

PUBLIC DISCLOSURE

August 30, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Bertha-Verndale
Charter Number: 7373**

**201 2nd Avenue West
Bertha, Minnesota 56437**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P.O. Box 849
Alexandria, Minnesota 56308**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Bertha-Verndale** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 30, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **outstanding**. The following factors highlight the bank's performance:

- C The bank has a very strong loan penetration among businesses and farms of different revenue sizes.
- C The bank originates the vast majority of its loans in moderate-income block numbering areas indicating a willingness to serve the credit needs of the assessment area.
- C The loan-to-deposit ratio is very good and exceeds those of other banks of similar size in the bank's assessment area.
- C The bank originates the majority of its loans within its assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Bertha-Verndale (FNB) is a \$37 million bank located in central Minnesota. The bank's main office is located in Bertha and the branch office is located in Verndale, which is approximately 12 miles northeast of Bertha. The populations of Bertha and Verndale are approximately 500 and 550 respectively. FNB also operates a loan production office in Golden Valley, Minnesota. The bank has an ATM located in a convenience store one block from the Bertha office. FNB is a wholly owned subsidiary of MidWest Bancorporation, Inc., a \$7 million multi-bank holding company headquartered in Hopkins, Minnesota. The holding company also owns West Central Bank chartered in Barrett, Minnesota and Todd County Agency, Inc., a Hopkins, Minnesota holding company. Todd County Agency, Inc. owns an insurance agency and an inactive agricultural credit company.

FNB is a full service institution offering traditional loan and deposit products and services. The bank's primary lending focus is agriculture, with the loan portfolio made up of 43% agriculture production loans and loans secured by farmland. Total loans as of June 30, 1999 are \$27,735,000 or 76% of total assets. The following illustrates the bank's loan mix:

Loan Type	Dollar Volume (000s)	% of Total Loans
Agricultural Loans	\$6,713	24%
Agricultural Real Estate	\$5,267	19%
Commercial & Industrial	\$3,976	14%
Commercial Real Estate	\$2,296	8%
1-4 Family RE	\$2,509	9%
Loans to Individuals	\$2,142	8%
Lease Receivables	\$4,826	18%
Other Loans	\$6	0%
Total	\$27,735	100%

Primary competition in the assessment area (AA) includes Farm Credit Services and several rural community banks. There are no legal or financial factors impeding FNB's ability to help meet the credit needs of the community. The bank received a satisfactory rating at the last CRA examination dated March 14, 1996.

DESCRIPTION OF THE ASSESSMENT AREA

FNB's AA consists of 14 block numbering areas (BNAs) in parts of Otter Tail, Todd, Cass and Wadena Counties of Minnesota. The AA has a population of about 47,900 persons and approximately 12,900 families. The 1999 median family income of the AA is \$41,600. The AA consists of seven moderate-income BNAs and seven middle-income BNAs. There are no low- or upper-income BNAs in the AA. Family incomes within the AA are 30% low, 21% moderate, 23% middle, and 26% upper income. Approximately 16% of the households are below poverty level. The median average home in the AA was built in 1960 with a 1990 average value of \$36,153. Owner occupied units account for 60% of all occupied housing within the AA. The AA complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income areas.

The bank's AA is dominated by agriculture and agriculturally related businesses. In the past several years, this industry has experienced a downturn due to low commodity prices. However, good crop production has helped offset low prices. Milk prices have also remained fairly strong, thus having a stabilizing effect on the local economy. The nonfarm economy is stable with steady employment. The major employers include education providers, government services, and health care providers. Other employers include manufacturing industries and retail trade and services. Unemployment rates are low and stable throughout the AA.

Community contacts indicated most local credit needs are being satisfactorily met by financial institutions throughout FNB's AA. The primary credit needs of the area include agriculture and small business loans and some residential real estate. We conducted or reviewed five community contacts within the bank's AA. The contacts included community economic development organizations and city housing and business development groups.

DESCRIPTION OF SAMPLES

We conducted a review of FNB's lending activities since the last CRA examination by reviewing bank reports and sampling various products. The bank has two main product lines based on the number and volume of loans made. The following table depicts our loan sample of product lines:

	Agricultural (Includes RE)	Commercial (Includes RE)
Number of Total Originations	436	159

	Agricultural (Includes RE)	Commercial (Includes RE)
Sample Size	30	20
% of Total Number Sampled	7%	13%
Dollar Amount of Total Originations (000s)	\$13,185	\$7,433
Dollar Amount of Sample (000s)	\$2,062	\$2,124
% of Dollar Amount Sampled	16%	29%

Source: Loans originated from March 31, 1996 to August 23, 1999.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

FNB has a very good record of lending to small agriculture borrowers and small businesses. Our conclusions are based on a sample of 30 agricultural loan originations and 20 commercial originations made in the AA since the last CRA examination.

FNB has an excellent record of lending to farms of all sizes. Our sample of 30 agricultural loans totaling \$2,062,210 illustrates this record. The following table reflects that 96% by number and 98% by volume of the agricultural loan originations in the AA had gross farm income of less than \$1 million. This compares favorably to the demographics of the farms in the AA. Demographic data from the 1990 census discloses that 88% of the farms in the bank's AA had annual gross farm income of less than \$1 million. Our sample was also skewed toward larger originations as the bank did not routinely collect gross farm income information for small operating and real estate loans which account for a majority of the agricultural portfolio.

Agricultural Loans *		
Annual Gross Sales (000s)	% Number of Loans Sampled	% Dollar Volume Sampled
\$1,000 or less	97%	98%
> \$1,000	3%	2%

Loans originated from March 31, 1996 to August 23, 1999.

The income distribution for small businesses also shows very good penetration in the AA. Our sample of 20 commercial loans totaling \$1,450,426 illustrates this record. The table below shows that 90% by number and 76% by volume of the commercial loan originations in the AA had gross business income of less than \$1 million. This compares favorably to the demographics of the businesses in the AA. The 1990 census data discloses that 70% of businesses in the bank's AA had annual gross income of less than \$1 million.

Commercial Loans *		
Annual Gross Sales (000s)	% Number of Loans Sampled	% Dollar Volume Sampled
\$1,000 or less	90%	76%
> \$1,000	10%	24%

Loans originated from March 31, 1996 to August 23, 1999.

Geographic Distribution of Loans

The geographic distribution of loans reflects an excellent penetration in moderate-income BNAs within FNB's AA. Based on internal bank numbers verified through our sample review, FNB originated 84% of loans by number and 81% by volume in moderate-income BNAs. In comparison, moderate-income BNAs account for only 50% by number and 50% by total population base within the bank's AA. Only one moderate-income BNA had limited lending activity but it is located in the extreme northern portion of the bank's AA with several other financial institutions serving the same territory. The bank does not have a branch within 30 miles of this BNA. The following table illustrates all loan originations made by the bank since the last CRA examination:

BNA Type	% BNAs	% of Population	% Number of Loans	% Dollar Volume of Loans
Moderate	50%	50%	84%	81%

BNA Type	% BNAs	% of Population	% Number of Loans	% Dollar Volume of Loans
Middle	50%	50%	16%	19%

Loans originated from March 31, 1996 to August 23, 1999.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is very good given the bank's size, financial condition, and lending opportunities within the AA. FNB's loan-to-deposit ratio is stable, ratio as of June 30, 1999 was 83%. This ratio is the highest out of ten comparable banks in its AA, with loan-to-deposit ratios for the other banks ranging from 40% to 79% as of the same date. FNB's quarterly average since the last CRA examination is 79% compared to 59% for competitor banks. These banks are similar in size and are FNB's primary competitors.

Lending in the Assessment Area

FNB originates a majority of its loans within its AA. The bank tracks all originated loans inside and outside of its AA. FNB's internal report reflects that the bank has 81% of its loans within its AA by number and 58% by volume. We verified the report for accuracy through our individual loan sample review. Lending within the bank's AA is somewhat impacted by the bank purchasing loans from its affiliate bank and originating loans through its loan production office, both of which are located outside of its AA. FNB's lending activity is illustrated by the following table:

Lending Within the Assessment Area		
	Inside AA	Outside AA
Loans by Number	1,164	265
% of Total Number	81%	19%
Dollar Amount (000s)	\$15,036	\$10,799
% of Dollar Amount	58%	42%

Loans originated from March 31, 1996 to August 23, 1999.

Record of Compliance with Anti-discrimination Laws

Based on our review, the bank is complying with anti-discrimination laws. We found no substantive violations of the fair lending laws.

Record of Response to Complaints

FNB received no complaints concerning its performance in meeting AA credit needs.