



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Of Blue Earth
Charter Number 5393
306 South Main Street
Blue Earth, MN 56013**

**Office of the Comptroller of the Currency
Minneapolis South 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.

INSTITUTION'S CRA RATING

This institution is rated “Satisfactory.”

- The bank meets the credit needs of the community as indicated by the bank’s quarterly average loan-to-deposit ratio of 86.18 percent since the last CRA examination.
- First National Bank of Blue Earth originates a majority of its loans by number (87 percent) and by dollar volume (61 percent) inside the bank’s assessment area.
- Overall, the bank has a reasonable distribution of lending to different sizes of businesses and farms and individuals of different income levels inside the assessment area.

DESCRIPTION OF INSTITUTION

First National Bank of Blue Earth (FNB of Blue Earth) is a \$105 million agricultural and commercial bank located in Blue Earth, Minnesota with a city population of 3,621. The bank has one main office with a drive-up window and five cash dispensing automated teller machines (ATMs) located in Blue Earth. FNB of Blue Earth operates an insurance agency and an investment center within its main office.

The bank’s primary focus is agricultural, commercial, and consumer (by volume) lending. According to the March 31, 2002 Report of Condition and Income, the bank’s loan mix consists of commercial (49 percent), agricultural (39 percent), residential real estate (6 percent), and consumer (6 percent). Net loans to total assets total 70 percent.

FNB of Blue Earth is 100 percent owned by FNB Bancshares, Inc., a one-bank holding company headquartered in Blue Earth, Minnesota with \$106 million in total assets.

FNB of Blue Earth received a “Satisfactory” rating at its February 17, 1998 CRA examination. There are no financial, legal, or other factors impeding the bank’s ability to meet its CRA obligations.

DESCRIPTION OF FARIBAULT COUNTY

The bank’s assessment area includes Faribault County, which is divided into six block numbering areas (BNAs). All six BNAs are designated middle-income areas. According to the 1990 U.S. Census Data, the total population of the assessment area is 16,937 people. The bank’s assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The U.S. Department of Housing and Urban Development's updated 2002 statewide non-metropolitan area median family income (MFI) estimate for Minnesota is \$48,500. The following table summarizes the income levels of individual BNAs and families located within the bank's assessment area:

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Percentage of BNAs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Faribault County	0%	0%	100%	0%	17.65%	21.64%	27.06%	33.66%

Source: U.S. Census Data (1990)

The assessment area has 9 percent of families with incomes below the poverty level (less than 30 percent of MFI).

Major employers in Blue Earth are agricultural, forestry, and fishing industries, and include Seneca Food/Green Giant (475 employees), TELEX Corp. (309), Blue Earth Area Schools (245), Custom Food Processors (230), St. Lukes Lutheran Home (230), and United Hospital (170). Unemployment in Faribault County of 3.6 percent is slightly lower than unemployment in the state of Minnesota of 4.0 percent at June 2002.

Competition exists from other financial institutions in the area. Including FNB of Blue Earth, there are seven other banks chartered in Faribault County. FNB of Blue Earth has the largest asset size of \$105 million with the next largest asset size of \$37 million. While competition from these banks may not be strong, other bank branches in the area provide considerable competition. FNB of Blue Earth has the largest market share of deposits inside of the market with 25 percent of the deposits in Faribault County; however, Wells Federal Bank has 22 percent of deposits and Wells Fargo Bank Minnesota has 10 percent of the deposits within the county. The other banks make up the remaining 43 percent of the market share in the county.

We did not identify any unmet credit needs in FNB of Blue Earth's assessment area through our contact with a local farm organization. Our contact indicated that the Faribault County economy depends mainly on agriculture, particularly farm real estate products such as corn and soybeans. Sweet corn and peas are also major products with the Seneca Foods/Green Giant plant located in Blue Earth, MN. The main credit needs of the communities are farm real estate financing and farm operating lines for crop inputs. While farmers experienced a tough year in 2001, the outlook for 2002 looks more promising with expected above-average crop yields and stable to increasing crop prices. The three prior contacts within the area also indicated dependence on agricultural products but did not identify any unmet credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB of Blue Earth's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 86.18 percent over the 18 quarters from December 31, 1997 through March 31, 2002. FNB of Blue Earth's net loan-to-deposit has ranged between 76.79 percent and 98.22 percent and totaled 85.25 percent at March 31, 2002.

FNB of Blue Earth does not have any similarly-situated banks in the assessment area. After reviewing other banks in the assessment area, we found banks ranging in asset size from \$12 million to \$37 million, which is considerably smaller in size than FNB of Blue Earth's asset size of \$105 million.

Lending in Assessment Area

FNB of Blue Earth originates a majority of its loans to borrowers inside its assessment area. About 87 percent by number and 61 percent by dollar volume of loans were made to farms, businesses, and individuals located within the bank's assessment area. We sampled a total of 60 loans originated from January 1, 1998 through March 31, 2002. The following table shows loans originated inside the assessment area by number and dollar volume:

LENDING IN ASSESSMENT AREAS BY NUMBER AND DOLLAR AMOUNT				
Type of Loan	Number	Percent of Number	Dollars (000s)	Percent of Dollars
Agricultural	20	100%	\$1,031	100%
Commercial	16	80%	\$488	33%
Consumer	16	80%	\$98	73%
Total	52	87%	\$1,617	61%

Source: Bank records (verified by examiners)

The bank's commercial loans by dollar volume area are significantly lower than agricultural loans and consumer loan by dollar volume inside the assessment area. Of the four commercial loans outside the bank's assessment area, three of these loans were the largest in our sample, causing the commercial loan percentage of dollars to be significantly reduced.

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

Overall, FNB of Blue Earth has a reasonable distribution of lending to different sizes of businesses and farms and individuals of different income levels. Lending to businesses and farms meets community demographics, and lending to low- and moderate-income individuals exceeds community demographics.

Agricultural lending activity in the assessment area is reasonable and meets community

demographics. FNB of Blue Earth originated 1,715 agricultural loans totaling \$152 million between January 1, 1998 and March 31, 2002. The largest number of loans were originated to farms with annual revenues between \$100,000 and \$500,000. The bank's agricultural lending directly addresses community credit needs identified by our community contact. Examiners sampled 20 agricultural and agricultural real estate loans originated in the assessment area from January 1, 2000 to March 31, 2002. The following table compares the bank's agricultural lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number	Percent of Number	Agricultural Census Demographics (1997)
<\$50,000	0	0%	27%
\$50,000-\$100,000	3	15%	19%
\$100,000-\$250,000	6	30%	31%
\$250,000-\$500,000	8	40%	16%
>\$500,000	3	15%	7%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S Agricultural Data (1997)

Commercial lending activity in the assessment area of 85 percent meets the community demographics of 90 percent. FNB of Blue Earth originated 1,235 commercial loans totaling \$129 million between January 1, 1998 and March 31, 2002. The largest number of loans were originated to small businesses with annual revenues of less than \$250,000. Examiners sampled 20 commercial and commercial real estate loans originated in the assessment area from January 1, 2000 to March 31, 2002. The following table compares the bank's commercial lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number	Percent of Number	Business Demographic Data
<\$50,000	2	10%	90%
\$50,000-\$100,000	4	20%	
\$100,000-\$250,000	6	30%	
\$250,000-\$500,000	2	10%	
\$500,000-\$1,000,000	3	15%	
>\$1,000,000	3	15%	6%
Not Reported	0	0%	4%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S Census Business Demographic Data (1990)
 Consumer lending activity in the assessment area exceeds the community demographics for both

low- and moderate-income borrowers. FNB of Blue Earth originated 2,215 consumer loans totaling \$29 million between January 1, 1998 and March 31, 2002. Examiners sampled 20 consumer loans in the assessment area from January 1, 2000 to March 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
Low	10	50%	24%
Moderate	5	25%	17%
Middle	2	10%	21%
Upper	3	15%	38%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S Census Data (1990)

We did not perform a review of the bank's residential real estate lending activity by borrower income as this is not a major product line for the bank. FNB of Blue Earth originated 449 residential real estate loans totaling \$12 million from January 1, 1998 to March 31, 2002.

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle-income BNAs.

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

OTHER INFORMATION

Fair Lending Review

An analysis of 1999 through 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1998.