



Comptroller of the Currency
Administrator of National Banks

Small Bank

PUBLIC DISCLOSURE

December 8, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Waseca
101 North State Street
Waseca, Minnesota 56093

Charter # 6544

Office of the Comptroller of the Currency
920 Second Ave. S. Suite 800
Minneapolis, MN 55402

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 The First National Bank of Waseca, Minnesota, prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, between September 8, 1995 and December 22, 1998. The agency rates an institution's CRA performance consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: "Satisfactory"

The bank's loan-to-deposit ratio is more than reasonable and the bank originates a substantial majority of its loans inside their assessment area. The bank has a reasonable record of lending to individual borrowers of different income levels in relation to the demographics of the assessment area. The bank has a reasonable record of lending to businesses and farms of different size.

DESCRIPTION OF INSTITUTION

The First National Bank of Waseca (FNB Waseca) is a \$120 million institution with its main office located in Waseca, Minnesota, which is approximately 70 miles southwest of the Minneapolis/St. Paul metro area in Waseca County. The city has a population of 8,400. The bank has three branch offices within a 15 mile radius of the main office. The bank recently acquired a new branch location in Waseca. The three other branches are located in the communities of Hope, Ellendale and Waseca, Minnesota.

The bank offers a full line of commercial and retail services at all locations. The bank's ATMs are located at the main office and a local grocery store. The main office and branch in Waseca are located in an upper-income area. The other branches are located in middle-income areas.

The bank offers a wide range of loan products well suited to community credit needs. There are no legal or financial impediments limiting the bank's ability to meet these credit needs. The bank's primary focus is agricultural, small business and residential real estate lending. As of September 30, 1998, the bank's \$84.7 million loan portfolio consisted of 39 percent commercial, 38 percent residential real estate, 14 percent agricultural, and 9 percent consumer loans.

DESCRIPTION OF THE ASSESSMENT AREA

FNB of Waseca's assessment area consists of all five block numbering areas (BNAs) of Waseca County, two northern BNA's in Freeborn county (BNA numbers 9801 and 9802) and two eastern BNAs in Steele county (BNA numbers 9605 and 9608). All BNA's are designated middle income geographies with the exception of the two upper income BNA's encompassing the city of Waseca. The bank's assessment area meets regulator requirements.

Based on 1990 Census data, the population of the assessment area is 31,118. The updated 1998 median family income for the assessment area is \$40,500. Of the 8,508 families in the assessment area, 14 percent are low-income, 16 percent are moderate income, 26 percent are middle income, and 44 percent are upper income. Light manufacturing companies make up the largest employment sector. Agricultural, retail and service related industries add diversity to the local economic base. Unemployment in the area is similar to state averages and is low.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Analysis

FNB Waseca's loan to deposit ratio is more than reasonable given the bank's size, financial condition, branching network, and lending opportunities within its assessment area. The bank's average loan to deposit ratio from September 1995 to September 1998 was 86 percent. This compares to average loan to deposit ratios that ranged from 51 percent to 97 percent for 14 similarly situated banks operating in the bank's assessment area during the same time period. The average loan to deposit ratio of these 14 banks was 75 percent.

Lending Inside the Assessment Area

A substantial majority of FNB Waseca's loans are inside the bank's assessment area. Approximately 89 percent by number, and 94 percent of the bank's small business and agricultural loans, were originated within the bank's assessment area. Our assessment is based on a sample of 28 business and agricultural loans totaling \$5.9 million, or 13 percent of all commercial and agricultural loans outstanding on September 30, 1998.

Approximately 93 percent by number and 91 percent by dollar volume of the bank's residential loans were originated within the bank's assessment area. Our assessment is based on a sample of 103 residential real estate loans totaling approximately \$4.8 million originated in 1998. This sample included all residential real estate loans reported on the Fair Housing Lending Home Loan Application Log Sheets between January 1, 1998 and November 30, 1998.

Geographic Distribution of Loans

We did not evaluate the geographic distribution of lending within the bank's assessment area. The number and income distribution of geographies in the assessment area are not sufficient for a meaningful analysis of the geographic distribution of the bank's loans. All BNA's are considered middle or upper income.

Lending to Businesses of Different Sizes and Borrowers of Different Incomes:

The bank has a reasonable distribution of lending to businesses and farms of different revenues sizes in relation to the demographics of the assessment area. We reviewed a sample of 25 business and agricultural loans, with original balances of \$5.6 million within the bank's assessment area. This sample represents 12.5 percent of all commercial and agricultural loans outstanding on September 30, 1998. The bank originated 60 percent by number of their commercial and agricultural loans to borrowers with annual revenues less than \$1 million. This compares to 77 percent of the businesses and farms in the assessment area having annual revenues of less than \$1 million, per US Census Bureau data. The following table illustrates the results of this review.

Lending Distribution by Revenue Size of Businesses and Farms Based on Loan Originations Since March 31, 1997			
Revenue Size of Businesses and Farms Sampled \$(000's)	FNB Lending Distribution by Number of Loans	Percentage of Businesses and Farms in each Revenue Category (census information)	FNB Lending Distribution by Dollar of Loans
\$0 - \$250	28%	77%	14%
\$250 - \$500	16%		6%
\$500 - \$1,000	16%		6%
> \$1,000	40%	8%	74%
Revenues not reported		15%	
Totals	100%	100%	100%

The bank has a reasonable record of lending to individual borrowers of different income levels in relation to the demographics of the assessment area. We reviewed residential real estate transactions reported on the 1998 Fair Housing Lending Home Loan Application Log Sheet (Log Sheets) to determine borrower distribution within the assessment area. We reviewed all loans reported on the Log Sheets between January 1, 1998 and November 30, 1998. The analysis included 91 loans totaling \$4.5 million.

Distribution by Borrower Income of Residential Real Estate loans Comparison to Demographics and Market			
Income Category of Families	Loan reported on the Log Sheets between January 1998 and November 1998		% of Families in Income Category in Assessment Area
	(by number)	(by dollar volume)	
Low-Income	3%	2%	14%
Moderate-Income	21%	16%	17%
Middle-Income	25%	22%	25%
Upper-Income	51%	60%	44%
Totals	100%	100%	100%

Response to CRA Related Complaints

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

Compliance with Anti-discrimination Laws

FNB Waseca complies with applicable anti-discrimination laws and regulations. We found no evidence of discriminatory credit practices or disparate credit treatment during our fair lending review.