



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Minneapolis Duty Station
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402

PUBLIC DISCLOSURE

April 20, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank at St. James
Charter Number 14296**

**520 First Avenue South
St. James, Minnesota 56081**

**Office of the Comptroller of the Currency
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

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 (CRA) 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 **The First National Bank at St. James, St. James, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 20, 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.

The bank's overall lending is reasonable. A substantial majority of its lending is within its CRA assessment area. The bank's lending shows good penetration among low- and moderate-income individuals as well as small businesses and farms.

DESCRIPTION OF INSTITUTION

The First National Bank at St. James is a \$20 million bank headquartered in St. James, Minnesota. St. James is the Watonwan County Seat, located in Southwestern Minnesota. It has a population of approximately 4,500 and is the largest community in the county. It has only one office and does not operate any ATMs.

The bank's credit products focus on agriculture and small business. It has 43% of its loan portfolio *dollar volume* in agriculture-related loans, 29% in commercial loans, 12% in residential real estate loans, and 12% in other consumer-related loans. These percentages compare favorably to other banks in the surrounding area.

The bank is primarily owned by First National Agency, Inc., a one-bank holding company. The bank is a full service financial institution. The bank's financial condition, asset size, and product offerings do not limit its ability to meet the community's credit needs. Individuals can refer to the bank's CRA Public File for a list of specific products and services available from the bank.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank's CRA assessment area is all of Watonwan County. This area consists of three Block Numbering Areas (BNAs), all of which are middle-income based on HUD census information. None of these BNAs are in a Metropolitan Statistical Area. Refer to the Public File for a map outlining this assessment area. Watonwan County had a 1990 census population of around 11,000 which has decreased since then. The rural population base is shrinking and moving to either larger communities in the surrounding area or out of the area entirely. St. James' population has increased slightly during this time.

The 1997 Minnesota statewide nonmetropolitan median *family* income is \$38,400. Local economic conditions of Watonwan County revolve around agriculture and agribusiness. In St. James itself, the largest employers include two food processors, a local agricultural services provider, and some light manufacturing firms. County government, retail trade, and health care provide most of the remaining employment opportunities. Based on HUD information, unemployment is very low at 2%.

Examiners made one community contact. This contact was a local realtor. This contact stated that home purchase loans are a primary need for the area, especially within St. James. This need includes both new construction and existing home purchase loans. The St. James housing market is very tight and the local population's movement from its existing homes to new and larger homes needs to continue to progress. Within the assessment area, 69% of the housing units are owner occupied while 23% are rental units.

The City of St. James has developed some areas for new residential construction and all three local financial institutions are involved in residential financing. These other institutions provide strong local competition for this bank. Aside from agriculture, small business, and residential real estate, the other lending opportunities for the area include auto financing and other miscellaneous consumer purposes. This contact did not feel any credit needs are unmet within St. James and the surrounding area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Analysis

The bank's overall lending is satisfactory and reflects a reasonable response to its assessment area's credit needs. Its December 31, 1997 loan to deposit ratio was 45%. This is lower than the other six banks in Watonwan County whose average December 31, 1997 ratio was 77%. This bank's ratio has been fairly stable as the quarterly average ratio since the last CRA examination is 46%.

Lending in Assessment Areas

A substantial majority of the bank's loan originations are to borrowers within its assessment area. Management stated that at least 80% of its lending was within Watonwan County. Examiners sampled 63 loans totaling \$3.2 million that have been originated since April 1996. This included 25 car loans totaling \$112 thousand, 20 agriculture loans totaling \$2 million, and 18 commercial loans totaling \$1 million.

We found that all 25 of the car loans, 18 of the 20 agriculture loans, and 17 of the 18 commercial loans (60 total) or 95% of the number were to borrowers within Watonwan County. We also determined that \$2.9 million or 90% of the dollar volume was to borrowers within Watonwan County.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's lending shows good penetration among low- and moderate-income individuals and small businesses and farms. HUD prepared information for Watonwan County in 1997 shows that 74% of reporting businesses and farms had gross annual revenues less than \$1 million. This information also shows that low- and moderate-income *families* represent a combined 39% of the total number of families.

Examiners again reviewed the loans from within the bank's assessment area mentioned above. We found that 84% of commercial/agricultural loans were to businesses or farms with gross annual revenues less than \$1 million. We also found that 80% of the number of car loans sampled were to either low-income or moderate-income individuals. The following tables break down these findings in more detail:

Agriculture Loans	# of loan originations	% of loan originations
gross revenues < \$100,000	7	39%
\$100,001 to \$250,000	8	44%
\$250,001 to \$500,000	3	17%
\$500,001 to \$1,000,000	0	0%
> \$1,000,000	0	0%
TOTAL	18	100%

The bank's agricultural lending focuses on smaller farms as all 18 of the bank's agriculture loans within the assessment area originated during the past two years were to farms with gross annual revenues less than \$500 thousand.

Commercial Loans	# of loan originations	% of loan originations
gross revenues < \$100,000	6	35%
\$100,001 to \$250,000	3	18%
\$250,001 to \$500,000	4	23%
\$500,001 to \$1,000,000	1	6%
> \$1,000,000	3	18%
TOTAL	17	100%

The bank's commercial lending also focuses on smaller businesses as 14 of the 17 commercial loans in the assessment area originated during the pasts two years were to businesses with gross annual revenues less than \$1 million.

Car Loans	# of loan originations	% of loan originations	% of families at this income level (HUD)
low-income	12	48%	18%
moderate-income	8	32%	21%
middle-income	4	16%	28%
upper-income	1	4%	33%
TOTAL	25	100%	100%

This limited sample of 25 car loans originated in the assessment area from the past two years exceeds the demographic breakdown percentages for Watonwan County and shows excellent penetration among low- and moderate-income individuals.

Geographic Distribution of Lending

Examiners did not conduct an analysis of the geographic distribution of loans within the assessment area as all three BNAs in Watonwan County are middle-income. This analysis would be meaningful if the assessment area included low-income and/or moderate-income geographies.

Response to Complaints

No complaints have been received since the last examination.

Record of Compliance with Antidiscrimination Laws

Examiners found no substantive violations of the antidiscrimination laws and regulations. The bank has appropriate policies, procedures and training programs in place to prevent discriminatory or other illegal credit practices.