



PUBLIC DISCLOSURE

July 6, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Herman
Charter Number: 8049**

**103 Fifth Street East
Herman, Minnesota 56248**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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 Herman, Herman, MN** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 6, 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 First National Bank of Herman's rating is based upon the following factors:

- The bank's record of extending credit to borrowers of different income levels and to businesses of different sizes is good.
- A majority of the loans are extended in the bank's assessment area.
- The bank's loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank of Herman (FNB) is a \$14 million bank in Herman, Minnesota. The bank is owned by The First National Agency of Herman, Inc., a one-bank holding company. The only office is located in Herman, a community of approximately 485 people.

The bank offers traditional loan and deposit products and services. Using March 31, 1998 financial information, loans totaled \$7.5 million or 54% of total assets. The loan portfolio consists of agriculture (59%), commercial (20%), residential real estate (9%), consumer (8%) and other loans (4%).

The last CRA examination was May 23, 1995 and the bank was rated "Satisfactory." There are no legal or financial impediments limiting the bank's ability to help meet the credit needs of the community. The bank's lending limit could restrict the bank's ability to provide total credit services to a few of the area's largest farmers.

The primary credit need of the community includes affordable housing loans. This was determined through discussions with bank management and a contact with the Grant County Housing and Redevelopment Authority. Discussions with the community contact stated that banks in Grant County work with that agency in implementing loan programs.

DESCRIPTION OF FIRST NATIONAL BANK'S ASSESSMENT AREA

The bank's assessment area (AA) includes four block numbering areas (BNAs) located in Grant, Stevens and Traverse Counties. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Based on 1990 census data information, 2,983 families reside in the AA with a median family income of \$25,917. The AA consists of one BNA that is considered moderate-income and three BNAs that are middle-income.

The local economy is dominated by agriculture and agriculture-related businesses. The largest employer is the Herman-Norcross school district. Other employers include Pederson's Agri Service, H N Ag Services and Farm Products Direct.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable. The quarterly LTD ratio has averaged 56% since the last CRA examination. As of March 31, 1998, the LTD ratio was 61% which ranks third of five similar banks located in or adjacent to the bank's AA. The range of the LTD ratios of these banks is 46% to 72%.

Lending in the Assessment Area

FNB originates a majority of its loans within its AA. This was determined by using a bank generated report which lists all new loans originated during 1997 through June 30, 1998 and the location of these loans by zip code. The accuracy of this report was verified through the sampling of consumer and business loans during the examination process. The table below illustrates the bank's lending activities within its AA.

	Loans Originated
Total Number of Loans Originated	642
Number of Originations in AA	567
Percentage in AA	88%
Total Dollar of Loans Originated	\$8,994,100
Dollar of Loans Originated in AA	\$8,382,100
Percentage in AA	93%

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the Assessment Area

FNB has a good record of lending to individuals of different income levels and businesses of all sizes. The bank's main product lines include loans to farmers, small businesses and consumer loans which are detailed in the charts below. In addition, the bank participates in several loan programs that target low- and moderate-income borrowers and small businesses and farms including: Minnesota Housing Finance

Agency Home Improvement loan program, Small Business Administration's Low Doc program, Farm Service Agency's Guaranteed loan program.

Consumer Loans

The following table represents a sample of 25 consumer instalment loans totaling \$66,298. The consumer loans represent 10% of the number and 8% of the total dollar volume of loans made in 1997 through June 30, 1998.

Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family income*	22%	28%	17%
Moderate-Income at least 50% < 80% Median Family Income*	23%	20%	14%
Middle-Income at least 80% < 120% Median Family Income*	26%	8%	18%
Upper-Income 120% and > Median Family Income*	29%	4%	9%
Information not available	N/A	40%	42%

* 1998 Outstate Median Family Income \$40,500

Business and Small Farm Loans

The sample represents 33 business and agriculture loans totaling \$4.2 million, which equal 10% of the number and 56% of the dollar volume of business and agriculture loans made in 1997 through June 30, 1998.

Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	24%	11%
\$101 - \$250	43%	51%
\$251 - \$1,000	30%	36%

Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
> \$1,000	3%	2%

Geographic Distribution of Loans

The geographic distribution of loans is reasonable. There is one moderate-income BNA and there are three middle-income BNAs in the AA. We sampled 58 commercial and consumer loans within the AA. We noted loan activity in each BNA, with the majority of the lending concentrated in the center of the assessment area, which represents the immediate Herman/Norcross area. While there is limited lending in the western half of the moderate income BNA, this is reflective of lending patterns throughout the assessment area.

Record of Response to Complaints

FNB received no complaints concerning its performance in meeting the credit needs of its assessment area.

Record of Compliance with Anti-discriminatory laws

Based on our review, the bank is complying with anti-discriminatory laws. We found no substantive violations of the fair lending laws.