



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 28, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Waseca
Charter Number 6544**

**101 North State Street
Waseca, MN 56093**

**Comptroller of the Currency
Minneapolis South Field Office
920 Second Avenue South Suite 800
Minneapolis, MN 55402**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The bank's average loan-to-deposit ratio is reasonable.
- A majority of loans are in the bank's assessment area.
- First National Bank of Waseca (FNB) has a good distribution of credit among businesses of different sizes and an excellent distribution of credit among consumers of different income levels.

DESCRIPTION OF INSTITUTION

FNB is a \$117 million institution with its main office located in Waseca, Minnesota, a city of approximately 8,000 people. Waseca is located approximately 70 miles southwest of the Minneapolis/St. Paul metro area and is a diverse community with a good employment base including manufacturing, retail, service and agriculture.

Frankson Investment Corporation, a one-bank holding company, located in Waseca, Minnesota, owns the FNB. As of September 30, 2002, Frankson Investment Corporation had assets of \$117 million. The bank does not have any affiliate relationships that impact the bank's CRA performance.

FNB's main office is in Waseca with a deposit-taking branch located on the north side of Waseca and full service branches also located in Ellendale and Hope, Minnesota. All branch locations are within 25 miles of the main bank. The two Waseca locations are located in upper-income tracts and the outlying branches are located in middle-income tracts. The bank has three cash dispensing ATMs. The bank has not acquired or closed any branches since the last CRA examination in December 1998.

The bank offers both telephone and Internet banking to its customers. Both services provide customers with 24-hour access to deposit and loan account information. It also allows the customer to make transfers between accounts, including making loan payments.

FNB offers a wide range of loan and deposit products well suited to the community's needs. The bank also participates in federal and state government sponsored loan programs, which increases the credit options for their customers. As of September 30, 2002, the bank's \$88 million loan portfolio consisted of 44% commercial loans, 36% residential real estate loans, 12% agricultural loans and 8% consumer loans. In 2002 and 2001, the bank sold \$12 million and \$9 million, respectively, in residential real estate loans to the secondary market. As of September 30, 2002, net loans made up 74.64% of total assets. The bank's primary lending focus is commercial and consumer loans. Consumer loans include installments loans, as well as the residential real estate loans that are secured by other than first mortgages.

There are no financial, legal or other factors that impede FNB's ability to meet its CRA obligations. The bank's last CRA rating was a "Satisfactory Record of Meeting Community Credit Needs" dated December 8, 1998.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area includes all of Waseca County, the northern part of Freeborn County (Block Numbering Areas [BNAs] 9801 and 9802) and the southern part of Steele County (BNAs 9605 and 9608). The City of Waseca contains two upper-income BNAs. The remaining BNAs in the assessment area are designated as middle-income geographies. The bank's assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Key demographic information for this assessment area, using 1990 census data, includes seven middle-income BNAs (78%) and two upper-income BNAs (22%). Seventy three percent of the families within FNB's assessment area are located in the middle-income BNAs and 27% of the families are located in the upper-income BNAs. The 1990 census also shows that 18% of the households within the bank's assessment area are low-income, 15% moderate-income, 19% middle-income and 48% upper-income. The 1990 census non-metropolitan areas of Minnesota median family income was \$31,989. Based on the Department of Housing and Urban Development's 2002 estimate, the updated median family income is \$48,500 for non-metropolitan areas in the State of Minnesota.

The 2000 census information pursuant to the US Census Bureau indicates the population of Waseca County has increased by 8% since 1990. Population in Steele County has increased by 9.6% and Freeborn County population decreased by 1.4% since 1990. This is a slower rate than the entire State of Minnesota, which has increased by 12.4% since the 1990 census data.

The 1990 census data indicated the number of households below the poverty level for FNB's assessment area at 9.89%. Based on 1999 information from the U.S. Bureau of the Census, 7.9% of the persons living in the State of Minnesota are below the poverty level. That compares to 6.5%, 6.2% and 8.4%, respectively, for Waseca, Steele and Freeborn Counties. Only portions of Steele and Freeborn Counties are included in FNB's Assessment Area, but the decreases in population and increases in poverty levels for Freeborn County can be attributed at least partly to the declining agricultural economy, which plays an important role in this more rural county.

Unemployment levels in the assessment area tend to be lower than the national average and consistent with the State of Minnesota. Unemployment in Minnesota as of September 2002, is 4%, compared to the national unemployment rate of 5.7% at the same time. Waseca County unemployment rate was 3.9% as of September 2002, and both Steele and Freeborn Counties were at 4.1%, just above the state average, but well below the national average. The area offers good employment opportunities, particularly within Waseca County. The largest employers are Brown Printing with 1,300 employees. Other employers employing more than 200 persons are Itron, Inc., ELM Homes, Inc., Waseca School District, the Federal Correctional Institute, and Johnson Components. The City of Waseca indicated that the number of employees in the City has remained consistent, increasing only by 18 persons during the three-year period from April 1999 through April 2002. The area has lost one employer who employed 50 persons, but the downturn in the economy has affected employment more by employers not expanding or increasing numbers of employees as they had anticipated. Approximately 30% of employees working in Waseca County commute from other areas, such as Mankato; however, there are also a number of Waseca residents that commute into Mankato or to the Minneapolis/St. Paul metro

area.

There are thirteen financial institutions with a presence in FNB’s assessment area. The banks chartered within the assessment area vary in size from \$13 million to \$179 million and offer a wide range of banking products. According to June 30, 2002 deposit information from the Federal Deposit Insurance Corporation, FNB is ranked second in deposit market share in Waseca County with 26.58% of the deposits. Even though FNB only has a partial presence in Freeborn and Steele Counties, the FDIC June 30, 2002 deposit information indicates that FNB is ranked 3rd in deposits with 8.50% of the market share of the combined Waseca, Freeborn and Steele Counties.

The cost of median family housing has increased from the 1990 census information of \$50,107 in FNB’s assessment area to \$87,700 in Waseca County per 2000 census information. Steele County has higher median family housing due to their proximity to the Minneapolis/St. Paul metro area at \$102,300 while Freeborn Counties median housing value is 71,400. Lack of room to expand was indicated as a concern by the City of Waseca representative we contacted. He said that as soon as additional lots are available for new construction, they are almost immediately sold. The City is also involved in development grants to rehabilitate older buildings, including single family residences, multi-family residences and commercial businesses. The area banks have worked with the City to ensure the success of these projects to provide affordable housing for first-time home buyers and lower income persons in Waseca.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank’s size, financial condition and local credit needs. The bank’s quarterly average loan-to-deposit ratio for the 16 quarters since the previous CRA exam is 85.50%. Similarly situated banks have quarterly average loan-to-deposit ratios ranging from 73.90% to 96.67% over the same time frame. Similarly situated banks include the banks with a presence in FNB’s assessment area with total assets between \$36 and \$179 million. The loan-to-deposit ratio does not take into account loans sold by banks on the secondary market, which for FNB totaled \$19 million during 2001 and 2002.

Institution	Assets (as of 9/30/02)	Average Loan-to-Deposit Ratio 4Q98 – 3Q02
JANESVILLE STATE BANK, Janesville, MN	\$ 45 million	73.90
FARMERS STATE BANK, Hartland, MN	\$ 36 million	81.45
FIRST NATIONAL BANK, Waseca, MN	\$117 million	85.50
FARMERS/MERCHANTS BANK, Blooming Prairie, MN	\$ 44 million	87.51
ROUNDBANK, Waseca, MN	\$179 million	89.39
MINNWEST, Tracy, MN (branch in Waseca, MN)	\$175 million	90.25
COMMERCE BANK, Geneva, MN	\$ 49 million	96.67

Lending in Assessment Area

Based on a sample of 20 commercial and 20 consumer loans, FNB originates a majority of its loans to borrowers located within its defined assessment area. The sample determined that of loans originated from December 1998 through December 2002, 75% by number and 65% by dollar volume were made to businesses and consumers located within the bank's assessment area. The following table shows loans originated inside their assessment area by number and dollar volume:

Lending in Assessment Area by Number and Dollar Amount				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Commercial	12	60%	1,899,419	63%
Consumer	18	90%	212,528	85%
Totals	30	75%	2,111,947	65%

Source: Bank records (verified by examiners)

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

FNB has a good distribution of credit among businesses of different sizes. Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to more than a million dollars. A random sample of 20 commercial files indicates the following breakdown of annual revenues.

Lending Distribution Based on Revenue Size of Business			
Revenue Size of Business	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentages of Businesses in Each Revenue Category (per 2002 Business Demographic Data)
Commercial < 1 million in annual sales	90%	51.5%	72%*
Commercial > 1 million in annual sales	10%	48.5%	6%*

*22% of businesses did not report revenues

FNB has an excellent distribution of credit among consumers of different income levels. The following table compares the actual percent of households based on income level located within

the assessment area to those loans made by the bank from the selected loan sample of 20 consumer loans.

Lending Distribution Based on Income Level of Consumer Borrowers			
Borrower Income Level (per 2002 HUD Estimated Median Family Income for non-metro areas of MN)	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Households in each Income Category (per 1990 Census Information)
Low (\$0 - \$24,250)	30%	8.9%	18%
Moderate (\$24,251 - \$38,300)	25%	17.4%	15%
Middle (\$38,301 - \$58,200)	25%	29.3%	19%
Upper (\$58,201 and over)	20%	44.4%	48%

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as none of the BNAs in the bank’s assessment area are defined as low or moderate-income BNAs.

Responses to Complaints

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

Fair Lending Review

An analysis of the most recent public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.