



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**January 3, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank and Trust Co. of Bottineau  
Charter Number 8029**

**424 Main Street  
Bottineau, ND 58318**

**Comptroller of the Currency  
Fargo Field Office  
3211 Fiechtner Drive SW  
Fargo, ND 58103**

**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: Satisfactory**

First National Bank and Trust Company of Bottineau is rated Satisfactory. An institution in this group has a satisfactory record of helping to meet the credit needs of the assessment area it serves, consistent with its resources and capabilities. This conclusion is based on the following results:

- The bank's loan-to-deposit ratio meets the standard for satisfactory performance given the bank's size and financial condition, local economic factors, and lending opportunities within its assessment area.
- The bank originated a majority of its loans inside its assessment area.
- The distribution of loans reflects, given the demographics of the assessment area, more than reasonable penetration among farms of different sizes and individuals of different income levels.

## **DESCRIPTION OF INSTITUTION**

First National Bank and Trust Company (FNB) of Bottineau is a \$98 million wholly owned subsidiary of First Bottineau, Inc., a one-bank holding company located in northern North Dakota. The bank's main office is located in Bottineau, ND, with a paying and receiving station located in Willow City, ND. FNB operates two automatic teller machines (ATMs); one located at a local convenience store and one deposit-taking ATM located outside the main office. Since our last CRA evaluation, the bank closed its Upham, ND paying and receiving station.

FNB is a full service institution offering traditional loan and deposit products, in addition to trust and insurance services. The bank's primary lending focus is agriculture, with over 75% of loan volume comprised of farm loans and loans secured by farmland. Gross loans as of September 30, 2004 were \$47,222,000, representing over 48% of total assets. The following table depicts the loan portfolio composition.

<b>Loan Portfolio Composition (9/30/04)</b>	<b>\$ (000)</b>	<b>%</b>
Farm Loans (including real estate)	35,844	75.9%
Business Loans (including real estate)	5,192	11.0%
Consumer Loans	2,965	6.3%
Residential Real Estate Loans	3,161	6.7%
Other Loans	60	.1%
<b>Total</b>	<b>47,222</b>	<b>100%</b>

*\*Source: Consolidated Report of Condition for 9/30/04*

There are no legal or financial impediments that restrict the bank's ability to meet the credit needs of the community. FNB was rated 'Satisfactory' at the last CRA examination dated May 17, 1999.

## **DESCRIPTION OF FIRST NATIONAL BANK & TRUST CO.'s ASSESSMENT AREA**

FNB's assessment area (AA) consists of three contiguous census tracts (CTs), which represent the eastern half of Bottineau County and the northern half of McHenry County, both located in northern North Dakota. The AA is not located within a metropolitan statistical area (MSA). According to the 2000 census, the population of the AA was 7,827.

Based on the 2000 census, the AA includes only middle-income tracts. There are no low-, moderate-, or upper-income tracts within the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income tracts.

The economy of the AA is highly dependent upon agriculture. Accordingly, the economy of the AA is affected by the year-to-year fluctuations of crop yields and prices. Other employment opportunities include education and health care providers, social services, and retail trade. Information from the Bureau of Labor Statistics lists the 2003 unemployment rates for Bottineau and McHenry Counties as 5.4% and 8.2%, respectively. For the same time period, unemployment rates for the nation and state of North Dakota were 6.0% and 4.0%. After reaching the highest unemployment rates in a decade in 2003, both counties' rates are declining in 2004. The 2000 Department of Housing and Urban Development (HUD) estimated median family income at \$39,651. The number of households below the poverty level is moderate at 13%.

The demographics of the AA are illustrated on the next page.

<b>Demographic and Economic Characteristics of the AA</b>	
<i>Population</i>	
Number of Families	2,155
Number of Households	3,281
Number of Low-Income Families	428
% of Low-Income Families	19.9%
Number of Moderate-Income Families	482
% of Moderate-Income Families	22.4%
Number of Middle-Income Families	498
% of Middle-Income Families	23.1%
Number of Upper-Income Families	747
% of Upper-Income Families	34.7%
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$39,651
<i>Economic Indicators</i>	
2003 Unemployment Rate- Bottineau County	5.4%
2003 Unemployment Rate- McHenry County	8.2%
2000 Median Housing Value	\$46,282
% of Households Below Poverty Level	13%

*\*Source: Information included within the table is based on 2000 U.S. Census data, with updated information when available.*

Primary competition for FNB comes from local community banks and a local credit union. According to the FDIC's 2002 deposit market share report, FNB ranked first locally with a 47% share.

During our evaluation, we contacted a county economic development organization and an agricultural extension office of North Dakota State University to better understand the demographics and primary credit needs of the community. The contacts identified agriculture, consumer, and small business lending as the top credit needs of the community and indicated that local financial institutions are cooperative in meeting these needs.

## **LOAN SAMPLING**

The bank's primary loan types were determined by reviewing all loans originated and purchased during the time period from January 1, 2003 to December 31, 2004. In determining primary loan products, consideration is given to both the number and dollar volume of loans originated and purchased during the allotted time frame. The following table depicts the number and dollar volume of loans originated and purchased.

<b>Loan Products</b>	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>
Farm Loans (including real estate)	1,071	42	40,664	62
Business Loans (including real estate)	294	11	11,084	17
Consumer Loans	1,035	40	5,798	9
Residential Real Estate Loans	177	7	7,771	12
<b>Total</b>	<b>2,577</b>	<b>100%</b>	<b>\$65,317</b>	<b>100%</b>

*\*Source: Loans originated from January 1, 2003 to December 31, 2004.*

For the purpose of this evaluation, we identified the primary loan types as farm loans and consumer loans. Farm loans account for over 42% of the number and nearly 62% of the volume of loans originated. Consumer loans account for 40% of the number of loans originated.

To conduct our analysis, we performed statistically valid sampling techniques in selecting a sample of twenty farm loans and twenty consumer loans. After initial sampling to determine the bank's lending within the AA, additional files were selected so that all loans used in the borrower distribution analysis were made within the AA.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNB's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance given the bank's size and financial condition, local economic factors, and lending opportunities within its AA. Since the last CRA evaluation, the bank's LTD ratio has ranged from 35.17% on June 30, 1999 to 56.57% on September 30, 2004, with a quarterly average LTD ratio of 42.76%.

When compared to six similarly situated banks located in or surrounding the AA, FNB ranked sixth out of seven banks with respect to its LTD ratio. While these institutions are significantly smaller in asset size, they are similarly situated as to customer base and services provided. The following table portrays the bank's LTD ratio compared to similarly situated banks in the area.

<b>Loan-to-deposit Institution</b>	<b>Assets as of 9/30/04 (\$000s)</b>	<b>Average LTD Ratio (%)</b>
State Bank of Bottineau	39,956	71.24
Rolette State Bank	27,810	67.99
Security State Bank	37,459	57.42
People's State Bank of Velva	25,572	56.45
People's State Bank	36,422	49.31
<b>First National Bank &amp; Trust Co</b>	<b>94,187</b>	<b>42.76</b>
Merchants Bank	38,230	30.76

*\*Source: Consolidated Reports of Condition for the evaluation period.*

The lower ratio of this bank is mitigated by several factors. Management attributes their lower LTD ratio to a strong deposit base, lack of loan demand, and competition for agricultural loans. FNB, which is located in a rural agricultural area, is one of the oldest financial institutions in the

area and has experienced a strong loyalty among the community's depositors. The elderly population of the area contributes to the higher deposit base and lack of loan demand. A local quasi-governmental agricultural lender offers lower loan rates and is a significant competitor for the bank's primary loan products.

Over the past year, the bank's LTD ratio is on an increasing trend as displayed in the following table.

Date	Total Loans \$(000s)	LTD Ratio
12/31/03	43,415	50.34%
3/31/04	40,684	45.24%
6/30/04	45,697	53.68%
9/30/04	47,222	56.57%

*\*Source: Consolidated Report of Condition*

### Lending in Assessment Area

FNB's lending within its AA meets the standard for satisfactory performance. A majority of loans are originated within the AA. Over 72% by number and 58% by dollar volume of farm and consumer loans reviewed were within the bank's AA. The following table illustrates lending activity within the AA during the evaluation period.

Lending in FNB's Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm (including RE)	16	80	4	20	20	649,171	59	443,000	41	1,092,171
Consumer	13	65	7	35	20	69,083	51	66,661	49	135,744
<b>Totals</b>	<b>29</b>	<b>72.5</b>	<b>11</b>	<b>27.5</b>	<b>40</b>	<b>718,254</b>	<b>58</b>	<b>509,661</b>	<b>42</b>	<b>1,227,915</b>

*\*Source: Loan sample*

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

Lending to farms of different sizes and borrowers of different incomes exceeds the standard for satisfactory performance.

#### Farm Loans

FNB's lending to farms of different sizes exceeds the standard for satisfactory performance. Lending to farms with revenues less than \$1 million slightly exceeds the demographics of the AA. The following table portrays the bank's lending to farms of different sizes.

Borrower Distribution of Loans to Farms in FNB's Assessment Area
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Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.56	1.46	.98	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

*\*Source: Loan sample; 2000 U.S. Census data*

### Consumer Loans

Consumer lending to low- and moderate-income borrowers significantly exceeds the standards of satisfactory performance. The percentage number of loans to low- and moderate-income borrowers is more than reasonable in comparison to the demographics of the AA. The following table displays the bank's consumer lending pattern to the AA demographic data.

<b>Borrower Distribution of Consumer Loans in FNB's Assessment Area</b>								
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	25.0	40.0	19.8	25.0	18.8	25.0	36.4	10.0

*\*Source: Loan sample; 2000 U.S. Census data*

### **Geographic Distribution of Loans**

The bank's assessment area is comprised of three middle-income census tracts. As there are no low- or moderate-income tracts, an analysis of the geographic distribution of loans is not meaningful.

### **Responses to Complaints**

First National Bank and Trust Co. has received no complaints regarding its performance in meeting the credit needs of the assessment area.

### **Fair Lending or Other Illegal Credit Practices Review**

During our examination, we found no evidence of illegal discrimination or other illegal credit practices.