



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank in Montevideo
Charter Number 13086**

**101 South First Street
Montevideo, Minnesota 56265**

**Office of the Comptroller of the Currency
Minneapolis North 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”.

- First National Bank in Montevideo meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 88 percent since the bank’s prior CRA evaluation.
- A majority of loans by both number (80 percent) and by dollar volume (65 percent) are located within the bank’s defined assessment area.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers) and meets community demographics for lending to farm operations of different revenue sizes.
- The bank participates in the Montevideo community’s economic development. The bank funded \$340,000 of a \$680,000 revenue bond that was used to finance the costs associated with the acquisition and completion of an 18-unit multi-family low-to-moderate income rental housing project located within the city of Montevideo, Minnesota.

DESCRIPTION OF INSTITUTION

First National Bank in Montevideo, Montevideo, Minnesota (FNB Montevideo) is a \$160 million commercial bank. The bank’s main office is a full service facility with a drive-up window located in downtown Montevideo. The bank has one full-service branch located in Montevideo. This branch also has a drive-up window and a proprietary deposit-taking automated teller machine (ATM). The bank owns another cash-dispensing ATM located in a grocery store in Montevideo.

FNB Montevideo’s business focus is real estate, agricultural, and consumer lending. According to its Report of Condition and Income, the bank has the following outstanding loans by dollar volume as of December 31, 2002: real estate (57 percent), agriculture (20 percent), commercial (14 percent), and consumer (9 percent). Net loans total 71 percent of total assets.

To draw our conclusions regarding the bank’s performance, we reviewed real estate, agricultural, and consumer loans. We did not review FNB Montevideo’s commercial loan portfolio, as this is not a major product line for the bank. From March 31, 1998 to December 31, 2002, FNB Montevideo originated only 571 commercial loans (13 percent).

FNB Montevideo is 100 percent owned by Klein Financial, Inc., a nine-bank holding company headquartered in Chaska, Minnesota. As of December 31, 2002, total assets of Klein Financial, Inc. exceeded \$1 billion. Affiliated nationally chartered banks are located in Chaska, Waconia, Buffalo, and Madison, Minnesota. Affiliated state chartered banks are located in Victoria,

Young America, Chanhassen, and Big Lake, Minnesota. In 2000, Klein Financial Inc. purchased Hometown Mortgage, a mortgage company. Mortgage loans originated by Hometown Mortgage did not impact the bank’s CRA performance during the evaluation period. The holding company also operates a data center that provides data processing services to the bank.

FNB Montevideo received a “Satisfactory” rating as of its May 4, 1998 CRA evaluation. This Performance Evaluation assesses the bank’s CRA activities from March 31, 1998, through December 31, 2002. There are no financial, legal, or other factors which impede the bank’s ability to meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNB Montevideo identifies its assessment area as Chippewa County, Minnesota, which includes five block numbering areas (BNAs), one BNA in the eastern half of Lac Qui Parle County, Minnesota, and one BNA in the north eastern corner of Yellow Medicine County, Minnesota. The BNA in Lac Qui Parle County includes the townships of Camp Release, Ten Mile Lake, Baxter, Lac Qui Parle, Riverside, and Maxwell. The BNA in Yellow Medicine County includes the townships of Lisbon, Stony Run, Hazel Run, and Minnesota Falls. According to 1990 U.S. census data, the total population of the assessment area is 20,385.

The assessment area complies with regulatory requirements. It includes FNB Montevideo’s main office, branch, and deposit-taking ATMs, as well as a majority of the bank’s loans. The area does not arbitrarily exclude any low- or moderate- income BNAs.

The U.S. Department of Housing and Urban Development’s 2002 updated statewide non-metropolitan area median family income (MFI) estimate for Minnesota is \$48,500. The following table summarizes the income levels of individual BNAs and families located within the bank’s assessment area.

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Number of BNAs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Chippewa County and portions of Lac Qui Parle and Yellow Medicine Counties	0	0	7	0	19%	21%	25%	35%

Source: U.S. census data (1990)

The assessment area has 10 percent of the families reporting income below the poverty level (less than 30 percent of the MFI).

The area's economy is largely dependent on agricultural and various manufacturing industries. Major employers in the Montevideo area are food processors, education, residential construction, and government offices. These employers include: Jennie-O Turkey Store (305), Montevideo Public Schools (300), Friendship Homes (240), and Chippewa County Government (135). Unemployment in Chippewa County is relatively high at 8.4 percent as of January 2003. Unemployment rates are 8.3 percent for Yellow Medicine County and 6.1 percent for Lac Qui Parle County. These rates are all higher than the 5.1 percent unemployment rate for the state of Minnesota.

Competition from other financial institutions is strong. There are three financial institutions chartered in Montevideo, including FNB Montevideo, and a credit union. Twelve financial institutions are chartered in Chippewa, Lac Qui Parle, and Yellow Medicine Counties. The bank is the largest of the three financial institutions in Montevideo and ranks first among the twelve banks in Chippewa, Lac Qui Parle, and Yellow Medicine Counties based on asset size. FNB Montevideo ranks first among the four banks with offices in Chippewa County with a deposit share of 44 percent. Within the assessment area, FNB Montevideo ranks first among the fourteen banks with offices in Chippewa, Lac Qui Parle, and Yellow Medicine Counties with a deposit share of 21 percent.

We did not identify any unmet credit needs in the assessment area through our contact with a local government agency. Our contact indicated that all area banks have expressed a willingness to provide financing to the community, including joint financing programs with governmental agency programs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

Overall, the distribution of borrowers reflects reasonable penetration among farms of different revenue sizes and to individuals of different income levels. Lending to farm operations meets community demographics. Lending to low- income individuals exceeds demographics while lending to moderate- income individuals meets demographics.

Residential real estate lending activity in the assessment area meets the community demographics for low- and moderate-income borrowers. From March 31, 1998 to December 31, 2002, FNB Montevideo originated 884 residential real estate loans totaling \$30.4 million. As of December 31, 2002, \$21.9 million of the \$115.1 million loan portfolio is comprised of residential real estate loans. Examiners sampled 20 residential real estate loans originated in the assessment area totaling \$861,851. The following table compares the bank's residential real estate lending activity by borrower income level to community demographics:

BORROWER DISTRIBUTION OF RESIDENTIAL RE LOANS BY INCOME LEVEL
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Borrower Income Level	Number of Loans	Percent of Loans by Number	Percent of Families within AA
Low	3	15%	19%
Moderate	5	25%	21%
Middle	5	25%	25%
Upper	7	35%	35%
Total	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Agriculture lending activity meets community demographics. From March 31, 1998 to December 31, 2002, FNB Montevideo originated 966 agricultural loans totaling \$23.7 million. As of December 31, 2002, \$22.1 million of the \$115.1 million loan portfolio is comprised of agricultural loans. Examiners sampled 20 agricultural loans totaling \$2.3 million originated in the assessment area. Ninety percent of agricultural loans by number were originated to borrowers with annual gross revenues of less than \$500,000. The agricultural trend in recent years has seen larger farm operations absorbing smaller farm operations due to adverse local economic conditions. The following table compares the bank's agricultural lending activity by revenue size to demographic data.

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number of Loans	Percent of Loans by Number	Agricultural Census Demographics (1997)
< \$50,000	7	35%	40%
\$50,000 - \$100,000	1	5%	17%
\$100,000 - \$250,000	8	40%	27%
\$250,000 - \$500,000	2	10%	11%
> \$500,000	2	10%	5%
Total	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)

Consumer lending activity in the assessment area exceeds the community demographics for low-income borrowers and meets the community demographics for moderate-income borrowers. From March 31, 1998 to December 31, 2002, FNB Montevideo originated 1,693 consumer loans totaling \$13.2 million. As of December 31, 2002, \$7.2 million of the \$115.1 million loan portfolio is comprised of consumer loans. Examiners sampled 20 consumer loans originated in

the assessment area totaling \$146,678. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number of Loans	Percent of Loans by Number	Percent of Households
Low	8	40%	26%
Moderate	3	15%	17%
Middle	4	20%	19%
Upper	5	25%	38%
Total	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Loan-to-Deposit Ratio

FNB Montevideo'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 88 percent over the 19 quarters from March 31, 1998 through December 31, 2002. FNB Montevideo's net loan-to-deposit ratio trend has remained stable and totals 85 percent on December 31, 2002.

FNB Montevideo's quarterly net loan-to-deposit ratio compares favorably with other community banks of similar size (with total assets between \$50 and \$170 million) in the assessment area. FNB Montevideo ranks second among the six banks chartered in the assessment area. The other five similarly-situated banks reported an average quarterly net loan-to-deposit ratio of 80 percent and with average ratios by bank ranging from 59 percent to 96 percent over the 19 quarters from March 31, 1998 through December 31, 2002.

Lending in Assessment Area

FNB Montevideo originates a majority of its loans to borrowers located within its defined assessment area (AA). Of the loans originated from March 31, 1998 to December 31, 2002, approximately 80 percent by number and 65 percent by dollar volume were made to homeowners, farms, and individuals located within the bank's assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT (000s)				
Type of Loan	Number of Loans	Percent of Loans by Number	Dollar of Loans	Percent of Loans by Dollar
Residential Real Estate	14	70%	\$615	71%
Agricultural	18	90%	\$763	58%
Consumer	16	80%	\$110	75%
Total	48	80%	\$1,488	65%

Source: Bank Records (verified by examiners)

Geographic Distribution of Loans

An analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle-income BNAs.

Qualified Investments and Community Development Services

FNB Montevideo carries one qualified loan for the community's economic development. The bank funded \$340,000 of a \$680,000 revenue bond to the Montevideo Economic Development Authority on December 16, 1998. The loan was funded to finance costs associated with the acquisition and completion of an 18-unit multi-family low- to moderate- income rental housing project located on land within the city of Montevideo, Minnesota.

Responses to Complaints

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

Fair Lending Review

An analysis of 1998, 1999, 2000, 2001, and 2002 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. The latest comprehensive fair lending examination was performed in 1998.