



**Comptroller of the Currency
Administrator of National Banks**

Small Bank

PUBLIC DISCLOSURE

November 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**18 SE First Street
Fairfax, Minnesota 55332**

Office of the Comptroller of the Currency

**Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

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 Fairfax** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 30, 1998. 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 bank has excellent penetration of loans to borrowers with low- and moderate-incomes and to small businesses and farms, relative to the demographics of the community. The bank's loan-to-deposit ratio is more than reasonable, with the majority of loans being made within its assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Fairfax (FNB) is a \$23 million institution located in Fairfax, Minnesota. The bank's primary lending focus is agricultural lending. As of September 30, 1998, the bank's net loans to total assets were 61%. The bank's loan mix, based on dollar volume of loans outstanding, consists of 65% agricultural production and farm real estate, 25% commercial and commercial real estate, 7% loans secured by residential real estate, and 3% consumer loans. As of November 27, 1998, the bank's loan mix, based on the number of loans originated since the last CRA examination and not yet paid off, consists of 56% agricultural production and farm real estate, 23% consumer loans, 11% loans secured by residential real estate, and 10% commercial and commercial real estate.

This examination focused on agricultural and commercial loans as these are the two largest dollar volume categories of loans. In addition, the analysis also included consumer loans as this is the bank's second largest product line in terms of the number of loans originated since the last examination.

The bank is owned by Fort Ridgely National Bancorporation, a one bank holding company. There are no financial or legal impediments limiting the bank's ability to help meet the credit needs of its assessment area. The bank was rated "Satisfactory" at its last CRA examination dated March 1, 1995.

DESCRIPTION OF THE FIRST NATIONAL BANK OF FAIRFAX'S ASSESSMENT AREA

The city of Fairfax is located approximately 90 miles west of the Minneapolis/St. Paul metropolitan area in Southwest Minnesota. The bank's assessment area consists of Renville County. The bank is not located in a Metropolitan Statistical Area (MSA). The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. There are nine other banks chartered in Renville County, with asset sizes ranging from \$11 million to \$34 million. The bank's competitors in Renville County also include a credit union, a savings and loan institution, and a branch bank.

Based on 1990 Census data, the population of the assessment area is approximately eighteen thousand. The assessment area contains six block numbering areas. All six are designated as middle-income. The Department of Housing and Urban Development's 1998 Non-MSA Median Family Income for the bank's assessment area

is \$40,500. A breakdown of families by income category in the assessment area shows 18% are low-income, 20% are moderate-income, 27% are middle-income, and 35% are upper-income.

Fairfax is dependent upon agriculture, government services, and various manufacturing industries. Major employers in the Fairfax area include Fairfax Community Home, Inc., Gibbon-Fairfax-Winthrop Middle School, Schweiss Distributing, Inc., Cherrington Corporation, and South Central Cooperative. The local economy is stable and the average annual unemployment rate in the bank’s assessment area is six percent.

As part of this examination, national bank examiners contacted a city official to gain additional information on the community and the bank’s performance. The review of this information revealed that common credit needs throughout the assessment area consists of small business/small farm loans and home improvement loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

The bank has a excellent record of lending to individuals of different income levels when compared to the demographics of the assessment area. Thirty-one percent of the bank’s 103 consumer borrowers were reviewed. This included borrowers to whom the bank originated loans since the last CRA examination and which were not yet paid off. Fifty percent by number and 46% by dollar of all consumer loans were made to low- or moderate-income borrowers. Thirty-eight percent of the assessment area’s population is low- or moderate-income. The chart on the following page depicts the percentage of loans to borrowers, by income categories of borrowers, compared to the income level of families located in the bank’s assessment area.

Consumer Loan Distribution by Borrower Income					
Income Level	Number of Loans	Number of Loans (as a %)	Dollar of Loans (000s)	Dollar of Loans (as a %)	Assessment Area Demographics
Low	10	31%	\$53	26%	18%
Moderate	6	19%	\$40	20%	20%
Middle	9	28%	\$74	36%	27%
Upper	7	22%	\$38	18%	35%

Consumer Loan Distribution by Borrower Income					
Total	32	100%	\$205	100%	100%

FNB has an excellent dispersion of loans to businesses and farms of different revenue sizes in its assessment area. Examiners sampled 114 commercial and agricultural loans from 38 borrowers that were originated since the March 1, 1995 CRA examination. The sample represented 28% by number (of borrowers) and 45% by dollar volume of these types of loans originated during this period. The bank extended 94% (by number) of its commercial and agricultural loans to borrowers with annual revenues less than \$500,000. The remainder of its loans were made to several large customers. Per 1996 Dunn and Bradstreet reports, 80% of the businesses and farms in the bank's assessment area had annual revenues less than \$500,000, 7% had annual revenues between \$500,000 and one million dollars, and 13% had annual revenues over one million dollars.

Loan Distribution by Business and Farm Revenue Levels				
Annual Revenue	Number of Relationships	Number (as a %)	Dollar Volume (000's)	Dollar (as a %)
Less than \$100,000	12	32%	\$522	6%
\$100,000-\$250,000	14	37%	\$2,194	26%
\$250,000-\$500,000	8	21%	\$2,567	31%
\$500,000-\$1,000,000	0	0%	\$0	0%
Over \$1,000,000	4	10%	\$3,054	37%
Total	38	100%	\$8,337	100%

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable given the demographics of the assessment area. As of September 30, 1998, the bank's loan-to-deposit ratio is 90%. The bank's quarterly loan-to-deposit ratio since the March 1, 1995 CRA examination has averaged approximately 83%. FNB's average quarterly loan-to-deposit ratio from June 30, 1995 to June 30, 1998 (the period of time for which data was available for review) ranked second out of the nine banks located in FNB's assessment area. The average quarterly loan-to-deposit ratios for the nine banks ranged from 36% to 84%.

Lending in Assessment Area

The bank originates a majority of its loans to borrowers located inside of its assessment area. National bank examiners reviewed a sample of loans originated since the last CRA examination and not yet paid off to determine FNB's volume of lending in its assessment area. The sample of 42 agricultural borrowers totaling \$8 million (41% and 52% of the total number of agricultural borrowers and dollars of agricultural loans, respectively) revealed that 83% by number and 86% by dollar were originated within the assessment area. The sample of 16 commercial borrowers totaling \$2.6 million (44% and 81% of the total number of commercial borrowers and dollars of commercial loans, respectively) revealed that 81% by number and 73% by dollar were originated within the assessment area. The sample of 55 consumer borrowers totaling \$333 thousand (53% and 61% of the total number of consumer borrowers and dollars of consumer loans, respectively) revealed that 73% by number and 70% by dollar were originated within the assessment area.

Geographic Distribution of Loans

All six block numbering areas in the bank's assessment area are designated as middle-income. Therefore, an analysis of geographic distribution of loans by the income levels of the block numbering areas was not conducted. This analysis would not have been meaningful.

Record of Compliance with Antidiscrimination Laws

National bank examiners reviewed the loan terms of vehicle purchase loans originated between January 1, 1998 and November 30, 1998. These loans were reviewed on the basis of gender and revealed substantial compliance with the provisions of antidiscrimination laws and regulations. No practices were noted which were intended to discourage types of credit offered.

Response to Complaints

The First National Bank of Fairfax has not received any CRA complaints.