



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 12, 2010**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Osakis  
Charter Number 6837

211 Central Avenue  
Osakis, MN 56360

Office of the Comptroller of the Currency

Minneapolis Field Office  
222 South 9<sup>th</sup> Street, Suite 800  
Minneapolis, MN 55402-3371

**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.**

- Lending to consumers and businesses of different income levels is satisfactory.
- The bank's loan-to-deposit ratio is reasonable.
- The majority of bank loans were originated within the banks assessment area.

**SCOPE OF EXAMINATION**

We evaluated First National Bank's (FNB) record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA), for the period beginning September 30, 2004 and ending December 31, 2009. In order to determine the bank's lending performance, we selected primary products based on the dollar volume and number of loans originated between January 1, 2008 and December 31, 2009. We determined that FNB's primary products are commercial loans, which constitute 59% of the dollar volume of originations, and consumer loans, which constitute 54% of the number of originations. We selected a random sample of 20 loans from each of the primary products in order to conduct our analysis.

**DESCRIPTION OF INSTITUTION**

FNB is headquartered in Osakis, Minnesota. It is owned by a single bank holding company, Osakis Bankshares, Inc. In addition to the main office, the bank opened a new branch at the Galeon Senior Living Facility, also located in Osakis, in January 2008 that operates a half day per week. The bank has two non-deposit taking automatic teller machines located at each branch. The bank did not close any branches during the assessment period.

FNB is a community bank located in rural Minnesota. The bank offers traditional consumer, residential real estate, agricultural and commercial lending products. As of December 31, 2009, the bank has \$59 million in assets and net loans are 64% of total assets. The breakdown of loan portfolio at December 31, 2009 is detailed below.

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>%</b>
Residential Real Estate Loans	16,380	42%
Commercial (including real estate)	11,659	30%
Agricultural (including real estate)	8,333	22%
Consumer Loans	2,299	6%
Other Loans	37	0%
<b>Total</b>	<b>38,708</b>	<b>100%</b>

FNB received a satisfactory rating at the July 12, 2004 CRA evaluation. There are no legal or financial constraints on FNB that impede the bank's ability to meet community credit needs.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The bank's Assessment Area (AA) consists of 3 contiguous census tracts (CTs) in Douglas and Todd Counties, located approximately 55 miles from St. Cloud, Minnesota. All of the CTs in the AA are middle-income. There are no low-, moderate-, or upper-income tracts in the AA. The AA meets the requirements of the regulation and does not exclude any low- or moderate-income geographies. Cities in the AA include Osakis, Nelson, Carlos, West Union, and Forada. These communities are small with the largest being Osakis with a population of 1,567 based on 2000 census information. The total population of the AA is 10,612.

The 2009 weighted average of Department of Housing and Urban Development updated median family income is \$58,500. According to the U.S. Department of Labor, Bureau of Labor Statistics, the January, 2010 unemployment rate for Douglas County was 7.7%, and Todd County was 9.9%, compared with the West Central Minnesota Economic Development Region rate of 7% in 2009.

Competition from other financial institutions in the AA is moderate. Competition among financial institutions exists in communities whose AA overlaps that of FNB. The communities of Alexandria, Sauk Centre, and Long Prairie border FNB's AA and have several financial institutions in each community. However, FNB is the only bank located in the town of Osakis.

The major industries in the AA are transportation and trades, government, leisure/hospitality and manufacturing. Major employers include the local school district, Community Memorial Nursing Home, Lind-Rite Precision Engineering, and Rollie's Sales and Service.

We contacted local government offices to learn more about the condition of the local economy and their perception on the communities credit needs. The contact indicated that agricultural and consumer lending are vital to the local economy, and the local financial institutions are meeting the financial needs of the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit (LTD) ratio is reasonable based on its financial capacity and lending opportunities. The quarterly LTD ratio averaged 80% in the 22 calendar quarters from September 30, 2004 to December 31, 2009. FNB's LTD compares reasonably to other community banks of similar size in the AA. FNB's LTD ranked second when compared to two similarly situated banks. The average LTD ratio for the two similarly situated banks is 84.5%. This is summarized in the following table.

<b>LOAN-TO-DEPOSIT RATIO</b>
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Institution	Assets 12/31/09	Average Ratio
First State Bank of Alexandria	112,652	90%
<b>First National Bank of Osakis</b>	<b>59,227</b>	<b>80%</b>
Hometown Community Bank	26,547	79%

### Lending in Assessment Area

FNB meets the standard for satisfactory performance for lending within its AA. FNB's record of lending within its AA is reasonable. The majority of the loans originated during the evaluation period are located in the AA. The bank originated 85% by number and 96% by dollar of the loans within its AA. The table below shows the results of our analysis.

Lending in FNB's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Commercial	17	85%	3	15%	20	\$945	98%	\$17	3%	\$962
Consumer	17	85%	3	15%	20	\$86	80%	\$21	20%	\$107
Totals	34	85%	6	15%	40	\$1,031	96%	\$38	4%	\$1,069

Source: Loan Sample

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

The distribution of borrowers reflects reasonable penetration among businesses and households of different income levels.

#### Business Loans

The distribution of loans reflects reasonable penetration among businesses of different sizes. Of the loans included in our sample, 85% of loans by number were to business with gross revenues of less than or equal to \$1 million. AA demographics indicate 85% of businesses in the AA have gross revenues of \$1 million or less, 2% have revenues over \$1 million, and 13% did not report income data. The following table illustrates this distribution.

Borrower Distribution of Loans to Small Businesses			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown
% of AA Businesses	85%	2%	13%
% of Bank Loans in AA by #	85%	15%	0%

Source: Loan Sample and 2009 Business Geodemographic Data

*Consumer Loans*

FNB’s lending to households with different income levels is reasonable. The bank exceeds the demographic for loans originated to low- income households. The bank originated 40% of consumer loans to low- and moderate- income households compared to the demographic at 37%. Our loan sample contained 35% of borrowers with unreported income levels which falls below the demographic of 13%. Many of the banks consumer borrowers have established relationships with the bank where lending is based on prior loan performance.

<b>Borrower Distribution of Consumer Loans</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	20%	35%	17%	5%	21%	15%	42%	10%

*Data Source: Loan Sample and U.S. Census data*

**Geographic Distribution of Loans**

Geographic distribution analysis is not meaningful due to the lack of low- or moderate-income census tracts located within the AA.

**Responses to Complaints**

FNB has not received any CRA related complaints since the last CRA evaluation.

**Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.