



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 20, 2011**

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

First National Bank of Menahga & Sebeka  
Charter Number 11740

21 Main Street NE  
Menahga, MN 56464

Office of the Comptroller of the Currency

Minneapolis 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 Outstanding.**

The major factors supporting this rating include:

- A substantial majority of loan originations were made within the assessment area.
- The distribution of loans to borrowers reflects excellent penetration among businesses and farms of different income levels.
- The geographic distribution of loan originations reflects excellent dispersion throughout the assessment area.
- The Loan-to-Deposit Ratio is reasonable.

**SCOPE OF EXAMINATION**

We assessed First National Bank of Menahga & Sebeka's (FNB) record of meeting the credit needs of the local community in accordance with the Community Reinvestment Act (CRA) for the period beginning May 13, 2004 and ending March 31, 2011. In order to determine the bank's lending performance, we selected primary products based on the number of loan originations and dollar amounts for the period beginning January 1, 2009 and ending March 31, 2011. Commercial and agricultural loans were selected as the bank's primary products based on our sample. These represent 35% and 26%, respectively, of all loans originated during our loan sample period. A random sample of 20 loans from each of the primary products was used to evaluate lending performance within the assessment area. We used 2010 Business Geodemographic information for comparison purposes.

**DESCRIPTION OF INSTITUTION**

FNB is a \$77 Million financial institution with the main office located in the city of Menahga in Wadena County in north central Minnesota. The bank has one branch office located in the city of Sebeka, which was acquired from the State Bank of Sebeka in 2005. FNB is wholly owned by Menahga Bancshares, Inc, a one-bank holding company located in Menahga, MN.

FNB's primary focus is agricultural and commercial loans. As of March 31, 2011, the composition of the loan portfolio was as follows:

<b>Loan Portfolio Composition</b>	<b>\$000</b>	<b>%</b>
Commercial Loans	\$16,483	35.07
Agriculture Loans	\$12,009	25.55
Residential Real Estate	\$11,766	25.03
Consumer Loans	\$6,724	14.31
Other Loans	\$19	0.04
<b>Total</b>	<b>\$47,001</b>	<b>100.00</b>

Net loans represent 63% of total assets. The bank's Tier 1 Leverage Capital ratio is 12.13%. Bank management indicates their business strategy is conservative growth in both deposits and in loans.

The bank was rated "Outstanding" at the last CRA examination dated May 12, 2004. There are no legal or financial impediments that would keep the bank from meeting the lending needs of the community.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area (AA) includes ten contiguous census tracts (CT) located in Hubbard, Wadena, Otter Tail, and Becker counties in Minnesota. FNB's AA includes eight middle- and two moderate-income census tracts. There are no upper- or low-income tracts in the AA. The AA meets the requirement of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. Cities in the AA include, but are not limited to Park Rapids, Menahga, Wadena, and Perham.

Competition from other financial institutions is moderate. There are several larger financial institutions located within the assessment area. FNB's market share as of June 30, 2010 is 3.05% per the FDIC Market Share Report. The bank also identified TruStar Federal Credit Union as their primary competition within the local market. TruStar is a \$155 Million credit union with its main office located in International Falls and branches all across north central Minnesota.

The Executive Director of the West Central Economic Development Alliance was contacted to help determine the credit needs of the local community. The contact

indicated the bank is meeting the needs of the local community. Local credit needs include various small business and farm loans.

Information from the Bureau of Labor Statistics indicates the unemployment rate for March 2011 in Becker, Hubbard, Wadena, and Otter Tail County was 9.2%, 11.9%, 11%, and 8.3%, respectively. This is higher than the average unemployment rate for Minnesota of 6.6% and the national unemployment rate of 8.8%. Major industries include tourism and agriculture. A nursing home facility is the major employer in Menahga.

The table below outlines the demographic and economic characteristics of the assessment area. All information is based on 2000 Census information, unless otherwise noted.

<b>DEMOGRAPHICS &amp; ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	9,836
Number of Households	14,192
Number of Low-Income Families	2,302
% of Low-Income Families	23.40%
Number of Moderate-Income Families	2,155
% of Moderate-Income Families	21.91%
Number of Middle-Income Families	2,561
% of Middle Income Families	26.04%
Number of Upper-Income Families	2,818
% of Upper-Income Families	28.65%
<i>Geographies</i>	
Number of Census Tracts	10
% of Low-Income Census Tracts	0.00%
% of Moderate-Income Census Tracts	80.00%
% of Middle-Income Census Tracts	20.00%
% of Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$39,769
2004 MFI for AA	\$45,608
2011 HUD-Adjusted MFI	\$59,201
<i>Economic Indicators</i>	
Unemployment Rate	10.10%
% of Households below the Poverty Line	12.37%

## Loan-to-Deposit Ratio

FNB’s average Loan-to-Deposit ratio (LTD) is reasonable based on the size and lending opportunities available. FNB’s average LTD is 70.75% for the 28 quarters from March 31, 2004 to March 31, 2011. In comparison to six similarly situated banks, FNB’s LTD is average. These banks have total assets ranging from \$40 Million to \$200 Million and are located within the bank’s assessment area. The following table summarizes the average assets and LTD for these comparable banks.

Loan to Deposit Ratio		
Institution	Average Assets (as of 3/31/11)	Average Ratio (1Q04 – 1Q11)
Citizens NB of Park Rapids	\$195,525	89.67
State Bank of Park Rapids	\$87,068	81.74
Wadena State Bank	\$112,711	80.05
United Community Bank	\$197,241	70.76
<b>First National Bank of Menahga</b>	<b>\$76, 539</b>	<b>70.75</b>
First National Bank in Wadena	\$55,169	70.75
Vergas State Bank	\$42,931	54.87

Source: Call Report Data

## Lending in Assessment Area

Lending within the assessment area exceeds the standards for satisfactory performance. A substantial majority of the bank’s loans were originated inside the AA. 97.5% by number of loans and 99% by dollar volume of our sample were originated within the AA. The following table depicts the lending activities within the AA during the evaluation period.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	19	95	1	5	20	359	99.45	2	0.55	361
Agriculture	20	100	0	0	20	350	100	0	0	350
Totals	39	97.5	1	2.5	40	709	99.72	2	0.28	711

## Lending to Businesses and Farms of Different Sizes

Overall, FNB’s lending to businesses and farms of different sizes demonstrates excellent penetration of the AA.

### Commercial Loans

The borrower distribution of loans to businesses indicates excellent penetration. FNB originated 90% by number and 88% by dollar volume to businesses with gross annual revenues under \$1 Million. Although 15% of businesses revenue are unknown, FNB exceeds the demographic, showing 82% of businesses with similar revenues. Refer to the table below for specific information:

<b>Borrower Distribution of Loans to Businesses</b>				
Business Revenue (or Sales)	≤ \$1,000,00 0	> \$1,000,00 0	Unavailable/Unknown	Total
% of AA Businesses	82.07%	3.06%	14.87%	100.00%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100.00%
% of Bank Loans in AA by \$	87.84%	12.16%	0.00%	100.00%

Source: Loan Sample; 2010 Business Geodemographic Data

### Agriculture Loans

The borrower distribution of loans to farms indicates excellent penetration. Our sample indicates 95% of the number and 89% by dollar volume are to farms with revenues under \$1 Million. These percentages are only slightly lower than demographic information. Refer to the table below for additional information:

<b>Borrower Distribution of Loans to Farms</b>				
Farm Revenue (or Sales)	≤ \$1,000,00 0	> \$1,000,00 0	Unavailable/Unknown	Total
% of AA Farms	97.39%	1.90%	0.71%	100.00%
% of Bank Loans in AA by #	95.00%	5.00%	0.00%	100.00%
% of Bank Loans in AA by \$	89.42%	10.58%	0.00%	100.00%

Source: Loan Sample; 2010 Business Geodemographic Data

### Geographic Distribution of Loans

Overall, the geographic distribution of loans indicates excellent dispersion throughout the AA. There were no areas of low penetration in FNB’s lending pattern.

### Commercial Loans

The geographic distribution of commercial loans reflects excellent dispersion of loans originated in the bank’s AA. Business lending within moderate-income census tracts was 45% by number compared to demographic information of 20%. Refer to the table below for specific information:

Geographic Distribution of Loans to Businesses								
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
Commercial	N/A	N/A	19.81	45.00	80.19	55.00	N/A	N/A

Source: Loan Sample; 2010 Business Geodemographic Data

### Agriculture Loans

The geographic distribution of farm loans reflects excellent dispersion of loans throughout different income geographies. Agricultural lending to moderate-income tracts was 30% by number, and significantly exceeds the demographic information of 7%. Refer to the table below for more information:

Geographic Distribution of Loans to Farms								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agriculture	N/A	N/A	7.11	30.00	92.89	70.00	N/A	N/A

Source: Loan Sample; 2010 Business Geodemographic Data

### Responses to Complaints

The bank did not receive any Community Reinvestment Act complaints during the evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices,

inconsistent with helping to meet community credit needs.