



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 09, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 7772

1018 Hobart Street
Hawley, MN 56549-0000

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.

First National Bank is responsive to its community's needs.

- A majority of bank loans were originated within the bank's assessment area.
- The bank has reasonable distribution of credit among residential and consumer borrowers in families and households of different income levels.
- The bank's average loan to deposit ratio is more than reasonable.
- The bank did not receive any CRA related complaints during this evaluation period.

SCOPE OF EXAMINATION

We assessed 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).

FNB is a full service bank offering traditional loan and deposit products and services. During the assessment period, the bank's primary lending focus was in the area of residential real estate. To assess the bank's lending performance, we selected primary products based on loan originations for the period beginning January 1, 2007 and ending December 31, 2009. Our examination focused on performance in the bank's assessment area which is located in Clay County. We determined that residential (33 percent by dollar) and consumer (48 percent by number) loans are the banks primary products. We selected a random sample of 20 loans from each of the primary products in order to conduct our analysis. We used 2000 census information for demographic comparison purposes.

DESCRIPTION OF INSTITUTION

First National Bank (FNB) is an \$81 million institution headquartered in Hawley, MN. The community is located in Clay County in northwestern Minnesota. The bank's main office is located in Hawley with a branch located in the neighboring community of Dilworth, MN. The bank has 2 non-deposit taking ATMs, located at each branch office. The bank is wholly owned by a one bank holding company, First Hawley Bancshares, Inc., located in Hawley, MN. The bank did not open or close any branches during the assessment period.

FNB offers a variety of banking products designed to meet the needs of the assessment area. Net loans equal 72 percent of average assets. As reported in the December 31, 2009 call report, the composition of the bank's \$59 million loan portfolio was as follows:

Loan Portfolio Composition	\$(000)	%
Residential Real Estate Loans	13,685	23.20%
Farm Loans (including real estate)	19,665	33.33%
Business Loans (including real estate)	19,921	33.77%
Consumer Loans	4,813	8.16%
Other Loans	913	1.55%
Total	58,997	100%

There are no legal or financial impediments that restrict the bank's ability to meet the credit needs of the community. FNB was rated "Satisfactory" at the last CRA examination dated September 7, 2004.

DESCRIPTION OF ASSESSMENT AREA

The bank's Assessment Area consists of 5 contiguous census tracts (CTs), in Clay County, located in the northwest corner of Minnesota. These 5 middle-income census tracts are located in the eastern portion of Clay County. Despite the fact that the assessment area does not contain any low- or moderate-income census tracts, it meets the requirements of the regulation and does not arbitrarily exclude any of these tracts.

The 2000 US census population of the assessment area was 19,018 and the weighted average of median housing price was \$82,810. The area consists of 5,194 families and 6,944 households. Households below poverty comprise over 9 percent of total households in the assessment area, and families below poverty level comprise over 6 percent of total families in the assessment area. According to the Department of Housing and Urban Development, the median family income was \$68,200 in 2009. According to the U.S. Department of Labor, Bureau of Labor Statistics, the November 2009 unemployment rate for Clay County was 3.5 percent which falls below the state average of 7.3 percent and the national average of 9.7 percent.

Competition in the assessment area is moderate. There are four similarly situated financial institutions in the assessment area with total assets ranging from \$27 million to \$245 million. FNB holds 7 percent of the market share.

During our evaluation, we contacted a local community organization to better understand the demographics and to determine the primary credit needs of the assessment area. Primary credit needs identified by the contact include residential real estate loans, small business/farm lending and consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is more than reasonable based on its financial capacity and lending opportunities. The quarterly LTD ratio averaged 98 percent in the 21 calendar quarters from June 30, 2003 to September 30, 2009.

LOAN-TO-DEPOSIT RATIO		
Institution	Assets 6/30/09	Average Ratio
Midwest Bank	\$245 Million	110%
First National Bank	\$82 Million	98%
Northwestern Bank, NA	\$137 Million	88%
State Bank of Hawley	\$80 Million	71%
State Bank of Lake Park	\$27 Million	70%

FNB's LTD compares reasonably to other community banks of similar size in the assessment area. The average LTD ratio for the four similarly situated banks is 85 percent.

Lending in Assessment Area

FNB's record of lending within its assessment area is reasonable. The majority of the loans originated during the evaluation period are located in the bank's assessment area. The table below shows the results of our analysis.

Lending in FNB's Assessment Area (AA)										
LOAN TYPE	Number of loans					Dollars of Loans				
	Inside AA		Outside AA		Total #	Inside AA		Outside AA		Total \$ (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Residential	15	75%	5	25%	20	\$653	64%	\$365	36%	\$1,018
Consumer	18	90%	2	10%	20	\$188	95%	\$10	5%	\$198
Total reviewed	33	83%	7	17%	40	\$841	69%	\$375	31%	\$1,216

*Source: loan sample

Lending to Borrowers of Different Incomes

The distribution of loans reflects reasonable penetration among households and families of different income levels.

Home Loans

The distribution of home loans among borrowers of different income levels in the assessment area is satisfactory.

Based on our sample of 20 residential real estate loans, the distribution among low-income borrowers is less than reasonable. However, the bank's distribution among moderate-income borrowers is excellent and exceeds the demographic. The following table shows FNB's lending compared to demographics.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	18%	0%	20%	21%	28%	14%	34%	65%

Source: Loan sample; 2000 U.S. Census data.

Consumer Loans

The bank's distribution of consumer loans among borrowers of different income levels is satisfactory.

Based on our sample of 20 consumer loans, lending to low-income households exceeds the demographic comparator and lending to moderate-income households meets the standard for reasonable penetration. The following table illustrates this distribution.

Borrower Distribution of Consumer Loans								
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	24%	26%	16%	10%	19%	17%	41%	31%

Source: Loan sample; 2000 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 assessment area.

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.