



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 29, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Pine City
Charter Number 11581**

**560 East Third Avenue
Pine City, MN 55063**

**Comptroller of the Currency
Minneapolis North
920 Second Avenue, Suite 800
Minneapolis, MN 55404**

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 Pine City (FNB) originates a majority of loans within its assessment area.
- The bank's loan-to-deposit ratio is reasonable given the size, financial condition and the assessment areas credit needs.
- The bank's lending performance to borrowers of different income levels is reasonable for residential real estate loans and excellent for consumer loans.

DESCRIPTION OF INSTITUTION

The First National Bank of Pine City (FNB) is a \$55 million institution located in rural eastern Minnesota. FNB operates one office in Pine City, MN and has one ATM onsite. No branches were opened or closed during this evaluation period.

FNB is owned by Frandsen Financial Corporation (FFC), a multi-bank holding company with full service community banking locations in three states; Minnesota, Wisconsin, and North Dakota. FFC currently has over \$1 billion in assets spread across seven banking charters and 31 offices. In addition, FFC has another \$142 million in assets under management in their trust operations.

FNB is primarily a residential real estate lender. As of March 31, 2007, FNB's loan portfolio totaled \$33 million or 59.3% of the bank's total assets. The loan portfolio was comprised of 68% residential real estate, 20% commercial, 8% consumer, 2% agriculture and 2% land development/other.

FNB received a "Satisfactory" rating at its December 19, 2001 CRA evaluation. There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) consists of four adjacent middle-income census tracts in southern Pine County. Pine City is near the center of the AA and is located about 65 miles north of the Minneapolis/St. Paul metropolitan area. The 2000 U.S. Census population of the AA was 14,529. FNB's AA is not in a Metropolitan Statistical Area (MSA). The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. See following table for family income details.

Family Income Level	Percentage of Families
Low-Income	18.77%
Moderate-Income	19.00%
Middle-Income	25.65%
Upper-Income	36.57%

The economy of the AA is stable. Unemployment levels are higher than state and national levels. According to the Minnesota Workforce Center, unemployment levels in Minnesota as of year-end 2006 were at 4.2%, compared to 7.6% for Pine County. The nationwide unemployment rate as of year-end 2006 was 4.3%. The economy of the area is not well diversified and is dependent primarily on light manufacturing and service industries. Major employers in Pine City include Independent School District 578, Minpack, Inc., Pine Technical College, Lakeside Medical Center, Atscott Manufacturing, Shafer Electronics, Westerman Bus Company and DAKA.

U.S. Census Data for 2000 reports the updated median family income for the AA at \$37,992. The median family income is lower than the statewide median family income of \$47,111. Owner occupied housing represents 65.7% of all housing and median housing value equals \$91,133 in the assessment area. An estimated 11.13% of the households and 7.21% of the families in the AA are below the poverty level.

FNB is located in a highly competitive market. Six financial institutions are located in Pine City and several other financial institutions are located in nearby communities. FNB has 16.91% of the market share in Pine County according to deposit information obtained from the Federal Deposit Insurance Corporation as of June 30, 2006.

We contacted a real estate agent in the AA. The contact indicated that the primary credit needs of the community are retail and that the local financial institutions are meeting these needs. Additionally, the contact indicated the current local lending market was competitive.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given the size, financial condition and the assessment areas credit needs. FNB's quarterly average LTD ratio from December 31, 2001 to March 31, 2007 is 63%. Similarly situated bank's LTD's ranged from 74% to 114% for the same time-period. Similarly situated banks include all banks with total assets between \$55MM and \$158MM as of March 31, 2007, located in the AA. Even though FNB's quarterly average LTD is lower than similarly situated banks, our community contact indicated that credit needs are being met and there is much competition among the financial institutions.

Lending in Assessment Area

FNB originates a majority of its loans within the AA. The bank originated 80% by number and 81.9% by dollar volume of loans in its AA. The bank's ratio of lending in the AA was calculated using a random sample of 20 loans from each of its two primary loan types. Consumer and real estate loans are the bank's primary loan types based on analysis of loan originations since the last CRA examination.

In/Out Lending Analysis	In Assessment Area Number %	In Assessment Area Dollar %
Consumer (Random Sample)	75.0%	76.5%
Real Estate (Random Sample)	85.0%	87.3%
Aggregate Results	80.0%	81.9%

Lending to Borrowers of Different Incomes

FNB's performance for lending to borrowers of different incomes meets the standards for satisfactory performance. To perform our analysis, we reviewed income information for 20 consumer loans and 20 residential real estate loans. The bank's lending to low and moderate consumers in the AA exceeds demographics.

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22.2%	30%	17.2%	25%	20.7%	40%	39.6%	5%

The bank's residential real estate lending performance to borrowers of different income levels exceeds the percentage of moderate-income families living in the AA, but is just below the percentage of low-income families living in the AA.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Loans	18.8%	15%	19%	20%	25.7%	15%	36.6%	50%

Geographic Distribution of Loans

This is not a meaningful analysis because the bank's assessment area consists only of middle-income geographies.

Responses to Complaints

No CRA related complaints have been reported since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

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