



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**December 1, 2008**

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

The First National Bank of Fairfax  
Charter Number 9771

18 SE First Street  
Fairfax, MN 55332

Office of the Comptroller of the Currency

Minneapolis North Field Office  
222 South Ninth Street, Campbell Mithun Tower, 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.

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

First National Bank of Fairfax is responsive to its community's needs.

- The bank's average loan-to-deposit ratio is more than reasonable.
- The bank originates a substantial majority of its loans by number within its assessment area.
- The distribution of loans to borrowers reflects a reasonable penetration among farms of different sizes and individuals of different income levels.

## **SCOPE OF EXAMINATION**

We assessed First National Bank of Fairfax's record of meeting the credit needs of the entire community, including low- and moderate-income neighborhoods consistent with the provisions set forth in the Community Reinvestment Act (CRA) for the period beginning June 30, 2003 and ending September 30, 2008. In order to determine the bank's lending performance, we selected primary products based on dollar and number volume of originations for the period beginning January 1, 2006 and ending September 30, 2008. We determined farm loans and consumer loans are the bank's primary products based on volume of loan originations. We selected a random sample from each of the primary products in order to evaluate lending within the assessment area and borrower distribution. We used 2000 U.S. Census information and 2008 Business Geodemographic Data for comparison purposes.

## **DESCRIPTION OF INSTITUTION**

First National Bank of Fairfax (FNB) is a \$27 million bank headquartered in Fairfax, MN. FNB is owned by Fort Ridgely National Bancorporation, Inc., a one bank holding company located in Fairfax, MN. FNB does not operate any branches or deposit-taking automated teller machines. No branches were opened or closed during the evaluation period.

FNB is a small community bank that focuses on agricultural lending. Agricultural loan products include working capital loans, equipment loans and real estate loans. Products available to agricultural borrowers include guaranteed loan programs through the SBA. Consumer loan products include overdraft protection, installment loans and personal loans.

As of September 30, 2008, FNB's net loans and leases totaled \$21 million or 83% of the bank's total assets. The loan portfolio was comprised of agricultural loans (77%), commercial and commercial real estate loans (13%), consumer loans (6%), residential real estate loans (3%) and all other loans and leases (1%). Tier one capital totaled \$9.9 million as of September 30, 2008.

FNB received a rating of Outstanding at the last CRA examination dated June 24, 2003. There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its assessment area.

**DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area (AA) includes all census tracts located in Renville County. The AA is not located in a Metropolitan Statistical Area. The AA consists of six contiguous census tracts, all of which are middle-income, and includes the geography where the bank's headquarters is located and the surrounding geographies. The AA meets the requirements of the Community Reinvestment Act regulation and does not arbitrarily exclude any low-or moderate-income census tracts.

The 2000 U.S. Census Data population of the AA was 17,154. The 2008 HUD Estimated Median Family Income was \$56,700. The 2000 U.S. Census Data indicates 8.3% of households in the AA are below the poverty level. The median housing value in the AA is \$62,064. The table below summarizes the income levels of individual census tract's and families located within the bank's AA.

<b>Income Distribution of Geographies and Families</b>							
Number of Census Tracts				Percentage of Families by Income Level			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
0	0	6	0	16%	20%	29%	35%

Source: 2000 U.S. Census Data

The local economy is highly dependent on farming and businesses related to agriculture. The local economy has historically been stable. However, a local city official indicated that the local economy has started to show signs of deterioration. Major employers located in the AA are Cherrington Corporation, Fairfax Community Home, Shweiss Distributing and Gibbon-Fairfax-Winthrop School District. Many of the local residents commute to neighboring communities for employment. According to the Minnesota Department of Employment and Economic Development, the October 2008 unemployment rate for Renville County was 4.6%. This was lower than the Minnesota unemployment rate of 5.3% and the U.S. unemployment rate of 6.1%.

Competition from other financial institutions in the assessment area is moderate. There are 11 financial institutions operating in Renville County. FNB Fairfax currently maintains a 5% market share of deposits in Renville County. The only other bank located in the city of Fairfax is Valley Bank, which operates a full-service branch in Fairfax and is headquartered in Waterville, MN.

Examiners contacted a city official to learn more about the condition of the local economy and perceptions on the community's credit needs. The contact indicated that the primary credit needs of the community are small business and farm loans. It was the contact's opinion that the local financial institutions are meeting the needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's net loan-to-deposit ratio (LTD) is more than reasonable based on the bank's financial capacity and available lending opportunities. From June 30, 2003 to September 30, 2008, the bank's quarterly LTD ratio ranged from 89.5% to 139.5% and averaged 121.3%. The bank's LTD ratio increased since our last review.

The bank's LTD exceeds the average loan to deposit ratio for similarly situated banks. Similarly situated institutions include banks with a presence in Renville County and have total assets ranging between \$22 million to \$35 million. The average LTD ratios for similarly situated banks over the same period ranged from 40.8% to 90.1% and averaged 75.8%.

### Lending in Assessment Area

The bank originates a substantial majority of its loans to borrowers located within its AA. We sampled twenty agricultural loans and twenty consumer loans originated between January 1, 2006 and September 30, 2008. The bank originated 85% of those loans by number within the AA. The table below summarizes sampled loans originated inside the assessment area by number and dollar amount.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	19	95%	1	5%	20	1,586	95.6%	73	4.4%	1,659
Consumer	15	75%	5	25%	20	289	78.1%	81	21.9%	370
Totals	34	85%	6	15%	40	1,875	92.4%	154	7.6%	2,029

Source: Loan Sample

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

FNB's distribution of loans to farms of different sizes and borrowers of different incomes is reasonable. To assess the bank's performance, examiners selected a sample of twenty farm loans and sixty consumer loans originated in the AA between January 1, 2006 and September 30, 2008.

The bank's record of lending to farms of different sizes is excellent. Based on our sample, the bank originated 100% of its loans to farms with annual revenues of less than \$1 million. The gross annual farm revenues of loans sampled ranged from less than \$1 thousand to \$400 thousand.

<b>Borrower Distribution of Loans to Farms in Assessment Area</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	98.5%	.6%	.9%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan Sample, 2008 Business Geodemographic Data

Consumer lending in the AA does not meet the demographics of the AA. According to 2000 U.S. Census Information, 19.7% of the households in the AA are low-income of which 8.3% are below the poverty level and 18.2% of households in the AA are moderate-income. Based on our loan sample, the bank originated 29% of its consumer loans to low- and moderate-income households. One factor contributing to the lower penetration of loans to low-income households is the number of low-income households that are below the poverty level.

<b>Borrower Distribution of Consumer Loans in 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	19.7%	11.7%	18.2%	16.7%	23.1%	58.3%	39%	13.3%

Source: Loan Sample, 2000 U.S. Census data.

### **Geographic Distribution of Loans**

This is not a meaningful analysis because the bank’s assessment area only consists of middle-income geographies.

### **Responses to Complaints**

No CRA related complaints have been reported since the last CRA examination.

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

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.