



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 12, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Mahnomen
Charter Number 12941

First & Adams
Mahnomen, MN 56557

Office of the Comptroller of the Currency

Minneapolis Field Office
Campbell Mithun Tower
222 South Ninth Street
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 that support this rating include:

- A majority of First National Bank in Mahnomen's (FNB Mahnomen) loan originations are within the bank's assessment area.
- FNB Mahnomen's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- FNB Mahnomen's distribution of loans represents a reasonable penetration among businesses of different sizes.
- FNB Mahnomen's geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels.

SCOPE OF EXAMINATION

We evaluated First National Bank in Mahnomen's Community Reinvestment Act (CRA) performance for the period beginning January 18, 2005 through October 12, 2010. The bank has one assessment area (AA), Mahnomen AA. To determine the bank's lending performance, we selected primary products based on dollar and number volume of loan originations for the period beginning January 1, 2008 and ending September 30, 2010. The primary product was commercial loans. We selected a random sample of 20 commercial loans in order to evaluate lending within the AA, borrower income distribution, and borrower geographic distribution. We used 2000 census information for demographic comparison purposes.

DESCRIPTION OF INSTITUTION

First National Bank in Mahnomen (FNB Mahnomen) is a \$69 million commercial bank located in Mahnomen, Minnesota. The bank operates four automated teller machines (ATMs), one is located at the bank in Mahnomen, one is located at a liquor store in Mahnomen, and two are located at stores in Ponsford, MN. None of the ATM's accept deposits. FNB Mahnomen has no branch locations.

FNB Mahnomen is 100% owned by a one-bank holding company, Mahnomen Bancshares, Inc. FNB Mahnomen provides traditional banking services, including loans for commercial, agricultural, consumer, and residential real estate purposes. According to its September 30, 2010 Report of Condition, outstanding loans by dollar volume totaled: commercial (48%), residential real estate (21%), agricultural (17%), and consumer (13%). On that date, the bank's net loan-to-deposit ratio was 68.55%.

FNB Mahnomen received a "Satisfactory" rating at their January 18, 2005 CRA examination. This Performance Evaluation assesses the bank's CRA activities from January 18, 2005 through October 12, 2010. There are no legal or financial circumstances impeding the bank's ability to meet the needs of its AA.

DESCRIPTION OF ASSESSMENT AREA

The Mahnomen AA consists of five census tracts (CTs): #9601 in Norman County, #9601 and #9603 in Mahnomen County, #2 in Clearwater County, and #9510 in Becker County. Two CTs are moderate-income and the remaining CTs are middle-income. The AA does not arbitrarily exclude any low- or moderate-income CTs. Banking competition in the Mahnomen AA is average. On June 30, 2010, four financial institutions offered banking services in the Mahnomen AA. FNB Mahnomen ranked second in deposit market share, with 7.12% of the market share, based on June 30, 2010 deposit information obtained from the Federal Deposit Insurance Corporation.

The population of the Mahnomen AA was 14,668 according to the 2000 U.S. Census Data. The U.S. Department of Housing and Urban Development estimated median family income for the non-metropolitan areas of Minnesota in 2010 was \$58,700. Major employers include health and nursing care facilities, Shooting Star Casino, and the Mahnomen School District. Census tracts in Mahnomen and Norman County are considered distressed and underserved. These designations are the result of population loss, remote and rural location, and poverty. Unemployment in Mahnomen County stood at 8.1% in July 2010, which is above the rate for the state of Minnesota (6.7%) on that date. The 2000 U.S. Census Data indicated that 16.83% of households were below the poverty level in the Mahnomen AA.

Our community contact indicated that local banks are active in the community and meeting the area's primary credit needs. Small businesses have access to financing and community members have access to consumer and home loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB Mahnomen's performance under the lending test is Satisfactory. The borrower and geographic distribution portions of the test received the majority of the weight in the overall rating. FNB Mahnomen was found to have reasonable penetration among businesses of different sizes and reasonable dispersion throughout census tracts of different income levels.

All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 22 quarters since the previous CRA examination is 69.89%. Similarly-situated banks have quarterly average loan-to-deposit ratios ranging from 52.82% to 84.09% over the same time frame. These banks have a presence in the Mahnomen AA with total assets between \$10 million and \$69 million.

Institution	Asset Size as of 6/30/2010	Average Loan-to-Deposit Ratio 1Q05 to 2Q10
The Gary State Bank	\$10 million	84.09%
FNB in Mahnomen	\$69 million	69.89%
First Financial Bank	\$15 million	52.82%

*Source: Consolidated Report of Condition for 6/30/2010

Lending in Assessment Area

FNB Mahnomen originated a majority of loans inside its defined AA. Based on a sample of 20 loans originated from January 2008 to September 2010, 80% by number and 73% by dollar volume were made to businesses within the bank's AA.

Lending to Businesses of Different Sizes

FNB Mahnomen's distribution of credit among businesses of different sizes in the AA is reasonable. Based on a sample of 20 commercial loans, 90% of the bank's loans originated to borrowers with gross annual revenues of less than \$1 million. This is comparable to the AA demographics; however, the demographic data includes a significant percentage (27%) of businesses that did not report revenues. Bank management indicated that a significant percentage of these unknown businesses are likely smaller in size. Given this information, the bank's lending to businesses of different sizes shows reasonable loan penetration compared to demographics of the AA.

Borrower Distribution of Loans to Businesses in Mahnomen AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	71%	2%	27%	100%
% of Bank Loans in AA by #	90%	10%	-	100%
% of Bank Loans in AA by \$	58%	42%	-	100%

*Source: 2009 Business Geo-Demographic Data

Geographic Distribution of Loans

The bank's geographic distribution of commercial loans reflects a reasonable dispersion throughout census tracts of different income levels. Based on a sample of 20 commercial loans, FNB Mahnomen's loans to borrowers located in moderate-income CTs met community demographics. There were no low-income CTs in the Mahnomen AA. The following table details the bank's performance compared to community demographics.

Geographic Distribution of Commercial Loans In Mahanomena 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
Commercial	0%	0%	38%	30%	62%	70%	0%	0%

*Source: 2009 Business Geo-Demographic Data

Responses to Complaints

The bank has not received any complaints regarding its CRA performance since the last 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.