



PUBLIC DISCLOSURE

February 01, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of River Falls
Charter Number 7087

104 East Locust Street
River Falls, WI 54022

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3393

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.

The major factors supporting this rating include:

- Lending to borrowers of different income levels reflects reasonable penetration within the bank's assessment area (AA).
- The geographic distribution of loans reflects reasonable dispersion to geographies of different income levels within the bank's AA.
- The bank's average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA.
- The bank originates a substantial majority of loans to customers inside the AA.

SCOPE OF EXAMINATION

We conducted a Community Reinvestment Act (CRA) evaluation of The First National Bank of River Falls (FNB) to evaluate the bank's performance in meeting the credit needs of its community. We assessed FNB's performance from February 15, 2013, to January 31, 2016 (the evaluation period). We focused our assessment on the bank's primary loan products based on the dollar volume and number of loan originations from January 1, 2014, through December 31, 2015 (the sample period). Business and home refinance loans were determined to be the primary products for the bank during the sample period. In terms of dollar volume, approximately 50 percent of loans were business loans, and 13 percent were home refinance loans.

We randomly sampled 60 commercial loans to evaluate lending performance within the AA. We also used the Home Mortgage Disclosure Act (HMDA) loan application register (LAR) data over the sample period to conduct our analysis of home refinances. Prior to conducting this CRA evaluation, we tested the accuracy of the bank's HMDA-LAR data, and determined it to be accurate and reliable. HMDA data was compared to the 2010 U.S. Census demographic data to determine lending performance. Loan sample results were compared to 2014 Business Geodemographic data to determine lending performance. We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation (FDIC) to find similarly situated banks. The most recent deposit information is as of June 30, 2015.

During our evaluation, we contacted a local community leader to discuss the economic conditions of the area and efforts of local financial institutions to meet the credit needs of the River Falls community.

DESCRIPTION OF INSTITUTION

FNB is a \$276 million institution located in Western Wisconsin. FNB has three locations; the main office in River Falls, WI, a branch on the University of Wisconsin, River Falls (UWRF) campus, and a branch in Prescott, WI. The bank also offers a limited service location open half a day bi-weekly in the Wellhaven Senior Apartment complex in River Falls. The bank has four ATMs located in its AA. Two are in the main office, one in the Prescott location, and one deposit-taking ATM located in the UWRF location. FNB is a wholly owned subsidiary of First National Bancorp of River Falls, a one-bank holding company. The bank has not had any mergers or acquisitions since the last CRA evaluation.

FNB is a full service bank that offers traditional products and services. As of December 31, 2015, commercial lending remains the primary focus of FNB. Commercial loans total 60 percent of total loans, residential real estate loans 29 percent, agricultural loans 6 percent, and consumer loans 5 percent. FNB's loan portfolio totaled \$160 million or 58 percent of total assets as of December 31, 2015. FNB sells a high volume of 1-4 family residential loans on the secondary market, as approximately 75 percent of loans originated in 2014 and 2015 were sold. The investment portfolio totaled \$100 million or 36 percent of total assets as of December 31, 2015.

We did not identify any legal, financial, or other factors that would impede the bank's ability to serve the credit needs of its AA. FNB's last CRA evaluation was January 22, 2013, and the bank received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's AA includes Pierce County and the majority of St. Croix County in Wisconsin. Both counties are part of the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). Pierce County is comprised of eight census tracts, and St. Croix has thirteen census tracts. The AA consists of one upper-income, nineteen middle-income, and one moderate-income census tract. The moderate-income tract is located on the eastern border of the AA, opposite of all the bank's locations, which are near the Minnesota border. The AA does not contain any low-income census tracts. The AA includes the census tracts in which the bank has operations, as well as the surrounding census tracts where the bank originates a majority of its loans. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Competition in the bank's AA is strong and includes 16 financial institutions. Per the June 30, 2015, FDIC Market Share Report, FNB has a deposit market share of 13.82 percent, ranking second among the 16 institutions in the AA. The following table shows demographic information for FNB's AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA	
Population	
Number of Families	32,325
Number of Households	44,915
% of Low-Income Families	0%
% of Moderate-Income Families	2.52%
% of Middle-Income Families	92.94%
% of Upper-Income Families	4.55%
Geographies	
Number of Census Tracts	21
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	4.76%
% Middle-Income Census Tracts	90.48%
% Upper-Income Census Tracts	4.76%
Median Family Income (MFI)	
2010 MFI for AA	\$79,201
2014 HUD-Adjusted MFI	\$83,900
Economic Indicators	
2014 Unemployment Rate	5.35%
2010 Median Housing Value	\$219,843
% of Households Below Poverty Level	8.21%

Source: 2010 U.S. Census data with updated information when available

In order to gather current information on the local community and potential lending opportunities, we contacted a community leader. The community contact indicated local financial institutions were meeting the credit needs of the community. The contact noted that economic activities in the AA are positive and increasing. Multi-family housing is in demand due to the large student population and increasing senior citizen population. About 50 percent of the River Falls population is employed around 15-20 minutes away in large corporations such as 3M, Anderson Windows, Delta Airlines, and Ecolab, among others in the Minnesota Twin Cities. Employment in the River Falls area includes UWRF, niche manufacturers, restaurants, and other service companies.

According to the U.S. Bureau of Labor Statistics, the unemployment rate for Pierce and St. Croix County was 3.6 and 3.4 percent, respectively as of November 2015. This compares favorably to the state of Wisconsin at 4.2 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's LTD is reasonable given the bank's size, capacity, financial condition, AA economic conditions, and AA credit needs. The LTD ratio demonstrates a commitment to meet the credit needs of the AA. The bank's quarterly average LTD ratio is 74.45 percent for the 12 quarters beginning January 2013 to December 2015. The ratio ranged from a quarterly high of 77.21 percent in second quarter 2013, to a quarterly low of 70.20 percent in fourth quarter 2015. The following table depicts the average LTD ratios of similarly situated banks in the AA, with total assets ranging from \$157 million to \$276 million. FNB ranks third when compared to these similarly situated AA banks.

LOAN-TO-DEPOSIT RATIO		
Institution (Headquarters)	Assets as of 12/31/15 (\$000s)	Average LTD Ratio (1Q13 to 4Q15)
First American Bank, National Association	\$181,351	87.61%
Citizens State Bank	\$157,033	74.57%
First National Bank of River Falls	\$275,610	74.45%
First National Community Bank	\$193,939	73.92%
Hiawatha National Bank	\$171,725	71.69%

Source: Call Report data as of December 31, 2015.

Lending in Assessment Area

A substantial majority of loans originated by FNB were to borrowers located inside the AA. Based on a sample of the bank's primary products, FNB originated 86.67 percent of loans by number and 87.38 percent by dollar amount inside the bank's AA. The following table details lending activity during the sample period.

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Refinance	150	85.71	25	14.29	175	25,069	87.51	3,578	12.49	\$28,647
Business Loans	19	95.00	1	5.00	20	1,778	83.55	350	16.45	\$2,128
Totals	169	86.67	26	13.33	195	26,847	87.38	3,928	12.76	\$30,775

Source: OCC Loan Sample & HMDA Data from January 1, 2014 – December 31, 2015

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

FNB's lending reflects reasonable penetration to borrowers of different income levels and businesses of different sizes.

Home Refinance Loans

FNB's home refinance lending reflects reasonable penetration to borrowers of different income levels. The number of home refinance loans to low- and moderate-income borrowers meets the combined AA demographics of low- and moderate-income families. Lending to low-income borrowers was below the demographic comparator at 9.16 percent of loans compared to 16.94 percent of families. However, lending exceeded the 4.55 percent of families in the AA below the poverty level. Lending to moderate-income borrowers exceeded the demographic comparator at 22.14 percent of loans compared to 19.63 percent of families. The following table compares the bank's home refinance lending activities by borrower income level in comparison to the AA demographics.

Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Refinance	16.94%	9.16%	19.63%	22.14%	26.76%	31.30%	36.67%	37.40%

Source: Data reported under HMDA; 2010 US Census Data

Business Loans

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. The bank originated 78.33 percent of loans by number to small businesses compared to 80.93 percent of small businesses within the AA. There are 13.97 percent of businesses in the AA that do not report income. It is a reasonable assumption that the majority of these businesses are small based on the discussion with the community contact. The high percent of dollar amount of loans outside the AA was due to one large loan. The following table illustrates FNB's commercial loans to businesses of different sizes.

Borrower Distribution of Loans to Businesses in the AA				
Business Revenues	< \$1,000,000	> \$1,000,000	Not reported	Total
% of AA Businesses	80.93%	5.10%	13.97%	100%
% of Bank loans in AA by #	78.33%	18.33%	3.33%	100%
% of Bank loans in AA by \$	59.13%	39.00%	1.88%	100%

Source: Loan Sample; Dunn & Bradstreet 2014, 2010 US Census

Geographic Distribution of Loans

FNB's lending to moderate-income tracts reflect a reasonable dispersion of loans throughout the AA. The AA does not include any low-income tracts.

Home Refinance Loans

The geographic distribution of home refinance loans reflects a reasonable dispersion of loans throughout the AA. While lending to moderate-income tracts is at 1.53 percent versus the demographic comparator of 2.85 percent, FNB's distance from the census tract and the number of competing institutions make it difficult to originate loans in this tract. The following table compares the bank's residential real estate lending activity by census tract income level to the AA demographics.

Geographic Distribution of Residential Real Estate Loans in the AA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Refinance	0.00%	0.00%	2.85%	1.53%	92.94%	96.95%	4.21%	1.53%

Source: Loan Sample; 2010 US Census Data

Business Loans

The geographic distribution of business loans reflects reasonable dispersion throughout the different income level census tracts. Business lending in moderate-income tracts is below the comparable demographics of the AA. However, the level of businesses in the moderate-income tract is low at 2.19 percent. As noted previously, due to distance and competitive challenges, lending in the moderate-income census tracts is more difficult. The table on the following page compares the bank’s consumer lending activity by census tract income level to the AA demographics.

Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.00%	0.00%	2.19%	0.00%	92.13%	100.00%	5.69%	0.00%

Source: Loan Sample; 2010 US Census Data

Responses to Complaints

FNB has not received any CRA-related complaints since the previous CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.