



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 2, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter No. 8991

121 North Main Street
Hettinger, ND

Office of the Comptroller of the Currency
Fargo Duty Station
3211 Fiechtner Drive SW
Fargo, ND

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of First National Bank (FNB), prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of July 2, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

First National Bank extends a majority of loans within its assessment area. The distribution of borrowers reflects a good penetration among individuals of different income levels, including low- and moderate-income, and businesses of different sizes.

The following table indicates the performance level of First National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans	Analysis is not meaningful, as the bank's entire assessment area is middle-income.		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank (FNB) is a \$26 million bank located in Hettinger, ND. The bank is wholly owned by Rolla Holding Company, Inc. (RHC), which purchased FNB from First Bank Systems in August 1993. RHC also owns First State Bank Rolla. First Bank Systems purchased FNB from Siouxland Holding Company in June 1992. FNB has a branch in Regent, ND and a paying and receiving station in Reeder, ND.

FNB offers a wide variety of loan products including agricultural, small business, consumer and residential real estate loans. As of March 31, 1996, FNB's loan mix was approximately 35% agricultural, 32% real estate (14% agricultural, 13% 1-4 family residential, and 5% nonfarm nonresidential), 23% commercial, and 10% consumer.

There are no legal impediments or other factors, including the financial condition of FNB, which hinder FNB's ability to fulfill its CRA obligation.

DESCRIPTION OF ASSESSMENT AREA:

FNB designates the following block numbering areas (BNAs) as its assessment area: 9648, 9655, 9656, 9983, and 9987. FNB's assessment area includes Adams County in North Dakota, the west half of Hettinger County in North Dakota, Perkins County in South Dakota, and Harding County in South Dakota. The assessment area includes North Dakota cities of Hettinger, New England, Reeder, and Regent and South Dakota cities of Lemmon, Bison, and Buffalo. Census information on the assessment area identifies a population of approximately 10,500. All five BNAs are considered middle income. The 1996 HUD non-MSA blended statewide median income for North Dakota and South Dakota is \$32,500. Income levels of families within FNB's assessment area are 20% low income, 19% moderate income, 24% middle income, and 37% high income. Agriculture, including farming and ranching, and agricultural-dependent businesses support the assessment area's economy. We identified four financial institutions within the city of Hettinger and nine additional financial institutions within the remaining assessment area. FNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- and moderate-income areas.

Community contacts included an economic development official and a local Realtor. The Realtor listed agricultural loans as the primary credit needs of the community. The economic development official did not list any specific credit needs. Most comments were neutral in nature with regard to the overall lending performance of the bank.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to Deposit Analysis

The bank's loan-to-deposit ratio (L/D) is acceptable at an average of 39% for the prior eight quarters ending March 31, 1996. The bank's L/D is lower than that of other local financial institutions, some of which average 65-73% for the same period. However, the other financial institutions have a long history within the community and benefit from established ownership and management. Since June 1992, FNB has been sold twice. Both sales were to holding companies from outside the Hettinger area. At each change in ownership, the seller retained approximately \$1.5 million of bank loans, which had a negative effect on the bank's L/D. First Bank System's (FBS) attempts to sell FNB immediately upon acquisition in June 1992 were well known within the community during the 14-month period in which they owned FNB. Since their purchase of the bank from FBS in August 1993, present owners and management have faced the task of re-establishing customer relations hindered during the period of uncertainty while FBS attempted to sell the bank. Further, a commercial lender who had been with FNB throughout the ownership changes of the 1990s left in March 1995 to join a competitor bank. Additional factors which contribute to management's challenge of rebuilding the bank's loan portfolio include significant competition from numerous financial institutions within the assessment area and an aging local population which typically utilizes more deposit services than credit products.

Credit Extended Inside and Outside of the Assessment Area

A majority of the bank's outstanding loans, including all types of credit extended, are within its assessment area. Our sample included all new 1996 credits extended through mid-June. Approximately 89% of the bank's 75 new credit extensions (58% by dollar volume) were extended to borrowers within the bank's assessment area.

Lending to Borrowers of Different Income and to Businesses of Different Sizes

The distribution of borrowers reflects good penetration among businesses, farms, and ranches of different sizes. Since a majority of the bank's loan portfolio is agricultural and commercial credits, we focused our review on the bank's efforts to lend to these customers. We used loan origination size as a proxy for the size of the business, farm, and ranch customers. We sampled all 51 new commercial and agricultural credits extended within the bank's assessment area year-to-date 1996 through mid-June. Our review indicates that the bank originated a substantial number of small-dollar business and agricultural credits.

1996 Commercial and Agricultural Credits Originated through mid-June

Loan Amount	Number of Originations	Volume of Originations
0-\$24,999	38	\$431,112
\$25,000-\$49,999	7	\$272,000
\$50,000-\$74,999	3	\$184,591
\$75,000-\$99,999	1	\$78,000
\$100,000-\$499,999	1	\$312,000
\$500,000 +	1	\$500,000
Totals	51	\$1,777,703

Furthermore, our brief review of the 12 consumer credits extended year-to-date 1996 through mid-June, indicate that the bank is extending credit to individuals of different income levels, including low- and moderate-income borrowers. Our analysis shows that the bank extended 33% of new originations to low-income borrowers, 42% to moderate-income borrowers, and 25% to middle- and upper-income borrowers.

Compliance with antidiscrimination laws and regulations

Our review did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations.