

PUBLIC DISCLOSURE

March 9, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Independent Bank of Wood Lake
Certificate Number: 10578**

**53 2nd Avenue West
Wood Lake, Minnesota 56297**

**Federal Deposit Insurance Corporation
2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108**

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.

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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 Independent Bank of Wood Lake** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **March 9, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

The bank's CRA performance depicts a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The following supports this rating:

- The average net loan-to-deposit ratio of 85 percent since the last evaluation demonstrates a reasonable willingness to lend given the bank's financial condition and size, external economic factors, and assessment area credit needs.
- Using statistically valid sampling procedures, it was determined that the bank extends a majority of its agricultural, commercial, and residential loans, by number, within its assessment area. This indicates a reasonable willingness to reinvest deposits in local loans.
- The bank has achieved a reasonable penetration among farms and businesses of different revenue sizes (based on gross annual revenues) and residential borrowers of different income levels. This demonstrates that the bank is helping to meet the credit needs of farms and businesses of various revenue sizes, including smaller operations, as well as individuals of different income levels.
- The bank does not appear to exclude lending anywhere in its assessment area, and the geographic distribution of loans is reasonable when considering demographic information and the location of its offices.
- The bank has not received any written CRA-related complaints since the last evaluation.
- Examiners relied on a community contact made prior to the evaluation. The contact did not have any concerns regarding the subject bank.

DESCRIPTION OF INSTITUTION

First Independent Bank of Wood Lake (FIB) operates from a main office in Wood Lake, Minnesota, and a branch location in Hanley Falls, Minnesota. Both offices are located in eastern Yellow Medicine County in southwest Minnesota. The bank offers a range of loan products including agricultural, commercial, residential, and consumer loans. These products are consistent with its size, financial capacity, and geographic location. Finlayson Bancshares, Inc., a multi-bank holding company, controls the bank.

As of December 31, 2003, the bank had total assets of \$19,213,000, total loans of \$13,909,000, and total deposits of \$17,521,000. Other than the legal lending limit, there are no financial or legal impediments that would restrict the bank's ability to lend in its assessment area. At the previous FDIC CRA Performance Evaluation, dated June 25, 1998, the institution was rated "Outstanding."

As displayed in Table 1, the FIB's loan portfolio is diversified between agricultural, commercial, and residential real estate loans. These categories account for 83 percent of the total loan portfolio. The remainder of the portfolio consists of consumer and municipal loans. The bank's business focus is diversification. The bank is originating more residential loans and started offering home equity lines of credit since the last evaluation. Management stated that the volume of agricultural loans has remained stable over the years; however, the percentage of the portfolio has decreased as lending in other loan categories has increased.

Table 1 – Loan Portfolio Distribution

Loan Type	Dollar Volume	Percent of Total Loans
Real estate secured by farmland	\$614	5%
Revolving open-end real estate loans secured by 1-4 family residential properties	\$499	4%
Closed-end real estate loans secured by 1-4 residential properties	\$3,111	22%
Nonfarm nonresidential properties	\$2,331	17%
Loans to finance agricultural production and other loans to farmers	\$4,919	35%
Commercial and industrial	\$607	4%
Other consumer loans (includes single payment, installment, and all student loans)	\$1,638	12%
Obligations of states and political subdivisions	\$190	1%
Total Loans	\$13,909	100%

Source: Report of Condition – December 31, 2003 (dollars in 000s)

DESCRIPTION OF FIRST INDEPENDENT BANK OF WOOD LAKE'S ASSESSMENT AREA

The Community Reinvestment Act of 1977, as amended, requires banks to identify one or more Assessment Areas within which its regulatory agency will evaluate the bank's performance. The area(s) defined by the bank must include its main office, branches, and other deposit taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The assessment area always consists of one or more whole geographies identified as Census Tracts (CTs).

FIB identified five CTs that encompass portions of Lyon, Redwood, and Yellow Medicine Counties as its assessment area. The area includes CT 9601 in Lyon County, CT 9505 in Redwood County, and CTs 9701, 9703, and 9704 in Yellow Medicine County. The bank's offices are located in CT 9704. The assessment area is irregular in shape and encompasses an area approximately 40 miles east to west and 45 miles north to south at its widest points.

Overall the assessment area is primarily rural in nature and includes the communities of Clarkfield, Cottonwood, Echo, Hanley Falls, Hazel Run, Granite Falls, Lucan, Milroy, Minneota, Porter, Taunton, Vesta, and Walnut Grove, and Wood Lake. The population of the assessment area decreased approximately four percent from 1990 to 2000. All of the CTs in the assessment area are considered middle-income geographies. The specific CTs, including their income classifications, are shown in Table 2. The income category classification for the CTs is based on the 2000 median family income (MFI) of nonmetropolitan Minnesota.¹

Table 2 – Census Tracts in the Assessment Area

CT	County	Median Family Income (MFI)	Percent of Applicable MFI	Income Category	Population
9601	Lyon	\$48,495	105%	Middle	3,861
9505	Redwood	\$40,870	89%	Middle	2,834
9701	Yellow Medicine	\$45,743	99%	Middle	3,407
9703		\$41,851	91%	Middle	2,819
9704		\$41,989	91%	Middle	2,099

Source: 2000 U.S. Census

The assessment area is primarily agricultural based, resulting in a high demand for loans targeted at that industry. The 1997 Census of Agriculture shows a 12 percent decline in the number of farms in these three counties from 1992 to 1997. The average size of farms increased 8 percent over the same period. Discussions with management indicated that those trends have continued in the past several years. Based on discussions with bank officials and a representative of

¹ The 2000 MFI of nonmetropolitan Minnesota was \$46,129. A geography's income level is determined by comparing the 2000 MFI for the geography with the 2000 MFI for the nonmetropolitan portion of the state. Low-income is defined as less than 50 percent of that MFI, moderate-income is defined as 50 to less than 80 percent, middle-income as 80 to less than 120 percent, and upper-income as 120 percent and over.

southwest Minnesota, other credit needs of the assessment area include commercial, residential, and consumer loans.

Although no other financial institutions have offices in Wood Lake or Hanley Falls, several other banks and lenders are located in the bank’s assessment area. FIB competes for loans with these institutions, as well as with Farm Credit Services and other financial institutions located immediately adjacent to the assessment area. A representative of southwest Minnesota contacted prior to the evaluation stated that financial institutions in the area are generally meeting the credit needs of the communities they serve.

Some of the larger employers in the assessment area include Norcraft Companies, North Star Mutual Insurance Company, Hofco Inc., Prairie’s Edge Casino, and various health care facilities. According to the Bureau of Labor Statistics, the unemployment rates of Lyon, Redwood, and Yellow Medicine Counties during the fourth quarter of 2003 ranged from 3 to 5 percent, which compare with the State of Minnesota unemployment rate of 4 percent and the national unemployment rate of 6 percent during the same time period.

Table 3 displays selected demographic data of the assessment area.

Table 3 – Demographic Information

	Assessment Area
Population	15,020
Number of families	4,142
Percent of owner-occupied housing	73%
Percent of renter-occupied housing	18%
Weighted average of median housing value	\$62,777
Median gross rent	\$362
Percent households below poverty	10%

Source: 2000 U.S. Census

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Five criteria are utilized in evaluating a small bank's effectiveness in meeting the financing needs of consumers, agricultural borrowers, and commercial entities within the assessment area. Four of the criteria relate to lending performance, and one addresses responsiveness to CRA-related complaints. The findings of each criterion are evaluated and result in an overall rating for Community Reinvestment Act performance. Furthermore, a bank's compliance with anti-discrimination laws and regulations is considered when evaluating a bank's performance. Finally, a bank's participation in community development related investments and services can also positively impact an institution's performance. Comments supporting the conclusions for each criterion are detailed on the following pages.

Loan-to-Deposit Ratio

FIB's average net loan-to-deposit ratio of 85 percent since the last evaluation demonstrates a reasonable willingness to lend. The quarterly net loan-to-deposit ratio has fluctuated between 66 percent and 99 percent since the last evaluation. The fluctuations are generally attributed to seasonal demand for agricultural loans. The average ratio has increased from the June 25, 1998, Performance Evaluation when it was 79 percent. As evident by the December 31, 2003, Report of Condition, the bank now has \$13,698,000 in net loans, which is an increase of approximately \$2,344,000 (21 percent) since the last evaluation. Total deposits and assets have increased 41 and 38 percent, respectively. According to management, the growth in loans is primarily attributed to an increase in participations purchased from affiliated institutions.

To further evaluate the reasonableness of this ratio, examiners compared the FIB's average net loan-to-deposit ratio to other similarly situated lenders located in or near the assessment area. Of the local competitors, five are similar in many respects, including community characteristics, asset structure, and loan products. The average net loan-to-deposit ratios for the last 23 quarter-ends for the subject bank and the similarly situated institutions are shown in Table 4.

Table 4 – Net Loan-to-Deposit Ratios, Similarly Situated Lenders

Institution	City, State	Total Assets	Average Net Loan-to-Deposit Ratio
<i>First Independent Bank of Wood Lake</i>	<i>Wood Lake, MN</i>	<i>\$19,213</i>	<i>85%</i>
Farmers and Merchants State Bank	Clarkfield, MN	\$36,256	86%
United Southwest Bank	Cottonwood, MN	\$42,981	68%
State Bank of Lucan	Lucan, MN	\$26,589	70%
First Security Bank - Sanborn	Sanborn, MN	\$12,814	94%
State Bank of Taunton	Taunton, MN	\$29,406	69%

Source: Reports of Condition June 30, 1998, through December 31, 2003 (dollars in 000s)

FIB's ratio is higher than three of the five similarly situated lenders. This is support that the bank is willing to extend credit in an adequate manner. The average net loan-to-deposit ratio since the last evaluation is reasonable given the bank's financial condition and size, external economic factors, and assessment area credit needs.

Lending in the Assessment Area

The bank is helping to meet the credit needs of its assessment area by making a majority of its agricultural, residential, and commercial loans in the assessment area. FIB's performance is considered reasonable regarding lending in the assessment area.

To assess the lending performance under this and the following factors, three loan types were reviewed. The loan samples were selected based on the largest loan categories reported on the bank's December 31, 2003, Report of Condition and discussions with management. Agricultural loans were selected as one category since that is the single largest loan type at 40 percent of the loan portfolio. Agricultural production and farmland real estate were combined and reviewed as one loan category because these loan products are targeted at the same borrowers and are the primary business focus of the bank. The next largest loan product was closed-end residential loans at 22 percent of the loan portfolio. The last loan category selected was commercial operating and commercial real estate loans at 21 percent of the loan portfolio. These loan categories were also combined and reviewed as one type since the bank's commercial loan products are targeted at the same borrowers.

Table 5 displays the universes of loans for each loan category. The agricultural universe includes all loans originated and that remained outstanding during the 6 month period preceding the date of the loan trial balance provided to examiners. Due to the smaller number of loans, the universes of residential and commercial loans included all loans originated and that remained outstanding during the previous 12 month period.

Table 5 – Universes

Loan Category	Number of Loans	Dollars in Loans
	Universe	Universe
Agricultural Loans, including Agricultural Real Estate	45	\$4,348
Residential 1-4 Family, Closed-end	28	\$1,698
Commercial Loans, including Commercial Real Estate	12	\$1,555

The analyses in Tables 6, 7, and 8 show that the bank is making the majority of its agricultural, residential, and commercial loans, by number, in the assessment area. A majority of the commercial loans located outside of the assessment area were loans purchased from other institutions. Management indicated that the bank has purchased loans to supplement its earnings and offset the influx of deposits and has not done so at the detriment of local credit needs.

Table 6 – Assessment Area Concentration – Agricultural Loans

	Number	Percent	Dollars	Percent
Loans in assessment area	44	98%	\$4,108	94%
Loans outside assessment area	1	2%	\$240	6%
Total sample	45	100%	\$4,348	100%

Source: FDIC sample from loan trial balance (dollars in 000s)

Table 7 – Assessment Area Concentration – Residential Loans

	Number	Percent	Dollars	Percent
Loans in assessment area	22	79%	\$1,146	67%
Loans outside assessment area	6	21%	\$552	33%
Total sample	28	100%	\$1,698	100%

Source: FDIC sample from loan trial balance (dollars in 000s)

Table 8 – Assessment Area Concentration – Commercial Loans

	Number	Percent	Dollars	Percent
Loans in assessment area	6	50%	\$435	28%
Loans outside assessment area	6	50%	\$1,120	72%
Total sample	12	100%	\$1,555	100%

Source: FDIC sample from loan trial balance (dollars in 000s)

The above facts reflect a reasonable performance given the bank’s size and assessment area credit needs and demonstrate the bank’s willingness to reinvest deposits back into the local community through loans.

Borrower Profile

The bank has achieved a reasonable loan penetration among farms and businesses of different revenue levels. This demonstrates that the FIB is helping to meet the credit needs of farms and businesses of various revenue sizes, including smaller operations.

The loan samples described previously under the heading “Lending in the Assessment Area” were used to evaluate the FIB’s performance of lending to farms and businesses of different sizes within the assessment area. Therefore, the 44 agricultural loans, 22 residential, and 6 commercial loans located within the assessment area were further analyzed for this performance factor.

Agricultural Loans

To evaluate the FIB’s record of lending to farms of different sizes, the agricultural loans located within the assessment area were reviewed. Gross annual revenue information was obtained from the loan files or via discussions with bank management. Agricultural borrowers were categorized based on this information. Table 9 reflects the results of this analysis and a comparison to available demographic data from D&B Corporation for the designated assessment area.

Table 9 – Loan Distribution by Borrower’s Revenue – Agricultural Loans

Gross Revenue	Farms in Assessment Area		Bank’s Agricultural Lending			
	Number	Percent	Number	Percent	Dollars	Percent
\$0 < \$100	332	57%	15	34%	\$605	15%
\$100 < \$250	215	37%	18	41%	\$2,295	56%
\$250 < \$500	29	5%	10	23%	\$868	21%
\$500 and up	7	1%	1	2%	\$340	8%
Totals	583	100%	44	100%	\$4,108	100%

Source: 2003 D&B Corporation business data and FDIC sample from loan trial balance (dollars in 000s)

The analysis in Table 9 indicates that the FIB’s agricultural loans are reasonably dispersed among farms in all revenue categories based on the percentages by number and dollar of loans. Comparing the D&B Corporation data to the FIB’s percentage by number of loans is considered more meaningful as the D&B Corporation data is based on the number of farms in each revenue category. The analysis reveals that the FIB’s number and dollar volume of loans to borrowers in the different revenue categories are generally in line with demographic information, with slight variances. This performance appears reasonable for the area served.

The bank also participates in special guaranteed and subordinated loan programs through the Farm Service Agency (FSA). Such programs are generally targeted to smaller farm operations that cannot qualify for traditional financing. Currently, FIB holds two FSA guaranteed loans. FIB’s participation in these programs further evidences its willingness to lend to farms of different revenue sizes.

Residential Loans

To evaluate the bank’s record of lending to borrowers of different income levels, residential loans located within the assessment area were reviewed. Income information was obtained from the loan files. The income for each borrower was compared to the 2003 estimated MFI of nonmetropolitan Minnesota to determine the income category of the borrowers.² Each borrower was placed into an income category based on this information. Table 10 reflects the results of this analysis and a comparison to 2000 U.S. Census data.

² The 2003 estimated MFI of nonmetropolitan Minnesota was \$51,700. Low-income is defined as less than 50 percent of that MFI, moderate-income is defined as 50 to less than 80 percent, middle -income as 80 to less than 120 percent, and upper-income as 120 percent and over.

Table 10 – Loan Distribution by Borrower’s Income – Residential Loans

	Families in Assessment Area		Bank’s Residential Lending			
	Number	Percent	Number	Percent	Dollars	Percent
Low	711	17%	8	36%	\$256	22%
Moderate	857	21%	2	9%	\$121	11%
Middle	1,157	28%	7	32%	\$426	37%
Upper	1,417	34%	5	23%	\$343	30%
Totals	4,142	100%	22	100%	\$1,146	100%

Source: 2000 and 2003 U.S. Census and FDIC sample from loan trial balance (dollars in 000s)

As the analysis shows, FIB originates loans to borrowers of all income levels, including low- and moderate-income individuals. While FIB’s percentage by number of loans in the moderate-income category appears to be below demographic data, this is offset by the performance in the low-income category, which exceeds demographic data.

Commercial Loans

To evaluate FIB’s record of lending to businesses of different sizes, the commercial loans located within the assessment area were reviewed. Gross annual revenue information was obtained from the loan files or via discussions with bank management. Each commercial borrower was categorized based on this information. Table 11 reflects the results of this analysis and a comparison to demographic data from D&B Corporation.

Table 11 – Loan Distribution by Borrower’s Revenue – Commercial Loans

Gross Revenue	Businesses in Assessment Area		Bank’s Commercial Lending			
	Number	Percent	Number	Percent	Dollars	Percent
\$0 < \$100	384	55%	1	17%	\$35	8%
\$100 < \$250	154	22%	5	83%	\$400	92%
\$250 < \$500	64	9%	0	0%	\$0	0%
\$500 < \$1,000	33	5%	0	0%	\$0	0%
\$1,000 and up	61	9%	0	0%	\$0	0%
Totals	696	100%	6	100%	\$435	100%

Source: 2003 D&B Corporation business data and FDIC sample from loan trial balance (dollars in 000s)

As reflected in the analysis in Table 11, the FIB’s commercial lending to local businesses is concentrated in the lowest two revenue categories. FIB primarily focuses its commercial lending on the immediate local communities, which mainly contain smaller businesses. FIB’s performance is reasonable given this information.

Overall

The analyses presented in Tables 9, 10, and 11 demonstrate that the bank has achieved a reasonable penetration among farms and businesses of different revenue sizes, including smaller

operations, and to individuals of different income levels. Based on the information available, FIB’s performance is reasonable.

Geographic Distribution of Loans

The geographic distribution of loans appears reasonable after considering the demographics of the assessment area and the locations of the bank offices.

The loan samples described previously under the heading “Lending in the Assessment Area” were used to evaluate the bank’s performance of lending to farms and businesses in the CTs in the assessment area. Therefore, the 44 agricultural, 22 residential, and 6 commercial loans located within the assessment area were further analyzed for this performance factor.

Agricultural Loans

The geographic distribution of FIB’s agricultural loans is presented in Table 12. The loans are distributed among all five CTs, with a higher concentration in CT 9704. Since the bank’s offices are located in CT 9704, it is expected that more loans would be made to borrowers in that particular CT. FIB’s results are considered reasonable.

Table 12 – Loan Distribution by Geography – Agricultural Loans

Census Tract	Percent of Businesses	Bank’s Agricultural Lending			
		Number of Loans		Dollars in Loans	
		Number	Percent	Dollars	Percent
9601	28%	2	5%	\$300	7%
9505	29%	4	9%	\$307	8%
9701	9%	4	9%	\$275	7%
9703	15%	5	11%	\$502	12%
9704	19%	29	66%	\$2,724	66%
Totals	100%	44	100%	\$4,108	100%

Source: 2003 D&B Corporation business data and FDIC sample from loan trial balance (dollars in 000s)

Residential Loans

The geographic distribution of FIB’s residential loans is presented in Table 13. The loans are primarily concentrated in CT 9704. Again, since the bank’s offices are located in CT 9704, it is expected that more loans would be made to borrowers in that particular CT. In addition, several other financial institutions that offer residential real estate loans are located in the other geographies within the bank’s assessment area. FIB’s results are considered reasonable.

Table 13 – Loan Distribution by Geography – Residential Loans

Census Tract	Percent of Owner Occupied	Percent of Families	Bank's Residential Lending			
			Number of Loans		Dollars in Loans	
			Number	Percent	Dollars	Percent
9601	24%	25%	4	18%	\$293	26%
9505	20%	20%	1	5%	\$62	5%
9701	23%	22%	1	5%	\$77	7%
9703	18%	19%	0	0%	\$0	0%
9704	15%	14%	16	72%	\$714	62%
Totals	100%	100%	22	100%	\$1,146	100%

Source: 2000 U.S. Census and FDIC sample from loan trial balance (dollars in 000s)

Commercial Loans

The analysis of the geographic distribution of commercial loans revealed that all six of the loans located in the assessment area were originated in CT 9704. As previously mentioned, the bank's office is located in CT 9704, and it is expected that more loans would be made to borrowers in that particular CT. The institution's performance in this criterion, with respect to commercial loans, is considered reasonable.

Overall

There are no low- or moderate-income geographies within the assessment area. Because all the CTs are classified as middle-income geographies, this criterion is not given significant weight in the overall evaluation. FIB's geographic distribution of loans is reasonable based on a review of available demographics and the locations of the bank offices.

Response to CRA-Related Complaints

The bank has not received any CRA-related complaints since the last evaluation.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.