



PUBLIC DISCLOSURE

December 01, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank in Wadena
Charter Number 12507

25 SW Bryant Avenue
Wadena, MN 56482

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3393

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 Satisfactory

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is reasonable when compared to similarly situated banks.
- The bank originates a substantial majority of loans inside its assessment area (AA).
- The bank has a reasonable penetration of loans to individuals of different income levels for residential real estate loans and an excellent penetration for consumer loans.

SCOPE OF EXAMINATION

We evaluated the First National Bank in Wadena's (FNB Wadena) Community Reinvestment Act (CRA) performance from July 28, 2009 to December 1, 2014, using small bank procedures. We assessed the bank's lending performance using primary products based on the number and dollar volume of loans originated between January 1, 2012 and December 31, 2013. Our analysis found that residential real estate and consumer loans are the bank's primary products. We selected a sample of 20 consumer loans and 60 residential real estate loans in order to evaluate lending activities within the AA. The following table shows the bank's primary products by loan originations and purchases.

Loan Originations and Purchases in 2012 and 2013		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	44%	6%
Residential Real Estate	25%	60%
Commercial	14%	21%
Agriculture	17%	13%

Source: Bank loan origination report for 2012 and 2013

DESCRIPTION OF INSTITUTION

FNB Wadena is a \$55 million intrastate bank located in Wadena, MN. The bank does not operate any branches and does not have any deposit taking ATMs. The bank did not have any mergers or acquisitions, or conduct any other significant corporate activity during the evaluation period. FNB Wadena is 100 percent owned by the First National Agency of Wadena, Inc. The holding company has total consolidated assets of \$57 million as of June 30, 2014.

FNB Wadena offers traditional commercial and retail banking services. As of September 30, 2014, the bank had total loans and leases of \$26 million, representing 47 percent of total assets. According to the September 30, 2014, Call Report the bank's

outstanding loans are as follows: Residential Real Estate (43%), Commercial (29%), Agricultural (20%), and Consumer (8%). The bank's Tier 1 Leverage Capital ratio is 8.61 percent as of September 30, 2014.

FNB Wadena received a "Satisfactory" rating at its July 27, 2009 CRA evaluation. There are no legal or financial circumstances impeding the bank's ability to meet the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREA

FNB Wadena's AA consists of seven contiguous middle-income census tracts located in Wadena, Otter Tail, and Todd Counties. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The AA includes the political subdivision where the bank is located and does not reflect discrimination. The following table shows the demographic and economic characteristics of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA	
Population	
Number of Families	8,242
Number of Households	12,120
% of Low-Income Families	23.88
% of Moderate-Income Families	22.13
% of Middle-Income Families	24.51
% of Upper-Income Families	29.48
Geographies	
Number of Census Tracts	7
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	100
% Upper-Income Census Tracts	0
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$50,014
2013 HUD-Adjusted MFI	\$61,700
Economic Indicators	
2013 Average Unemployment Rate	6.17%
2010 Median Housing Value	\$140,383
% of Households Below Poverty Level	15.95

Source: 2010 U.S. Census data with updated information when available

The average unemployment rate for the AA was 6.17 percent for 2013. The unemployment rate in Wadena County (7.7%) improved from the prior evaluation when it was near 11 percent. However, it is still significantly higher than both Todd and Otter

Tail counties and the statewide unemployment rate of 5.1 percent for 2013. The number of households below poverty level has increased since the prior evaluation from 14.90 percent to its current level at 15.95 percent. Major employers in the area include West Central Turkeys, Lake Region Hospital, Lund Boat Company, and KLN Enterprises Inc.

We discussed the local economic conditions and the performance of local financial institutions with a community leader who indicated that local economic conditions are not strong. The contact indicated that although unemployment rates have decreased, underemployment is a big concern. Local residents are able to find jobs but many of these positions are not full-time or do not pay well. The contact stated that local financial institutions are meeting the basic credit needs of the community, but have become risk averse. Local businesses struggle to get financing unless they can demonstrate a strong secondary source of repayment. He also indicated that affordable housing in the area is hard to find with few rental units available. The contact indicated that there are opportunities for banks to make loans to businesses and individuals looking for housing.

Banking competition in the AA is moderate. According to the June 30, 2014 FDIC Deposit Market Share Report, there are 27 national and state chartered deposit taking financial institutions with a presence in the AA. FNB Wadena ranks 16 with 2.80 percent market share. Based on the deposit data, no one institution dominates the banking market in the area. United Community Bank ranks first with only 11.54 percent of the market share.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance is satisfactory. The loan-to-deposit ratio is reasonable and a substantial majority of loans originated was inside the bank's AA. Distribution of loans reflects excellent penetration among borrowers of different income levels for consumer loans and reasonable penetration for residential real estate loans.

Loan-to-Deposit Ratio

FNB Wadena's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and local credit needs. The bank's quarterly loan-to-deposit ratio for the 21 quarters since the prior CRA evaluation was 60 percent. Similarly situated banks, defined as banks with a presence in the AA with asset sizes between \$48 million and \$71 million, had loan-to-deposit ratios ranging from 49 percent to 79 percent during the same timeframe.

Loan-to-deposit Ratio	Assets as of 6/30/14 (\$000s)	Average LTD Ratio (%)
Institution (Headquarters)		
Vergas State Bank (Vergas, MN)	\$48,148	48.99%
FNB of Battle Lake (Battle Lake, MN)	\$70,861	53.27%
FNB in Wadena (Wadena, MN)	\$55,051	60.04%
F&M State Bank of New York (New York Mills, MN)	\$59,871	62.69%
Farmers State Bank of Underwood (Underwood, MN)	\$57,136	79.11%

Source: Call Report data as of June 30, 2014.

Lending in Assessment Area

The bank originates a substantial majority of its loans inside the AA. Based on a sample of primary products, FNB Wadena originated 90 percent of loans by number and dollar volume within the AA. The following table shows loans originated inside and outside of the AA by number and dollar volume.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	17	85	3	15	20	2,006	89	238	11	2,245
Consumer	19	95	1	5	20	172	95	8	5	180
Totals	36	90	4	10	40	2,178	90	246	10	2,425

Source: Home mortgage and consumer loan samples.

Lending to Borrowers of Different Incomes

Overall, FNB Wadena's lending to borrowers of different incomes reflects reasonable penetration in the AA.

Residential Real Estate Loans

The distribution of residential real estate loans reflects reasonable penetration among persons of different income levels given the demographics of the AA. The bank's lending to moderate-income individuals is comparable to the percentage of moderate-income families in the AA. The bank's performance in lending to low-income individuals was below the demographic comparator; however, we noted that this is reasonable given that 10.16 percent of families in the AA are below poverty level and, therefore, less likely to be seeking residential real estate loans. The table below shows the bank's lending performance compared to the demographics of the AA.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	23.88	16.67	22.13	20.00	24.51	20.00	29.48	43.33

Source: Loan sample; 2010 US Census Data

Consumer Loans

The distribution of consumer loans reflects excellent penetration among borrowers of different income levels given the demographics of the AA. The bank's lending to low-income individuals exceeds the demographic comparator of low-income households in the AA, and the bank's lending to moderate-income individuals significantly exceeds the percentage of moderate-income households in the AA. The table below shows the bank's lending performance compared to the demographics of the AA.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	28.86	30.00	18.33	35.00	20.25	25.00	32.57	10.00

Source: Loan Sample; 2010 US Census Data

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as the bank's AA has no low- or moderate-income census tracts.

Responses to Complaints

FNB Wadena received no CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.