



## **PUBLIC DISCLOSURE**

November 9, 2015

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

The First National Bank of Osakis  
Charter Number 6837

211-13 Central  
Osakis, MN 56360

Office of the Comptroller of the Currency

222 South Ninth Street  
Minneapolis, MN 55402-3371

**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 bank has reasonable penetration of loans to individuals of different income levels and businesses of different sizes.
- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area.
- The majority of bank loans were originated within the bank's assessment area.

**SCOPE OF EXAMINATION**

We evaluated the Community Reinvestment Act (CRA) performance of The First National Bank of Osakis (FNB) using small bank examination procedures for the period from January 1, 2010, through November 9, 2015. We focused our assessment on the bank's primary lending products based on the dollar volume and number of loans originated between January 1, 2013, and June 30, 2015. Based on our assessment, we determined residential real estate and commercial loans are the bank's primary products. We selected a sample of 20 loans from each of the primary products in order to conduct our analysis.

The following table shows the bank's primary products by loan originations and purchases.

<b>Loan Originations and Purchases from January 1, 2013 through June 30, 2015</b>		
<i>Loan Type</i>	<i>Volume by \$</i>	<i>Volume by #</i>
Residential RE	44%	16%
Commercial	30%	17%
Agriculture	17%	23%
Consumer	9%	44%

*Source: Bank loan origination report for 2013, 2014, and 2015*

**DESCRIPTION OF INSTITUTION**

FNB is a \$62 million bank, headquartered in Osakis Minnesota. The community of Osakis is located in Douglas and Todd Counties in west central Minnesota. In addition to the main office, the FNB has a satellite branch located at the Galeon Senior Living Facility in Osakis, which operates a half day per week. Osakis Bancshares, Inc., a one-bank holding company, owns the bank. FNB operates three non-deposit taking automatic teller machines located at each office and at the Osakis Secondary School. The bank did not open or close any branches during the evaluation period.

FNB is a rural bank that offers traditional banking products and services including commercial, residential real estate, agricultural, and consumer lending products. As of

June 30, 2015, FNB's loan portfolio totaled \$41 million or 67 percent of total assets. The loan portfolio is comprised of residential real estate loans (50 percent), commercial and commercial real estate loans (23.5 percent), agricultural loans (21.5 percent), and consumer loans (5 percent). FNB has \$8 million in Tier One Capital and a Tier One Leverage ratio of 13.04 percent as of June 30, 2015.

There are no legal, financial, or other factors that impede FNB's ability to meet its CRA obligations. FNB received a satisfactory rating at the prior CRA evaluation dated April 12, 2010.

## DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) consists of 3 contiguous census tracts (CTs) in Douglas and Todd Counties, located approximately 55 miles from St. Cloud, Minnesota. All of the CTs in the AA are middle-income. There is no low-, moderate-, or upper-income tracts in the AA. The AA meets the requirements of the regulation and does not exclude any low- or moderate-income geographies. Cities in the AA include Osakis, Nelson, Carlos, West Union, and Forada. These communities are small with the largest being Osakis with a population of 1,737 based on 2010 census information. The total population of the AA is 11,997. The following table shows AA demographic information.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA</b>	
Population	
Number of Families	3,584
Number of Households	4,743
% of Low-Income Families	15.29
% of Moderate-Income Families	17.72
% of Middle-Income Families	28.77
% of Upper-Income Families	38.23
Geographies	
Number of Census Tracts	3
% 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>	
2010 MFI for AA	\$57,683
2015 FFIEC-Adjusted MFI	\$63,600
Economic Indicators	
2015 Average Unemployment Rate	4.10%
2010 Median Housing Value	\$180,125
% of Households Below Poverty Level	6.30

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

The 2015 Federal Financial Institutions Examinations Council (FFIEC) updated median family income is \$63,600. Unemployment rates in the AA are similar to the state average. According to the U.S. Department of Labor Statistics, the 2014 unemployment rate for Douglas County was 3.60 percent and for Todd County was 4.60 percent. These rates compare with the statewide rate of 4.10 percent in 2014.

Competition from other financial institutions in the AA is moderate. Competition among financial institutions exists in communities whose AA overlaps that of FNB. The communities of Alexandria, Sauk Centre, and Long Prairie border FNB's AA and have several financial institutions in each community. FNB is the only bank located in the town of Osakis. FNB has 4.08 percent of deposit market share and ranks tenth for deposit market share among 22 financial institutions within its market according to the June 30, 2015, FDIC Deposit Market Share Report.

We contacted a local government office to gain an understanding of the community including credit needs and opportunities. The contact indicated that the economic condition of the community is fair and stable. The community hosts a wide range of businesses, and business diversity allows the community to weather economic downturns. Major employers in the area include the local school district, Galeon Senior Living, Lind-Rite Precision Engineering, and Hensley Trucking. The contact indicated that the community has to compete for business with nearby larger cities, indicating there is a general credit need for subsidized local business. The contact indicated that FNB is effectively meeting the credit needs of the community and has worked with the city to provide subsidized loans for small local businesses.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable based on its financial capacity and lending opportunities. The quarterly LTD ratio averaged 71 percent in the 22 calendar quarters from January 1, 2010, to June 30, 2015. The ratio ranged from a high of 79 percent during the first quarter of 2015 to a low of 59 percent in the first quarter of 2012. FNB ranked fourth among similarly situated banks with headquarters in the area. Similarly situated banks are those operating in Todd and Douglas Counties with assets ranging from \$50 million to \$250 million. The following table shows FNB's average LTD ratio as compared to similarly situated financial institutions.

<b>Loan-to-deposit Ratio</b>	<b>Assets as of</b>	<b>Average LTD Ratio</b>
<b>Institution (Headquarters)</b>	<b>6/30/2015 (\$000s)</b>	<b>(%)</b>
American Heritage National Bank	\$ 232,594	83.52%
Viking Savings Bank	\$ 165,191	94.36%
Kensington Bank	\$ 147,560	78.05%
The First National Bank of Osakis	\$ 61,257	71.01%

Source: Call Report data as of June 30, 2015.

## Lending in Assessment Area

FNB meets the standard for satisfactory lending performance within its AA. FNB's record of lending within its AA is reasonable. The majority of the loans originated during the evaluation period are located in the AA. Based on a sample of primary products, FNB originated 78 percent by number and 71 percent by dollar of the loans within its AA. The following table shows loan originations inside and outside of the AA by number and dollar volume.

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	13	65	7	35	20	1,305	64	747	36	2,052
Commercial	18	90	2	10	20	564	94	35	6	599
Totals	31	78	9	22	40	1,869	71	782	29	2,651

Source: Loan samples.

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

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

### Residential Real Estate Loans

Distribution of borrowers reflects reasonable penetration among individuals of different income levels given the demographics of the AA. Our sample of twenty residential real estate loans indicated that the percentage of loans to low- and moderate-income individuals meets the percentage of low- and moderate- income families in the AA. FNB's performance in lending to low-income borrowers was significantly above the demographic comparator; while, lending performance to moderate-income borrowers was significantly below the demographic comparator. The following table compares FNB's residential real estate lending activity to the demographics within the AA.

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
Residential Real Estate	15.29	30.00	17.72	5.00	28.77	30.00	38.23	35.00

Source: Loan sample; 2010 US Census Data

**Business Loans**

FNB's borrower distribution reflects reasonable penetration among businesses of different sizes in the AA. FNB's lending activity to businesses with revenues less than \$1 million by number of loans and dollar volume of loans meets the demographics at 90 percent and 72 percent, respectively. Although the bank's percentage of loans by dollar amount to small businesses is below demographic composition, we attribute this to one large dollar loan made to one business with revenues greater than \$1 million. The following table compares FNB's commercial lending activity to the demographic comparators within the AA.

<b>Borrower Distribution of Loans to Businesses in the AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	90.29	2.83	6.88	100
% of Bank Loans in AA by #	90.00	5.00	5.00	100
% of Bank Loans in AA by \$	72.18	20.86	6.96	100

*Source: Loan sample; Dunn and Bradstreet Data 2015*

**Geographic Distribution of Loans**

Geographic distribution analysis is not meaningful as there are no low- or moderate-income census tracts located within FNB's AA.

**Responses to Complaints**

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

**Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) 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.