

PUBLIC DISCLOSURE

May 17, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank and Trust Co. Of Bottineau
Charter No. 8029**

**424 Main Street
Bottineau, ND 58318**

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

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 **First National Bank and Trust Co. Of Bottineau (FNB&T)** prepared by the **Office of The Comptroller of the Currency**, the institution's supervisory agency, as of May 17, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

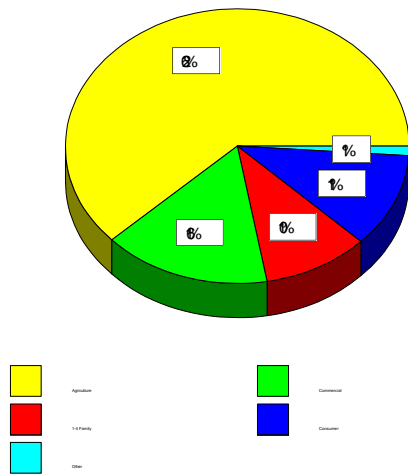
FNB&T is meeting the credit needs of its assessment areas.

- < The bank's loan-to-deposit ratio is reasonable, with the majority of loans being made within its assessment areas.
- < Lending efforts penetrate all segments of the assessment area and are dispersed to borrowers of all income levels.
- < The bank actively lends to businesses and farms of smaller size.

DESCRIPTION OF INSTITUTION

FNB&T is wholly owned subsidiary of First Bottineau, Inc., a one bank holding company. The bank consists of the main bank, and paying and receiving stations in Willow City, ND and Upham, ND. The bank operates two automated teller machines. One is located at the main office in Bottineau, the other in a convenience store, which is located approximately one mile from the main office.

Portfolio Composition



As of December 31, 1998, FNB&T reported total assets of \$92 million and a 0.82% return on average assets. The bank’s net loan-to-deposit ratio on that date was 43%; gross loans represented 40% of total assets. The loan portfolio consisted of the following types of credit: 62% in agricultural loans, 16% in commercial loans, 10% in 1-4 family residential loans, 11% in consumer loans, and 1% in various other loan types. The dollar volume of the outstanding loans are as follows: \$22.7 million in agriculture loans, \$6.0 million

in commercial loans, \$4.0 million in consumer loans and \$3.7 million in residential real estate loans. FNB&T offers a variety of agricultural, commercial and consumer loan products, in addition to deposit, trust, and insurance services. Deposit products and other banking services are well-suited to the needs of the local population.

The bank’s financial condition, size, local economic condition, and other factors allow it to help meet the credit needs of its assessment area. The bank has neither opened nor closed any branches since the last CRA examination. At the last CRA examination dated May 20, 1996, FNB&T received a satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA (AA): BLOCK NUMBERING AREAS 9522,

9523, 9524, 9556 AND 9557

FNB&T's assessment area includes the eastern two thirds of Bottineau County and the northern half of McHenry County with the Block Numbering Areas (BNAs) listed above. All five BNAs in FNB&T's assessment area are considered middle income. Census information on the assessment area identifies a population of approximately 10,000 and approximately 2,680 families. The 1998 HUD Non-MSA statewide Median Family income is \$35,800. The breakdown by family income level within the assessment area is: 20% low income, 19% moderate income, 26% middle income and 35% high income. The median average home in the AA was built in 1957 with a current average value of \$36,203. Owner occupied units account for 68% of all occupied housing within the AA.

Agriculture, including farming and ranching, and agricultural-dependent businesses, drive the assessment area's economy. The economy is relatively stable with low unemployment but is greatly influenced by changes in the agricultural supply and demand.

FNB&T's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

We made a community contact with the county economic development corporation. The corporation representative listed the primary credit needs of the community as farm operating lines of credit, equipment loans, and small business credit lines. The representative also stated that additional, affordable residential rental properties are needed in the Bottineau community. FNB&T competes with numerous financial institutions within its AA for both loan and deposit business.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:***Loan-to-Deposit Analysis***

The bank's loan-to-deposit (L/D) ratio is satisfactory. The trend and characteristics of the bank's lending program reflects a continuous commitment to the credit needs of borrowers within the assessment area. We calculated the L/D ratio for each quarter since June 1996, and arrived at an average ratio of 44 percent. When we included loan participations and mortgages generated within the assessment area and sold in the secondary market, the L/D ratio increased to 45 percent. Two banks located in FNB&T's assessment area are similarly situated. While both banks are significantly smaller in asset size, they are similarly situated as to customer base and services provided. The L/D ratio of these banks are 65 and 51 percent, respectively.

The lower ratio of this bank is mitigated by several factors. The bank, which is located in a rural agricultural area, is the oldest financial institution in the area and has enjoyed a strong loyalty among the community's depositors. Heavy lending competition exists from other financial institutions, especially a quasi-government agricultural lender which offers highly competitive loan rates to the bank's borrowing customers. In many cases, the bank is unable to effectively compete for the business of these customers, predominantly farmers and ranchers, who are particularly rate-sensitive when obtaining operating capital and other business related credit. Although the two other banks have higher L/D ratios than the subject bank, they are each considerably smaller in size, and the combined loan volume in both of these banks is less than the subject's.

Comparison of Credit Extended Inside and Outside of the Assessment Area

FNB&T extends a majority of its loans within the AA. To determine the bank's record of lending within the assessment area, a sampling of 30 agricultural and 30 residential real estate mortgage loan originations was evaluated. The sample was taken from the loan trial balance and a list of home purchase mortgage loan originations generated from June 1996 to December 31, 1998. Agricultural and mortgage loans were selected for the sampling since they represent major loan categories by dollar volume and account for approximately 62 and 10 percent of the loan mix respectively as of December 31, 1998.

The findings evidence a good commitment to lending within the assessment area. Approximately 92 percent by both number and dollar volume of the combined sample were granted to borrowers within the assessment area.

Distribution of Credit within the Assessment Area by Geography

The five BNAs in the bank's AA are all middle income based on 1998 demographic data. Therefore, analysis of this assessment criteria would not be meaningful.

Distribution of Credit within the Assessment Area by Borrower Income

The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and a good penetration among agricultural borrowers of different sizes. We analyzed the sample used in the assessment area analysis to determine the bank's record of lending to farming operations of different sizes and consumers of different

income levels. Annual gross revenues for agricultural loans and income levels for consumers were obtained from loan file information.

Agricultural Loans

The agricultural loan sample included loans to farms in all gross revenue categories up to \$1 million. Approximately 25 percent by number of the sampled loans were extended to farms with gross revenues of \$100,000 and less. The table below shows that 100% of the agricultural loan originations in the AA had gross income of less than \$1 million. Overall, the results demonstrate a commitment of the bank to service the needs of farm operations in the AA, including the small farm operations.

Distribution of Agricultural Credits within the AA By Different Gross Income Levels						
Gross Income	<\$100,000	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	>\$1,000,000	Total
# of Loans	7	11	10	1	0	29
% of Loans	25%	38%	34%	3%	0	100%
\$ Volume (000)	\$203	\$882	\$935	\$272	0	\$2,292
% of Volume	9%	38%	41%	12%	0	100%

Home Purchase Mortgage Loans

Analysis of the residential purchase mortgage sample revealed approximately 15 percent by number and 12 percent by dollar volume were extended to low income families within the assessment area. In addition, moderate-income families received 15 percent of the credits by number and 10 percent by dollar volume. This reasonably compares to the 1998 demographic data for the AA which shows a low-income family population base of 20

percent and a moderate-income family population base of 19 percent.

Sample Distribution of Home Purchase Originations by Income Level					
Loan Originations	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families	Total
# of Loans	4	4	9	9	26
% of Loans	15%	15%	35%	35%	100%
\$ Volume (000)	\$160	\$126	\$504	\$513	\$1,303
% of Volume	12%	10%	39%	39%	100%
1998 AA Demographic Data Average	20%	19%	26%	35%	100%

Response to Complaints

The bank has received no CRA-related complaints since the previous CRA examination.

Compliance with Antidiscrimination Laws and Regulations

We found no violations of the substantive provisions of the Antidiscrimination laws (Home Mortgage Disclosure, Equal Credit Opportunity and Fair Housing Acts) and their implementing regulations.