



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 11, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of McIntosh
Charter Number: 6488

260 Cleveland Avenue SW
McIntosh, MN 56556

Office of the Comptroller of the Currency

North Dakota & NW Minnesota
3211 Fiechtner Drive, SW
Fargo, ND 58103

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.

We base the First National Bank of McIntosh's (FNB) rating on the following factors:

- The bank's lending in its assessment area exceeds the standard for satisfactory performance. A substantial majority of the bank's loans are made within the assessment area.
- The bank's record of lending to individuals of different income levels, and farms and businesses of different sizes, meets the standard for satisfactory performance.
- FNB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.

DESCRIPTION OF INSTITUTION

The First National Bank of McIntosh (FNB), with total assets of \$24 million as of 12/31/07, is located in Polk County in northwestern Minnesota. The bank has no branches and no automated teller machines. The Beito family group owns 98% of the bank. The family also owns four state chartered banks located in Thief River Falls, MN, Oklee, MN, New Folden, MN, and Gonvick, MN. No acquisitions, mergers, or corporate changes occurred since the previous CRA evaluation.

The bank's loan portfolio is fairly diverse; the composition of the portfolio as of December 31, 2007 is as follows:

Loan Portfolio Composition	\$ (000)	%
Commercial Loans	\$1,454	18%
Agricultural Loans	3,161	39%
Residential Real Estate Loans	2,404	29%
Consumer Loans	1,120	14%

The bank's strategy and lending philosophy is conservative. FNB offers traditional banking products with minimal projected growth. Lending focus is on commercial and agricultural, consumer, and residential real estate loans. As of 12/31/2007, the bank's Tier 1 Leverage capital ratio was 27.84% with loans representing 33% of total bank assets. FNB was rated "Satisfactory" at its previous CRA evaluation dated November 5, 2001.

The bank has no legal impediments that would restrict its ability to meet the credit needs of the community. The bank has a referral arrangement with its affiliate bank in Thief River Falls, MN to process residential real estate loans on the secondary market. Participation in this program is limited due to the lower average price of housing in the area as smaller loans are not conducive for this program.

Description of First National Bank of McIntosh's Assessment Area

FNB's assessment area (AA) includes census tracts (CT) #209 and #210 in Polk County. The census tracts are contiguous and are each designated middle-income. Polk County is part of the Grand Forks and East Grand Forks Metropolitan Statistical Area. The AA is legal, includes whole CTs and does not arbitrarily exclude low- and moderate-income geographies. Cities in Minnesota included in the area are McIntosh, Trail, Fosston, Lengby, Erskine, Oklee, and Mentor.

The demographics of the AA are described below. The information is based on the 2000 census data unless otherwise noted.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	2,006
Number of Households	3,039
Number of Low-Income Families	459
% of Low-Income Families	22.88%
Number of Moderate-Income Families	471
% of Moderate-Income Families	23.48%
Number of Middle-Income Families	474
% of Middle-Income Families	23.63%
Number of Upper-Income Families	602
% of Upper-Income Families	30.01%
% Minority Population	3.40%
<i>Geographies</i>	
Number of Census Tracts	2
% 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	\$38,451
2007 HUD-Adjusted MFI	\$58,200
<i>Economic Indicators</i>	
Unemployment Rate	3.23%
2007 Updated Median Housing Value	\$55,707
% of Households Below Poverty Level	7.68%

The agricultural economy recently experienced high yields combined with high commodity and milk prices. Many of the farms are also supported by a second income source outside the farm. Employment outside of the agriculture industry includes the area school district, county government offices, and service providers. Based on 2000 census data, there were 166 farm businesses and 946 non-farm businesses in the AA. Of the businesses that reported revenues, 95% are small businesses with annual revenues of less than \$1 million. Of the farms that reported revenues, 100% are small farms with annual revenues of less than \$1 million.

Major competitor banks in Minnesota of similar size are located in Erskine, Winger, Fosston, Oklee and Fertile.

During our evaluation, we contacted a local city organization to better understand the AA's demographics and determine the primary credit needs of the AA. Primary credit needs identified by the contact include affordable housing.

LOAN SAMPLING

The bank's primary loan types were determined by taking all loans originated and purchased between 1/1/2005 and 12/31/2007. The following table depicts the number and volume of loans originated:

Loan Products	#	%	\$ (000)	%
Agricultural Loans	128	21%	\$1,764	20%
Commercial Loans	39	6%	\$2,814	31%
Consumer Loans	379	63%	\$2,555	28%
Residential Real Estate Loans	57	9%	\$1,895	21%
Total:	603	100%	\$9,028	100%

For this evaluation, the primary loan types are Agricultural, Commercial, and Consumer loans. Commercial loans account for 31% of dollars originated and 6% of the volume of loans. Consumer loans total 28% of dollars originated and 63% of loan volume. Agricultural loans account for 20% of dollars originated and 21% of loan volume.

To conduct our analysis, we randomly selected a sample of twenty agricultural loans, twenty commercial loans and twenty consumer loans originated between 1/1/2005 and 12/31/2007. We determined the percentage of loans originated within the bank's AA using this initial sample. Additional files were subsequently selected for the analysis of borrower income, and farm and business revenue size.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Five criteria are utilized in evaluating a bank's effectiveness in meeting the financial needs of the consumer and commercial entities located within its assessment area. The five criteria are addressed below. During our evaluation, we sampled loans extended since 1/1/2005, conducted an interview with a community organization, and reviewed the bank's CRA Public File.

FNB's strength is its willingness to lend within its assessment area and lending to low- and moderate-income level borrowers. The bank has a strong capital base, which increases its financial and regulatory ability to extend loans.

Loan-to-Deposit (LTD) Ratio

FNB's LTD ratio is reasonable. Since the previous CRA examination, the bank's average quarterly loan-to-deposit ratio is 45%. The ratio improved from 39% at the last examination. The increase is attributable to slight loan growth since the last examination combined with a stable deposit base. Loan demand is lower due to the less populated area. Low loan demand is also evidenced by the minimal number of denied loan requests since the previous examination.

The following table depicts the LTD ratios of similar size banks that are located in the bank's AA or have overlapping AAs.

LOANS-TO-DEPOSITS RATIO		
Institution	Assets 12/31/07	Average Ratio
Security State Bank of Oklee	\$28 Million	28%
First State Bank of Fertile	\$32 Million	43%
First National Bank of McIntosh	\$25 Million	45%
Crookston National Bank	\$46 Million	56%
American State Bank of Erskine	\$19 Million	74%
Ultima Bank Minnesota, Winger	\$80 Million	98%

Lending in the Assessment Area

The bank lends in its AA. Eighty-eight percent of the number of loans and 53% of the dollar volume of loans sampled are in the bank's AA. The dollar volume ratio is skewed as the bank purchased large portions (participations) of three loans made outside its assessment area that were included in our original sample.

LENDING IN FNB OF MCINTOSH'S ASSESSMENT AREA (AA)										
LOAN TYPE	Number of loans					Dollars of Loans				
	Inside AA		Outside AA		Total #	Inside AA		Outside AA		Total \$ (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Agricultural	18	90%	2	10%	20	\$1,368	93%	\$110	7%	\$1,478
Commercial	16	80%	4	20%	20	\$520	24%	\$1,665	76%	\$2,185
Consumer	19	95%	1	5%	20	\$105	98%	\$2	2%	\$107
Total reviewed	53	88%	7	12%	60	\$1,993	53%	\$1,777	47%	\$3,770

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

The bank's efforts to lend to individuals of different income levels and businesses of different sizes are reasonable.

Consumer Loans

Consumer lending to low- and moderate-income levels exceeds the standards for satisfactory performance. The consumer loan sample reflects that 65% of the number of consumer loans and 58% of the dollar volume of consumer loans were to low-income families, while 25% of the number of consumer loans and 24% of the dollar volume of consumer loans were to moderate-income families. The table below summarizes income levels of consumer loans to the demographics of the AA.

CONSUMER LOANS				
Borrower Income Level	LOW <50% of median family income*	MODERATE At least 50% and < 80% of median family income*	MIDDLE At least 80% and < 120% of median family income*	UPPER >120% of median family income*
% of Households	27%	19%	20%	34%
Number of Loans	13	5	2	0
Percentage Number	65%	25%	10%	0%
Dollar Amount of Loans	\$63,614	\$26,603	\$19,525	\$0
Percentage of Dollars	58%	24%	18%	0%

*Median family income for 2007 is \$58,200.

Farm Loans

The bank's lending practices for small farm loans meet the standards for satisfactory performance. The census data reflects that 99% of the farms in the assessment area had revenues of \$1 million or less. Of the agricultural loans we sampled, 100% had revenues \$1million or less.

Borrower Distribution of Loans to Farms in FNB of McIntosh's AA			
Farm Revenues	≤1,000,000	>1,000,000	Total
% of AA Farms	99%	1%	100%
% of Bank Loans in AA by #	100%	0%	100%
% of Bank Loans in AA by \$	100%	0%	100%

Business Loans

The bank's lending practices for small business loans meet the standards for satisfactory performance. The census data reflects that 94% of the non-farm businesses in the assessment area had revenues of \$1 million or less. Of the commercial loans we sampled, 95% had revenues \$1 million or less.

Borrower Distribution of Loans to Businesses in FNB of McIntosh's AA			
Business Revenues	≤1,000,000	>1,000,000	Total
% of AA Businesses	94%	6%	100%
% of Bank Loans in AA by #	95%	5%	100%
% of Bank Loans in AA by \$	89%	11%	100%

Geographic Distribution of Loans

A geographic distribution of loans in various income level tracts of the bank's AA is not relevant. The bank's AA contains two census tracts, both are middle-income.

Responses to Complaints

FNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices. A fair lending examination was conducted in conjunction with this CRA evaluation. This was a result of FNB being randomly selected for this type of review. There was no evidence of disparate treatment of applicants or violations of fair lending related laws or regulations.