



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

October 1, 2007

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

The First National Bank of Brewster  
Charter Number: 10946

224 10<sup>th</sup> Street  
Brewster, MN 56119

Office of the Comptroller of the Currency  
Sioux Falls Field Office  
4900 S Minnesota Ave, Suite 300  
Sioux Falls, SD 57108

**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 First National Bank of Brewster meets the credit needs of the community, with a reasonable lending level given the bank's size and financial condition.
- A majority of the bank's loans by both number (88 percent) and by dollar volume (92 percent) were made to borrowers located within the defined assessment area.
- The bank actively lends to borrowers of different income and revenue levels, and exceeds community demographics in lending to small farms and low- and moderate-income individuals.

## **SCOPE OF EXAMINATION**

This examination covers CRA-related activities from July 30, 2002 through June 30, 2007. Primary loan products include agricultural loans and consumer loans. Examiners reviewed a sample of 40 loans, including 20 agricultural loans and 20 consumer loans. All of these loans originated between January 1, 2005 and June 30, 2007. Examiners also reviewed the bank's CRA public file and conducted a community contact while onsite.

## **DESCRIPTION OF INSTITUTION**

The First National Bank (FNB) of Brewster is a \$22 million commercial bank located in southwestern Minnesota. The bank's main office is located in its charter city of Brewster, Minnesota. FNB also has a full service branch located in Worthington, Minnesota, approximately six miles southwest of Brewster.

The bank is owned 100 percent by Anita Bancorporation, located in Atlantic, Iowa. Anita Bancorporation is a \$134 million two-bank holding company that purchased FNB in November 2006. FNB's only affiliate is lead bank Rolling Hills Bank and Trust located in Atlantic, Iowa.

FNB originates mainly agricultural and consumer loans, while purchasing commercial loan participations. Agricultural and commercial loans comprise a majority of the dollar volume of the loan portfolio. According to its June 30, 2007 Report of Condition and Income, FNB had net loans representing 45 percent of total assets. The bank's loan portfolio composition is shown in the following table:

| <b>Loan Portfolio Composition - June 30, 2007</b> |                |                    |
|---|----------------|--------------------|
| Type of Loan                                      | Dollars (000s) | Percent of Dollars |
| Agricultural Loans                                | \$4,528        | 45%                |
| Commercial Loans                                  | \$4,334        | 43%                |
| Residential Real Estate Loans                     | \$824          | 8%                 |
| Consumer Loans                                    | \$277          | 3%                 |
| Other Loans                                       | \$92           | 1%                 |
| Total   | \$10,055       | 100%               |

FNB received a “Satisfactory” rating at its July 29, 2002 CRA examination. Since that time, there has been one factor impeding the bank’s ability to meet the credit needs of its assessment area. The bank has been focused in recent years on complying with two regulatory Consent Orders. The August 25, 2005 Consent Order required improvements in asset quality and loan administration. The February 28, 2006 Consent Order required improvements in bank records. The focus on complying with these documents drew attention away from lending efforts. The OCC terminated both Consent Orders on June 21, 2007.

## DESCRIPTION OF ASSESSMENT AREA

FNB's stated assessment area includes Nobles and Jackson Counties in Minnesota. The assessment area encompasses both of the bank's branches, which are located in the cities of Brewster and Worthington. FNB also originates a majority of its loans within Nobles and Jackson Counties.

The bank’s assessment area does not arbitrarily exclude any low- or moderate-income areas. The assessment area is composed of 10 middle-income census tracts. The area complies with regulatory requirements and is reasonable given the bank's size.

According to 2000 U.S. Census Data, the total population of the assessment area is 32,100 persons. The area includes a total of 8,761 families and 12,537 households. The 2000 U.S. Census Data weighted average median family income is \$45,925. The 2006 updated median family income is \$55,100, according to the U.S. Department of Housing and Urban Development. The table below summarizes the composition of assessment area census tracts and families by income level:

| Income Distribution of Geographies and Families |                       |          |           |        |                        |          |        |       |
|---|-----------------------|----------|-----------|--------|------------------------|----------|--------|-------|
| Assessment Area                                 | Number of Geographies |          |           |        | Percentage of Families |          |        |       |
|   | Low                   | Moderate | Middle    | Upper  | Low                    | Moderate | Middle | Upper |
| Nobles & Jackson Counties                       | 0 (0%)                | 0 (0%)   | 10 (100%) | 0 (0%) | 18%                    | 22%      | 28%    | 32%   |

Economic conditions in the assessment area are generally good. Major employers in the area are centered in meat processing, manufacturing, and healthcare. Agriculture is also a major industry in the area. According to U.S. Department of Labor statistics, June 2007 unemployment for Minnesota was equal to the national average of 4.5 percent. Unemployment in Nobles and Jackson Counties is below the national and Minnesota levels at 3.5 percent and 4.3 percent, respectively.

Competition from local financial institutions is strong. In total, there are 15 financial institutions operating in the assessment area. These include nine state banks, four national banks, and two federal savings banks. As of June 30, 2007, FNB ranked 14<sup>th</sup> among these institutions according to asset size. FNB’s market share for deposits in June was 3.05 percent, ranking 13<sup>th</sup> out of 15 banks operating in the area.

Examiners did not identify any unmet credit needs in FNB’s assessment area. A local community contact stated that local banks did a good job of meeting financing needs in the area.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 47 percent for the 21 quarters beginning June 30, 2002 and ending June 30, 2007. This ratio has, however, recently shown an upward trend. Over the three quarters beginning December 31, 2007 and ending June 30, 2007, the bank's net loan-to-deposit ratio has averaged 52.4 percent. The increase is reflective of new ownership's renewed focus on lending.

The bank's net loan-to-deposit ratio is low in comparison to other community banks of similar size in the assessment area. The banks used for comparison were state and national banks operating in Nobles or Jackson Counties with assets less than \$40 million. FNB ranks sixth among six similarly situated banks in the assessment area. The other five banks had quarterly net loan-to-deposit ratios averaging 69.85 percent for the 21 quarters from June 30, 2002 to June 30, 2007, with a range of 55.85 to 93.22 percent.

Two factors have adversely affected FNB's loan-to-deposit ratio during the evaluation period. First, the bank's lending levels dropped significantly while the bank was subject to regulatory Consent Orders. Second, the bank has a high volume of large deposits, including \$2.1 million in local public funds solicited by prior ownership. Adjusting the June 30, 2007 net loan-to-deposit ratio for these deposits results in an improved ratio of 62.29 percent, which is comparable to the 69.85 percent average for similarly situated banks. After consideration for these two factors combined with recent improvements in lending levels under new ownership, the bank's net loan-to-deposit ratio is reasonable.

### Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its defined assessment area. About 88 percent by number and 92 percent by dollar volume were made to borrowers within the bank's assessment area. The table below shows primary product loans originated inside the assessment area by number and dollar volume:

| Lending in Assessment Areas by Number and Dollar Volume |          |                   |                    |                    |
|---|----------|-------------------|--------------------|--------------------|
| Type of Loan  | Number   | Percent of Number | Dollars (000s)     | Percent of Dollars |
| Agricultural  | 17 of 20 | 85%               | \$1,520 of \$1,650 | 92%                |
| Consumer  | 18 of 20 | 90%               | \$72 of \$87       | 83%                |
| Total   | 35 of 40 | 88%               | \$1,592 of \$1,737 | 92%                |

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

The distribution of borrowers reflects strong penetration among farms of different sizes and individuals of different income levels. Lending to small farms exceeds community demographics, and lending to low- and moderate-income individuals significantly exceeds community demographics.

FNB’s agricultural lending in the assessment area to farms with gross annual revenues under \$1 million is 100 percent, exceeding community demographics of 98 percent. The largest volume (80 percent) of these originations was to very small farms those with less than \$250 thousand in gross annual revenues.

The bank’s consumer lending significantly exceeds community demographics for both low- and moderate-income households. The following table compares the bank’s consumer lending activity by borrower income level to community demographics:

| <b>Borrower Distribution of Consumer Loans by Income Level</b> |        |                   |   |
|--|--------|-------------------|---|
| Nobles and Jackson Counties                                    |        |                   |   |
| Borrower Income Level  | Number | Percent of Number | 2000 U.S. Census<br>Percent of Households |
| Low  | 8      | 40%               | 23%                                       |
| Moderate   | 7      | 35%               | 19%                                       |
| Middle   | 4      | 20%               | 22%                                       |
| Upper  | 1      | 5%                | 36%                                       |
| Totals   | 20     | 100%              | 100%                                      |

**Geographic Distribution of Loans**

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle-income census tracts.

**Responses to Complaints**

The bank has not received any CRA-related complaints since the last CRA examination.

**Fair Lending Review**

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