



PUBLIC DISCLOSURE

May 22, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Elk River
Charter Number 8757

812 Main Street
Elk River, MN 55330

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 the institution's rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of the bank's assessment area (AA).
- The bank originates a majority of its loan within its AA.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.

SCOPE OF EXAMINATION

We evaluated The First National Bank of Elk River's (FNBER) Community Reinvestment Act (CRA) performance utilizing small bank performance standards. The bank's CRA performance was assessed under the lending test and focused on the bank's primary loan products based on loan originations and purchases from January 1, 2014 to December 31, 2016. We determined commercial loans to be the bank's primary product as they accounted for 80 percent of loan originations by volume and 49 percent of loan originations by number.

To evaluate FNBER's lending performance, examiners sampled 20 commercial loans originated during the evaluation period. Additional loans were selected to have sufficient information to analyze borrower and geographic distribution within the AA.

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation (FDIC) to find similarly situated banks. The most recent deposit information is as of June 30, 2016.

DESCRIPTION OF INSTITUTION

FNBER is a full-service financial institution headquartered in Elk River, Minnesota. The bank is owned by First National Financial Services Inc., a one bank holding company, headquartered in Elk River, MN. First National Financial Services is not engaged in any activities that materially affect the bank's CRA performance.

As of March 31, 2017, FNBER had \$270 million in total assets and a tier one leverage ratio of 9.96 percent. The bank operates four branches in Minnesota, all of which are located in the Minneapolis MN-WI multistate Metropolitan Statistical Area (MSA). There are two branches in Elk River, one branch in Anoka, and one branch in Rogers. The bank does not operate any deposit taking ATMs, and there were no branch openings or closings since the previous CRA examination.

FNBER offers a full range of loan and deposit products and services. The bank's strategy is to focus on organic loan growth within their market area. As of

March 31, 2017, loans totaled \$143 million or 54 percent of total assets. The loan portfolio is comprised of business loans (88 percent), residential mortgages (11 percent), and consumer loans (1 percent). The investment portfolio totaled \$105 million or 39 percent of total assets. Investment holdings include \$100 million in U.S. Treasury and Agency securities and \$4 million in municipal securities.

There are no legal, financial, or other factors impeding FNBER's ability to meet the credit needs of its AAs. FNBER was rated satisfactory at its last CRA examination dated April 28, 2014.

DESCRIPTION OF ASSESSMENT AREA(S)

FNBER has one AA, which consists of 59 census tracts (CT) located in the northwest section of the Minneapolis MN-WI multistate MSA. The AA includes the northeastern section of Wright County, the eastern section of Sherburne County, the western half of Anoka County, and the northernmost section of Hennepin County. The AA is contiguous and does not arbitrarily exclude any low- or moderate-income geographies. The AA consists of eight upper-income CTs, 44 middle-income CTs, seven moderate-income CTs, and no low-income CTs. There are no distressed or underserved communities in the AA.

FNBER's four branches are located throughout the AA, with a branch in each of the counties except Wright County. It is reasonable for the bank to include Wright County as the Elk River and Rogers branches are near the Wright County border. The Elk River and Anoka branches are located in middle-income CTs, and the Rogers branch is located in an upper-income CT.

Economic conditions in the AA were generally good during the evaluation period. According to the Bureau of Labor Statistics (BLS), the unemployment rate of the Minneapolis MN-WI multistate MSA was 3.8 percent as of March 2017. The unemployment rate ranged from 3.3 percent to 5.1 percent for the four counties in the bank's AA. The AA unemployment rates are comparable to the 2016 Minnesota state unemployment rate of 3.9 percent. Economic activity in the AA is centered in the service industry, followed by construction and retail trade. Based on the 2010 Census data, services total 45 percent of the AA's activity. Major employers in the AA are in the manufacturing, retail, healthcare, and education industries.

Competition from other financial institutions is strong. As of June 30, 2016, there are 92 financial institutions with offices and deposits in the AA. FNBER ranks 28th in deposit market share, with \$184 million in deposits or 0.16 percent of the market share. FNBER's main competitors are Wells Fargo, National Association and U.S. Bank, National Association.

The following table shows demographic information for FNBER's AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	84,439
Number of Households	111,505
% of Low-Income Families	0.00%
% of Moderate-Income Families	11.86%
% of Middle-Income Families	74.58%
% of Upper-Income Families	13.56%
Geographies	
Number of Census Tracts	59
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	11.86%
% Middle-Income Census Tracts	74.58%
% Upper-Income Census Tracts	13.56%
Median Family Income (MFI)	
2010 MFI for AA	\$81,553
2013 HUD-Adjusted MFI	\$85,700
Economic Indicators	
2016 Unemployment Rate	3.8%
2010 Median Housing Value	\$230,576
% of Households Below Poverty Level	5.08%

Source: 2010 U.S. Census Data

We contacted a member of the Economic Development Department for Sherburne County. The contact stated that Sherburne County is the fastest growing county in the state with a significant number of new construction projects. The contact stated that construction and small business loans are the primary credit needs of the AA. The contact had a very positive view of local financial institutions. They are very active in the community, sponsor events, and are approachable. There are many banks and a lot of competition. One of the biggest challenges small businesses face is a lack of skilled workers. The contact did not have any ways that local financial institutions could improve.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBER's quarterly net LTD ratio is reasonable given the bank's size and financial condition and the credit needs of the AA. FNBER's LTD ratio averaged 62.29 percent over the 12 quarters from April 1, 2014 to March 31, 2017. These ratios ranged from a low of 55.40 percent in 4Q14 to a high of 71.68 percent in 2Q16. FNBER's average LTD ratio ranks third among five similarly situated banks. Similarly situated banks are

those banks located within the AA with total assets ranging from \$219 million to \$396 million. The following table depicts the average LTD ratios of similarly situated banks:

Loan-to-Deposit Ratios		
Financial Institution	Assets (As of 3/31/17)	Average LTD Ratio (2Q14 - 1Q17)
Crown Bank	\$219 million	90.24%
Village Bank	\$250 million	85.01%
The First National Bank of Elk River	\$270 million	62.29%
First Minnetonka City Bank	\$215 million	57.65%
First Minnesota Bank	\$396 million	41.44%

Source: Call Report Data

Lending in Assessment Area

During the review period, FNBER originated a majority of its loans inside its AA. Loans originated to businesses within the bank's AA totaled 90 percent by number and 60 percent by dollar volume. The following table shows the bank's lending activity inside and outside its AA during the evaluation period:

Lending in FNBER's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	18	90	2	10	20	\$1,657,531	60	\$1,100,000	40	\$2,757,531
Totals	18	90	2	10	20	\$1,657,531	60	\$1,100,000	40	\$2,757,531

Source: OCC Loan Sample

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

The distribution of loans reflects poor penetration among businesses of different sizes. Lending to businesses with less than \$1 million in revenue is significantly lower than the demographic comparator. The table below demonstrates the distribution of business loans in the AA:

Borrower Distribution of Loans to Businesses in FNBER's AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	87.41	5.03	7.56	100.00
% of Bank Loans in AA by #	51.67	48.33	0.00	100.00
% of Bank Loans in AA by \$	46.63	53.37	0.00	100.00

Source: OCC Loan Sample; U.S. Census

Geographic Distribution of Loans

The geographic distribution of business loans reflects excellent dispersion. FNBER’s distribution of business loans in moderate-income CTs exceeds the demographic comparator. The following table outlines the geographic distribution of business loans throughout CTs of different income levels in the bank’s AA:

Geographic Distribution of Loans to Businesses in FNBER’s AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	0.00	0.00	4.56	5.00	80.31	86.67	15.13	8.33

Source: OCC Loan Sample; U.S. Census

Responses to Complaints

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

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.