

PUBLIC DISCLOSURE

August 9, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Starbuck
Charter Number: 9596**

**100 West Fifth Street
Starbuck, Minnesota 56381**

**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 Starbuck** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 9, 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 **satisfactory**. The following factors highlight The First National Bank of Starbuck=s performance:

- C The loan-to-deposit ratio is reasonable and is comparable to other banks of similar size in its assessment area.
- C The bank originates the majority of its loans within its assessment area.
- C The bank has good loan penetration among businesses, farms, and consumers of different revenue sizes and incomes.

DESCRIPTION OF INSTITUTION

The First National Bank of Starbuck (FNB) is a \$24 million bank located in west central Minnesota in the city of Starbuck, Pope County, MN. FNB has only one office with a drive-up teller window. The bank has an ATM located in a convenience store one block away. FNB is owned by Starbuck Bancshares, a one-bank holding company.

FNB is a full service institution offering traditional loan and deposit products and services. Total loans as of June 30, 1999 are \$15,850,000 or 72% of total assets. The following illustrates the bank's loan mix.

Loan Type	Dollar Volume (000s)	% of Total Loans
Residential Real Estate	\$1,452	9%
Agricultural Loans	\$7,133	45%
Commercial & Industrial	\$5,801	37%
Loans to Individuals	\$1,162	7%
All Other	\$302	2%
Total	\$15,850	100%

Primary competition in the assessment area (AA) includes five area banks, a branch of a large financial institution in Alexandria and Farm Credit Services. There are no legal or financial factors impeding FNB's ability to help meet the credit needs of the community. The bank was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination, December 18, 1996.

DESCRIPTION OF FIRST NATIONAL BANK OF STARBUCK'S ASSESSMENT AREA

FNB's AA consists of four contiguous Block Numbering Areas (BNAs) all in Pope County. Cities in the AA include Starbuck, Glenwood, Cyrus, Villard, and Lowry. The population of the area is approximately 10,800 and stable.

The area median family income is \$24,187 or 58% of the out-state median income of \$41,600. The AA consists of four middle-income BNAs. Family incomes within the AA are: 24% low, 23% moderate, 25% middle, and 28% upper income. Approximately 10% of the population is below poverty level. 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. The nonfarm economy is stable with steady employment. The housing industry is strong with the demand for housing exceeding the local housing stock. Several of the smaller towns in Pope County are becoming bedroom communities for larger cities such as Alexandria and Morris. This has increased demand for housing.

The major employer is the local school district and the Minnewaska Nursing Home. Other large employers include Minnewaska District Hospital, Dy Cast Specialties, and Starbuck Creamery.

The primary credit needs of the area include residential real estate, agriculture, and small business loans. We determined this by contacting a local city government official.

DESCRIPTION OF SAMPLES

We conducted a review of FNB's lending activities by reviewing bank reports and sampling various products. The bank's products include commercial, agricultural, real estate and consumer loans. We determined that the bank has two main products based on the number and volume of loans made since our last assessment period. We also considered the distribution of loans within the loan portfolio. The following table depicts our loan sample.

	Agricultural Farm Loans	Residential RE
Number of Total Originations	537	72
Sample Size	20	20
% of Total Number Sampled	4%	28%
Dollar Amount of Total Originations (000s)	\$13,587	\$2,373
Dollar Amount of Sample (000s)	\$1,102	\$807
% of Dollar Amount Sampled	8%	34%

Source - Loans originated from December 1, 1996 to July 31, 1999.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and lending opportunities within the AA. FNB's loan-to-deposit ratio is stable. The quarterly average since the last CRA examination, December 18, 1996, is **67%**. This ratio ranks the bank fifth lowest out of six banks in its AA with ratios for the other banks ranging from 65% to 86%. These banks are similar in size and are FNB's primary competitors. FNB's loan-to-deposit ratio is low because of strong competition for loans. In addition, the bank does not purchase many loans.

Lending in the Assessment Area

FNB originates a majority of its loans within its AA, as illustrated in the table below.

Lending Within the Assessment Area Loans Sampled		
	Inside the AA	Outside AA
Loans by Number	37	3
% of Total Number	92%	8%
Dollar Amount (000s)	\$2,685	\$131
% of Dollar Amount	98%	2%

* - Loans originated from 12/1/96 to 7/31/99

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

FNB has a good record of lending to individuals of different income levels and to businesses of different sizes. The following tables illustrate lending patterns within the agriculture and residential real estate portfolios.

FNB has a strong record of lending to farms of all sizes. Our sample of 20 agricultural loans totaling \$1,102,000 illustrates this record.

Agricultural Loans *		
Annual Gross Sales (000s)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	50%	20%
\$101 - \$250	25%	34%
\$251 - \$1,000	25%	45%
> \$1,000	0%	0%

* - Loans originated from 12/1/96 to 7/31/99

Our sample of 20 consumer real estate loans totaling \$807,000 and originating from December 1, 1996 to July 31, 1999 shows that FNB is lending to consumers of different levels, including low- and moderate-income borrowers.

Residential Real estate Loans			
Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume of Loans Sampled
Low-Income <50% Median Family Income *	24%	25%	21%
Moderate-Income at least 50% < 80% Median Family Income *	23%	10%	6%
Middle-Income at least 80% <120% Median Family Income *	25%	35%	39%
Upper-Income 120% and > Median Family Income *	28%	30%	34%

* 1999 Updated Minnesota Outstate income \$41,600

Residential real estate lending to moderate-income individuals is low based on our sample of 20 residential real estate loans totaling \$807,000. According to our community contact, homes have been selling above market prices because of the high demand. The level of lending to all income categories is consistent with the area's income demographics and credit opportunities.

Geographic Distribution of Loans

The AA is made-up of middle income BNAs. A distribution analysis would not yield a meaningful conclusion. Based on our sample of 40 loans, the bank is granting credit throughout its AA.

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 area credit needs.