



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

March 25, 2013

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

The First National Bank of Waseca  
Charter Number 6544

101 North State Street  
Waseca, MN 56093

Office of the Comptroller of the Currency

Campbell Mithun Tower  
222 South Ninth Street, Suite 800  
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 primary factors supporting this rating include:

- The average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area (AA).
- The bank originates a majority of its loans within its AA.
- The borrower distribution of loans reflects reasonable penetration among individuals of different income levels.

**SCOPE OF EXAMINATION**

This Community Reinvestment Act (CRA) examination assessed First National Bank of Waseca's (FNB) performance in meeting the credit needs of its community for the period from September 30, 2007, through December 31, 2012. In evaluating the bank's lending performance, we reviewed lending data from January 1, 2010, to December 31, 2011. The lending test focused on the bank's primary loan products in the AA based on all loan originations by number and dollar volumes. The bank's primary product during this evaluation period was residential real estate loans as these loans accounted for 43 percent by number and 66 percent by dollar volume of originations.

We selected a random sample of 20 residential real estate loans to evaluate the bank's lending activity within the AA. Our sample was expanded to 60 loans after the initial sample resulted in less than a majority of lending in the bank's AA. We considered the loans that were in the bank's AA when evaluating the borrower distribution of lending. Sample results were compared to 2000 U.S. Census demographic data to determine lending performance.

**DESCRIPTION OF INSTITUTION**

FNB is a \$113 million financial institution headquartered in Waseca, MN. Waseca is located approximately 75 miles southwest of the Minneapolis/St. Paul metro area and has a population of approximately 9,480. FNB is owned by a one-bank holding company, Frankson Investment Corporation. The bank's main office is located in Waseca and two additional branches are located in Ellendale and Hope, Minnesota. The bank does not have any affiliate relationships that impact the bank's CRA performance. All locations are full service and drive-up services are available at the main branch. In 2009, a branch located on the north side of Waseca was closed. The closing of this branch did not affect the bank's assessment area or lending ability.

Residential real estate lending continues to be the bank's primary business focus. As of December 31, 2012, FNB's loan portfolio totaled \$87.4 million, or 77 percent of total assets. The bank offers a wide range of traditional loan and deposit products and services which are designated to meet the community's needs. Per the December 31,

2012 call report, residential real estate loans comprised 44 percent of the loan portfolio, commercial loans comprised 45 percent, agricultural loans comprised 7 percent, and consumer loans comprised 4 percent of outstanding loans.

The bank received a “Satisfactory” CRA rating at the prior CRA examination on November 27, 2007. There are no legal, financial, or other factors impeding the bank’s ability to help meet the credit needs of its AA.

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

FNB’s AA includes all of Waseca county, and parts of Freeborn and Steele Counties. The AA includes the five census tracts in Waseca county, two tracts in northern Freeborn county (9801, 9802), and two tracts in southern Steele county (9605, 9608). Eight of the bank’s tracts are middle- income and one is upper- income. The AA does not contain any low- or moderate- income census tracts. The AA includes the census tracts where the branches are located, as well as the surrounding census tracts where the bank originates a majority of its loans. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

As part of the examination we made contact with a local member of the community to help better understand the area credit needs and opportunities. The community contact from the City of Waseca characterized the current local economic conditions as stable and improving. The contact described consumer loans and small business loans as the area’s primary credit needs. The community contact stated that FNB has met the community’s needs, and several staff members represent the bank by serving on city and county boards and committees focused on economic and community development.

Unemployment levels in the AA are relatively consistent when compared to the State of Minnesota. The 2011 annual unemployment rate was 6.6 percent for Freeborn County and 6.3 percent for both Waseca and Steele Counties compared to the Minnesota rate of 6.5 percent. This compares favorably to the national unemployment rate of 8.9 percent. Large employers in the area include Brown Printing, Itron Inc, the Waseca School District, ELM Homes, and the Federal Correctional Facility. Major industries in the AA are services, agriculture, forestry and fishing, retail, manufacturing and construction.

There are 24 financial institutions with a presence in Waseca, Steele and Freeborn Counties. FNB is ranked fifth in deposit market share with 6.25, based on June 30, 2012 deposit information obtained from the Federal Deposit Insurance Corporation. Wells Fargo and US Bank are the top market share holders with nearly 30 percent combined market share.

The following table illustrates the demographic and economic characteristics of the AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE WASECA NON-MSA AA</b>	
Population	
Number of Families	8,615
Number of Households	11,834
% of Low-Income Families	13.64%
% of Moderate-Income Families	17.45%
% of Middle-Income Families	26.89%
% of Upper-Income Families	42.02%
Geographies	
Number of Census Tracts	9
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	88.89%
% Upper-Income Census Tracts	11.11%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$49,753
2011 HUD-Adjusted MFI	\$59,200
Economic Indicators	
2011 Unemployment Rate	6.6% Freeborn County 6.3% Steele County 6.3% Waseca County
2000 Median Housing Value	\$92,231
% of Households Below Poverty Level	6.41%

*Source: 2000 US Census information with updated information when available.*

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

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

The LTD ratio is reasonable given the bank's size, financial condition, and area credit needs. The bank's quarterly average LTD ratio for the 21 quarters since the previous CRA exam is 91.8 percent. Similarly situated banks located in the same AA have quarterly average LTD ratios ranging from 80.00 percent to 123.13 percent over the same time period. The table on the following page shows the bank's LTD ratio compared to other similarly situated institutions.

Institution	Asset size as of 12/31/12	Average Loan-to-deposit ratio (4Q2007-4Q2012)
State Bank of New Richland	\$97 million	123.13%
Farmers & Merchants STB Blooming Prairie	\$71 million	97.37%
Farmers State Bank of Hartland	\$98 million	92.35%
<b>FNB Waseca</b>	<b>\$113 million</b>	<b>91.80%</b>
Security Bank Minnesota	\$97 million	85.86%
Janesville State Bank	\$62 million	80.00%

Source: Call report data.

### Lending in Assessment Area

A majority of the loans originated were made within the bank's AA. We selected 20 residential real estate loans that were originated in years 2010 and 2011 to determine the bank's in/out lending performance. The initial sample resulted in only 50 percent of loans by number in the bank's AA. We thus expanded our sample to 60 loans. With the expanded sample, the majority of the loans, 60 percent by number and 50.27 percent by dollar amount were originated within the bank's AA.

Lending in Waseca Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	36	60%	24	40%	60	\$4,414	50.27%	\$4,366	49.73%	\$8,780

Source: Loan sample.

### Lending to Borrowers of Different Incomes

FNB's distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels. The bank's performance in lending to low-income borrowers is slightly below the demographic comparator of low-income families in the AA. However, we took into consideration the AA family poverty level of 4.6 percent which presents difficulty in lending to low-income individuals. Lending to moderate-income borrowers was also slightly below the demographic comparator.

Borrower Distribution of Residential Real Estate Loans in Waseca AA								
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 RE	13.64%	11%	17.45%	14%	26.89%	25%	42.02%	50%

Source: 2000 Census Data and loan sample.

### **Geographic Distribution of Loans**

The geographic distribution of loans does not provide a meaningful analysis as the bank's AA has no low-or moderate-income census tracts.

### **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**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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