



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**June 20, 2011**

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

The First National Bank of Frederick  
Charter Number 8624

314 Main Street  
Frederick, SD 57441

Office of the Comptroller of the Currency

Sioux Falls Field Office  
4900 S. Minnesota Avenue, Suite 300  
Sioux Falls, SD 57108

**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 Lending Test is rated: Satisfactory**

- The bank's quarterly average loan-to-deposit (LTD) ratio of 42.24 percent is reasonable.
- A substantial majority of the bank's loans by number (100 percent) and by dollar amount (100 percent) are located within its assessment area (AA).
- The First National Bank of Frederick (FNB) actively lends to businesses of different sizes.

### **Scope of Examination**

FNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

The lending test for FNB covers its performance from January 1, 2009 through June 20, 2011. FNB's primary loan product is farm loans. To evaluate the bank's lending performance, examiners selected a sample of farm loans originated and purchased from January 1, 2009 through June 20, 2011. The bank's previous CRA rating as of February 1, 2005 was "Satisfactory."

### **Description of Institution**

FNB is located in Frederick, South Dakota in Brown County. As of March 31, 2011 FNB had total assets of \$15 million. There have been no acquisitions or mergers since the previous CRA evaluation.

The bank remains conservative in its business strategy and lending philosophy. FNB offers traditional banking products with agricultural lending as the primary product. The table below shows the bank's loan portfolio composition. Net loans represent 28 percent of total bank assets. FNB's Tier One Leverage Capital is \$2.2 million, or 14 percent of average assets as of March 31, 2011.

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>%</b>
Farm Loans	3,917	86
Business Loans	513	11
Consumer Loans	132	3
<b>Total</b>	<b>\$4,562</b>	<b>100%</b>

*Source: March 31, 2011 Call Report*

There are no legal impediments that would restrict the bank's ability to meet the credit needs of the community.

## DESCRIPTION OF FNB's ASSESSMENT AREA

FNB's AA includes the northern half of Brown County, South Dakota and the western portion of Dickey County, North Dakota. The AA consists of census tracts (CT) 9512 and 9511 in Brown County and CTs 9733 and 9734 in Dickey County. All of the CTs are designated as middle-income areas. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate- income areas.

The bank's AA is dependent on agricultural operations. Employment opportunities outside of the agricultural industry are located in the surrounding areas. The economy remains relatively stable with moderate unemployment, yet it is greatly influenced by changes in agricultural conditions. FNB is located in a rural area and competition in surrounding areas is high with FNB having one percent of the market share.

During our evaluation we contacted a local community organization to better understand the AA demographics and to determine the primary credit needs of the AA. We also relied on previous community contacts made by this and other governmental agencies. The top credit needs of the AA remains farm loans.

## LOAN SAMPLING

The bank's primary loan product was determined by taking all loans originated during the evaluation period with an outstanding balance as of June 20, 2011. The following table depicts the number and volume of loans outstanding at FNB.

<b>Loan Products</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Farm Loans	77	65	4,019	75
Business Loans	19	16	1204	23
Consumer Loans	22	19	111	2
<b>Total</b>	<b>118</b>	<b>100</b>	<b>5,334</b>	<b>100</b>

*Source: Loans originated during the evaluation period with outstanding balances as of June 20, 2011.*

For the purposes of this evaluation, the primary loan product is farm loans. As demonstrated in the above table, farm loans account for 65 percent by number and 75 percent by volume. Community contacts continue to identify farm loans as the primary credit need of the community.

To conduct our analysis, we reviewed a sample of 20 farm loans totaling \$2.5 million.

# CONCLUSIONS ABOUT PERFORMANCE CRITERIA

## Loan-to-Deposit Ratio

FNB’s net loan-to-deposit ratio is reasonable given the AA credit needs, area population, and local economic conditions. The bank’s loan-to-deposit ratio has remained stable since the last CRA examination. During the past 25 quarters ending December 31, 2010 the average quarterly net loan-to-deposit ratio was at 42 percent.

FNB’s net loan-to-deposit ratio is reasonable when compared with other community banks of similar size (total assets less than \$30 million). The other 15 banks had quarterly average net loan-to-deposit ratios averaging 58.47 percent and ranging from 22.11 percent to 98.50 percent over the 25 quarters from December 31, 2004 through December 31, 2010.

FNB is located in a sparsely populated area with fewer farmers/ranchers than most areas in northeastern South Dakota. Farmers and ranchers continue to be the bank’s primary customer base. As the community contact indicated, farm loans remain a credit need in the community. Based on the volume of farm loans, FNB is meeting the needs of the AA.

## Lending in Assessment Area

FNB makes a substantial majority of its loans to farm operations inside the AA. Based on a sample of 20 farm loans, 100 percent by number and 100 percent by volume were within the AA as demonstrated in the following table.

Lending in FNB’s AA										
Loan Type	Number of Loans					Dollars of Loans				
Farm Loans	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
		20	100	0	0	20	2,533	100	0	0

Source: Sample of FNB’s farm loans.

## Lending to Farms of Different Sizes

The bank’s record of lending to farms of different sizes is reasonable. Out of the 20 farm loans sampled, 12 were to farms with revenues under \$1 million (60 percent). Revenue information was not available for the remaining 8 sampled loans (40 percent). The loans to farmers without revenue information were small by dollar. FNB did not make any loans to farms with revenues greater than \$1 million. Assuming the 8 loans without revenue information were to farms with revenues less than \$1 million, FNB’s lending to farm operations with revenues under \$1 million meets the demographics of the AA.

Out of the 20 farm loans sampled, 12 were located in Brown County with 6 farms with revenues under \$1 million (72 percent by dollar). Revenue information was not available for the remaining 6 sampled loans in Brown County (28 percent by dollar). These loans are included in the > \$1 million section below. A majority of the loans originated in Brown County were to small borrowers. The following table illustrates FNB’s lending to farm operations in Brown County.

<b>Borrower Distribution of Loans to Farms in Brown County</b>			
Gross Annual Revenue	% of Volume	% of Dollar Amount	Farm Data
≤ \$1 million	50	72	99
> \$1 million	50	28	1
Total	100	100	100

*Source: Sample of loans inside FNB’s CTs in Brown County.*

Out of the 20 farm loans sampled, 8 were located in Dickey County with 6 to farms with revenues under \$1 million (94 percent by dollar). Revenue information was not available for the remaining 2 sampled loans in Dickey County (6 percent by dollar). These loans are included in the > \$1 million section below. A majority of the loans originated in Brown County were to small borrowers. The following table illustrates FNB’s lending to farm operations in Dickey County.

<b>Borrower Distribution of Loans to Farms in Dickey County</b>			
Gross Annual Revenue	% of Volume	% of Dollar Amount	Farm Data
≤ \$1 million	75	94	99
> \$1 million	25	6	1
Total	100	100	100

*Source: Sample of loans inside FNB’s CTs in Dickey County.*

### **Geographic Distribution of Loans**

Geographic distribution of loans was not completed since the bank’s AA does not contain any low- or moderate-income CTs.

### **Responses to Complaints**

FNB has not received any CRA related complaints during the evaluation period.

### **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.