 22% of the loans sampled are to moderate-income households. The demographic information indicates that 25% of the households are low-income and

17% of the households are moderate-income.

Borrower Distribution of Consumer Loans in Pope County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	25%	45%	17%	22%	22%	22%	36%	11%

Source: Loan Sample

Geographic Distribution of Loans

The bank’s AA does not include any low- or moderate-income CTs, therefore an analysis of the geographic distribution of loans would not be meaningful and this performance criterion was not evaluated.

Responses to Complaints

FNB has received no CRA-related complaints during the assessment period.

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.