



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Fairfax
Charter Number 9771**

**18 Southeast First Street
Fairfax, MN 55332**

**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 Outstanding.

The First National Bank of Fairfax has demonstrated outstanding performance in meeting the credit needs of its assessment area. This is best demonstrated by:

- The origination of a substantial majority of agricultural and consumer loans to borrowers located in its assessment area.
- Excellent loan volume, as evidenced by a quarterly average loan-to-deposit ratio that is strong when compared to other local banks of similar size.
- Strong distribution of loans to borrowers of various incomes, especially those with low- and moderate-income.

DESCRIPTION OF INSTITUTION

The First National Bank of Fairfax (FNB Fairfax) is a \$24 million bank located in southwestern Minnesota. FNB does not operate any branches or deposit-taking Automated Teller Machines. There are no legal or financial constraints inhibiting FNB Fairfax's CRA performance or its ability to meet the lending needs of its assessment area. FNB Fairfax received a rating of Satisfactory at the last CRA examination, dated November 30, 1998.

FNB's primary lending focus continues to be agricultural lending. As of March 31, 2003, the bank's net loans to total assets ratio was 58%. The loan mix, based on dollar volume of loans outstanding consisted of 81% agricultural production and farm real estate, 12% commercial and commercial real estate, 6% consumer loans, and 1% loans secured by residential real estate. Our analysis at this examination focused on agricultural and consumer loans as these represent the largest dollar volume of loans outstanding and, in the case of consumer loans, the largest product line in terms of new loan originations.

FNB Fairfax is 100% owned by Fort Ridgely National Bancorporation, a one-bank holding company also located in Fairfax.

DESCRIPTION OF ASSESSMENT AREA

FNB Fairfax has identified its Assessment Area (AA) to be Renville County. The AA is not located in a Metropolitan Statistical Area. The AA consists of six Block Numbering Areas (BNA's), all of which are middle-income. The AA meets the requirements of the Community Reinvestment Act regulation and does not arbitrarily exclude low- or moderate-income geographies. According to 1990 U.S. Census Data, the total population for the assessment area is 17,673 persons. The Department of Housing and Urban Development's (HUD) 1990 Median Family Income for the AA is \$28,933, while the updated 2002 Median Family Income is \$48,500. The following table summarizes the income levels of individual BNA's and families located within the bank's assessment area:

Income Distribution of Geographies and Families							
Number of Block Numbering Areas				Percentage of Families by Income Level			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
0	0	6	0	18%	20%	27%	35%

Competition from other financial institutions operating in the AA is moderate. The Rural American Bank in Hector operates a full-service branch in the city of Fairfax. In addition, several state and national banks and credit unions maintain main or branch offices within Renville County. FNB Fairfax currently maintains a 6% market share of deposits in Renville County.

Economic conditions within the AA are stable. Unemployment is 2.5 percent as of June 30, 2003, which is slightly lower than the average for the state of Minnesota (3.8 percent) and significantly lower than the national average (5.8 percent). The major industry in the AA

continues to be the production of agricultural products, specifically grain crops and livestock. Major employers in the community continue to be the Gibbon-Fairfax-Winthrop school district, the Fairfax Community Home, Schweiss Distributing, and Cherrington Corp. Many of the city's residents travel to nearby communities for employment, specifically Hutchinson Technology in Hutchinson, 3M in New Ulm, and Jackpot Junction Casino in Morton.

Examiners contacted a city official to gain an additional perspective on the AA. The contact indicated that the primary credit needs of the community continue to be small business, small farm, residential real estate loans (primarily refinance and home improvement), and general consumer loans. It was the contact's opinion that the financial institutions in the area are adequately meeting the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Fairfax's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 85.4 percent over the 18 quarters from December 31, 1998 to March 31, 2003.

FNB Fairfax's net loan-to-deposit ratio is strong when compared with other community banks of similar size (total assets less than 65MM) in the assessment area. FNB Fairfax ranks second among a total of eight similarly situated banks chartered in the assessment area. The seven other banks had quarterly average net loan-to-deposit ratios averaging 72.2 percent and ranging from 51.7 percent to 93.8 percent over the same 18 quarters from December 31, 1998 to March 31, 2003.

Lending in Assessment Area

FNB Fairfax originates a substantial majority of its loans to borrowers located within its defined assessment area. Based on a sample of twenty agricultural loans and twenty consumer loans originated between January 1, 1999 and December 31, 2002, the bank originated or purchased 88 percent by number and 91 percent by dollar amount of its loans within its assessment area. The following table shows loans originated inside the assessment area by number and dollar amount:

Lending in Assessment Area by Number and Dollar Amount		
Type of Loan	Percent of Number	Percent of Dollars
Consumer	85%	63%
Agricultural	90%	94%
Total	88%	91%

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

FNB Fairfax's distribution of loans to borrowers of different incomes is more than reasonable and the bank's distribution of loans to farms of different sizes is reasonable.

Consumer lending in the assessment area exceeds the demographics. Examiners sampled twenty loans to borrowers in the bank's assessment area that were originated between January 1, 2000 and December 31, 2002. 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	Percent of Number	Percent of Households in Assessment Area
Low	9	45%	23.5%
Moderate	6	30%	16.3%
Middle	2	10%	21.1%
Upper	3	15%	39.1%
Totals	20	100%	100%

Agricultural lending in the assessment area meets the standard for lending to farms of different sizes. Examiners sampled twenty loans to borrowers in the bank's assessment area that were originated between January 1, 2000 and December 31, 2002. The following table compares the bank's agricultural lending activity by borrower revenue size to community demographics:

Borrower Distribution of Agricultural Loans by Revenue Size			
Annual Gross Revenue	Number	Percent of Number	Business Demographic Data
Less than \$100,000	7	35%	99%
\$100,000 - \$250,000	4	20%	
\$250,000 - \$500,000	7	35%	
\$500,000 - \$1,000,000	1	5%	
> \$1,000,000	1	5%	1%
Totals	20	100%	100%

Geographic Distribution of Loans

An analysis of the geographic distribution of loans in the assessment area is not meaningful as the assessment area contains only middle-income block numbering areas.

Responses to Complaints

Neither FNB Fairfax nor its regulatory agency has received complaints regarding the bank's CRA performance since the last CRA exam.

Fair Lending Review

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