
PUBLIC DISCLOSURE

November 3, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Financial Bank
Certificate Number: 16115**

**205 Main Avenue West
Twin Valley, Minnesota 56584**

Federal Deposit Insurance Corporation

**2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108**

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.

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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 Financial Bank**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 3, 2008**. 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.

An institution in this category has a satisfactory record of helping to meet the credit needs of the assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. Support for this rating is summarized below.

- The bank's average net loan-to-deposit ratio of 59 percent demonstrates a reasonable willingness to lend given the bank's financial condition, size, and comparisons to similarly situated lenders.
- Examiners determined that the bank extended a majority of the sampled small farm, residential real estate, and small business loans within its assessment area. This performance demonstrates a reasonable record of lending inside the assessment area.
- Analysis of the aforementioned loans revealed that the institution is originating loans to business and farm operators of varying revenue sizes and residential real estate borrowers of different income levels. Lending performance data evidences that a more than reasonable number and dollar volume of loans have been extended to small business and small farm operators, and a reasonable number and dollar amount of loans has been extended to low- and moderate-income residential real estate borrowers.
- The institution has not received any written CRA-related complaints since the last evaluation.

SCOPE OF EXAMINATION

Examiners reviewed the bank's agriculture, residential real estate, and commercial loans as part of this evaluation. The bank's largest loan product by dollar volume as of the June 30, 2008, Report of Condition, is agricultural lending, which comprises 35 percent of the portfolio. Therefore, the analysis relating to this product was weighted more heavily in the review process. The need for residential real estate and commercial lending within the assessment area is not as great as the need for agricultural lending; however, these products were also reviewed, as they both comprise 28 percent of the loan portfolio. Residential real estate and commercial lending will be weighted equally in this evaluation. The remainder of the portfolio consists of a variety of loan types including consumer loans (9 percent), which were not chosen for individual evaluation because they do not represent significant percentages of the total loan portfolio in terms of dollar volume. Overall, agricultural credit is the primary credit need within the assessment area.

In order to evaluate the bank's record of lending, samples of small farm, residential real estate, and small business loans were selected for analysis.¹ A sample of 22 small farm loans totaling approximately \$421,000 was taken from a universe of 46 small farm loans totaling approximately \$889,000. Additionally, all 10 residential real estate loans totaling approximately \$258,000 were reviewed. Finally, a sample of 15 small business loans totaling approximately \$362,000 was taken from a universe of 27 small business loans totaling approximately \$1,203,000. The loans were originated in the 12 month time period from October 14, 2007, to October 14, 2008. The bank does not have any affiliates that were considered as part of this performance evaluation.

¹ A small farm loan is a loan of \$500,000 or less that is included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. A small business loan is a loan of \$1 million or less that is included in "loans to small businesses" as defined in the instructions to the Consolidated Report of Condition and Income.

DESCRIPTION OF INSTITUTION

First Financial Bank (FFB) is owned by MEDR Bancshares, Inc., a two-bank holding company located in Erskine, Minnesota. The institution's sole office is located in Twin Valley, Minnesota. Additionally, the bank owns and operates one cash-dispensing automated teller machine (ATM) situated in the entryway of their office.

The June 30, 2008, Report of Condition lists the bank's total assets as \$15,480,000, total loans as \$6,683,000, and total deposits as \$13,649,000. Since the prior CRA Performance Evaluation dated December 1, 2003, total deposits, total assets, and net loans have increased 10 percent, 3 percent, and 11 percent, respectively.

The bank offers standard loan and deposit products that appear to be well suited to the banking needs of the local area. As previously indicated, the bank is primarily an agricultural lender, but offers other basic lending products as well. In addition to conventional lending, the bank participates in Farm Service Agency (FSA) and Small Business Administration (SBA) guaranteed loan programs. FSA and SBA loan programs are generally designed to assist smaller farms and businesses that may not qualify for loans through conventional financing methods. The bank also has two residential referral agreements with third parties to provide access to various residential loan products that FFB does not offer.

FFB operates in a moderately competitive banking environment, with six financial institutions having branches in Norman County. The banks with the largest market share in FFB's assessment area are Community Bank of the Red River Valley, with 29 percent of the market, Red River State Bank with 26 percent of the market, and Bank of the West with 15 percent of the market. FFB ranks fourth with 11 percent of the market share.² In addition, the bank's primary competitor for agricultural loans is Farm Credit Services. Aside from statutory lending limits, FFB does not appear to have any legal impediments that would restrict its ability to meet the credit needs of the assessment area. FFB received a "Satisfactory" CRA rating at the previous FDIC CRA Performance Evaluation dated December 1, 2003. As detailed in Table 1, FFB's primary lending focus by dollar volume is agricultural-related credits.

² Market shares determined from the Deposit Market Share Report as of June 30, 2008. This report can be accessed on the FDIC Web site at <http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2>.

<i>Table 1 – Loan Distribution as of June 30, 2008</i>		
Loan Type	Dollar Amount	Percent of Total Loans
Construction and Land Development	\$0	0%
Secured by Farmland	\$1,689	25%
Revolving, Open-end Loans secured by 1-4 Family Residential	\$0	0%
Secured by First Liens	\$1,706	25%
Secured by Junior Liens	\$175	3%
Secured by Multi-Family Residential Properties	\$0	0%
Non-farm, Nonresidential Properties	\$1,189	18%
Loans to Depository Institutions and Acceptances of Other Banks	\$0	0%
Loans to Finance Agricultural Production	\$661	10%
Commercial and Industrial Loans	\$675	10%
Credit Cards	\$0	0%
Other Revolving Credit Plans	\$0	0%
Other Consumer (includes single pay, installment, and student loans)	\$588	9%
Obligations of States and Political Subdivisions in the U.S.	\$0	0%
All Other Loans (exclude consumer loans)	\$0	0%
Lease Financing Receivables	\$0	0%
Total Loans	\$6,683	100%

Source: Report of Condition (dollars in 000s)

DESCRIPTION OF FIRST FINANCIAL BANK'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).

FFB has designated its assessment area as CT 9601 in Norman County. While the CT is designated as a middle-income area³, it has also been designated distressed due to population loss and underserved given its remote rural nature.⁴

To ascertain the credit needs of the assessment area, examiners held discussions with bank management and a member of the community. Bank management and the community contact agreed that agricultural loans are in demand in the community and felt that the bank was meeting the credit needs of the community.

The assessment area is rural in nature and heavily dependent on agriculture. The primary crops grown in the area include sugar beets, wheat, soybeans, and corn. The community contact and bank management indicated that the agricultural portion of the economy has been strong in recent years. However, few small farmers remain in the area as many smaller farms have been purchased and consolidated into larger operations.

³ A CT's income level is determined by comparing the 2000 median family income (MFI) for each individual CT with the MFI for the non-metropolitan portion of Minnesota, which is \$45,925. The breakdown is as follows: Low Income: <50 percent of the MFI; Moderate Income: ≥50 percent and <80 percent of the MFI; Middle Income: ≥80 percent and <120 percent of the MFI; and Upper Income: ≥120 percent of the MFI.

⁴ "Distressed non-metropolitan middle-income" geographies are those located in counties that meet one or more triggers that generally reflect the "distress criteria" used by the Community Development Financial Institutions (CDFI) Fund, but which will utilize annual information where possible. The distress triggers are: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; (3) a population loss of 10 percent or more between the previous and most recent decennial census, or a net migration loss of 5 percent or more over the five-year period preceding the most recent census.

"Underserved non-metropolitan middle-income geographies" must meet criteria for population size, density, and dispersion that indicate that an area's population is sufficiently small, thin, and distant from a population center such that the geography is likely to have difficulty in financing the fixed cost of essential community needs.

The 2000 U.S. Census lists the assessment area's population as 3,043 individuals living in 1,189 households. In addition, the 2000 U.S. Census indicated that the median housing value for homes within the assessment area was \$44,300, with 75 percent of housing units being owner occupied, 14 percent being renter occupied, and 11 percent being vacant housing units.

The overall population of the area remains stable and offers several affordable and temporary housing units. Bank management indicated that a number of individuals commute to Fargo, North Dakota, or Moorhead, Minnesota, for employment, as employment opportunities in the local area are limited. Off-farm income is common, and sometimes necessary for the smaller farm operators. In addition, a majority of farm families in larger operations also have at least one family member working off the farm. According to bank management and the community contact, the largest employers in the assessment area include the school districts, nursing home and assisted living facilities, hospitals, and Centrol, a crop consulting company.

According to the Bureau of Labor Statistics, the unemployment rate for the second quarter of 2008 for Norman County was 5.5 percent. In comparison, the unemployment rate for Minnesota for the second quarter of 2008 was 5.1 percent, while the national unemployment rate for the same period was 5.2 percent.

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 for 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. Comments supporting the conclusions for each criterion are detailed on the following pages.

I. LOAN-TO-DEPOSIT RATIO

FFB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. According to Report of Condition data, the institution's average net loan-to-deposit ratio from December 31, 2003, to June 30, 2008, was 59 percent. The quarterly net loan-to-deposit ratio has fluctuated between 48 percent and 69 percent. Management attributed these fluctuations to seasonal agricultural loan needs, competition with other financial institutions, car dealerships offering their own means of financing, and the fact that they are a conservative lender. The loss of two agricultural borrowers also affected the ratio.

The total assets and average net loan-to-deposit ratios from December 31, 2003, to June 30, 2008, for the subject bank and the similarly situated institutions are shown in Table 2.

Table 2 – Total Assets and Average Net Loan-to-Deposit Ratios for the Subject Bank and Similarly Situated Institutions		
Bank City, State	Total Assets (6/30/08)	Average Net Loan-to-Deposit Ratio (12/31/03 – 6/30/08)
Crookston National Bank Crookston, Minnesota	\$44,808	59%
American State Bank of Erskine Erskine, Minnesota	\$19,936	78%
First State Bank of Fertile Fertile, Minnesota	\$31,673	46%
The Gary State Bank Gary, Minnesota	\$9,025	87%
The First National Bank of McIntosh McIntosh, Minnesota	\$25,080	49%
<i>First Financial Bank Twin Valley, Minnesota</i>	<i>\$15,480</i>	<i>59%</i>

*Source: Reports of Condition (dollars in 000s)
Institutions listed alphabetically by office location*

II. LENDING WITHIN THE ASSESSMENT AREA

The bank is helping to meet the credit needs of its assessment area by originating a majority of its loans in its assessment area. This evidences a reasonable dedication to lending within its defined assessment area.

To determine the bank's record of lending within the assessment area, examiners reviewed the small farm, residential real estate, and small business loans described earlier in the "Scope" section of this evaluation. As shown in Table 3, 79 percent by number and 55 percent by dollar volume of the reviewed loans were originated to borrowers located within the bank's assessment area. Although the dollar volume of residential real estate loans within the assessment area is somewhat low, this figure is somewhat skewed as one loan, which was outside of the assessment area, accounted for 57 percent of the total dollar volume sampled. Overall, the analysis reflects the bank's willingness to reinvest deposits back into its local community through loans.

Loan Type	Number Reviewed	Number in AA	Percent by Number in AA	Dollar Volume Reviewed	Dollar Volume in AA	Percent by dollar in AA
Small Farm	22	17	77%	\$421	\$280	67%
Residential	10	7	70%	\$258	\$84	33%
Small Business	15	13	87%	\$362	\$211	58%
Total	47	37	79%	\$1,041	\$ 575	55%

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

III. LENDING TO FARM AND BUSINESS OPERATIONS OF DIFFERENT SIZES AND RESIDENTIAL REAL ESTATE BORROWERS OF DIFFERENT INCOME LEVELS

Loans in the aforementioned analysis that were originated to borrowers located within the bank’s assessment area were further analyzed to determine FFB’s record of lending to farms and businesses of varied sizes and residential real estate borrowers of different income levels. Gross annual revenues and gross annual income, which were obtained from loan files and/or management estimates, were used as a determinant of size and income levels, respectively.

Based on the analysis of the data reviewed, the institution is originating loans to business and farm operators of varying revenue sizes and to residential real estate borrowers of different income levels.

Small Farm Loans

The analysis of the data for small farm loans, detailed in Table 4, reveals that FFB is making a more than reasonable effort to lend to farms of different revenue levels.

From the analysis of the 17 small farm loans that were located within the assessment area, 100 percent, by number were extended to farm operations having gross annual revenues below \$250,000. The bank’s performance is above the 2007 D&B data, which indicates that approximately 90 percent of the farms in the assessment area had gross annual revenues of \$250,000 or less. As noted earlier, FFB also offers FSA loans. As of the date of this evaluation, FFB has 11 FSA guaranteed loans or subordinations outstanding. Given these facts, the analysis of the data for small farm loans reveals that FFB is making a more than reasonable effort to lend to farms of different revenue levels located within its assessment area.

Gross Annual Revenue	Percent of Farms in Assessment Area*	Bank's Small Farm Lending			
		Number	Percent	Dollars	Percent
\$0 < \$100	46%	12	71%	\$190	68%
\$100 < \$250	44%	5	29%	\$90	32%
\$250 < \$500	5%	0	0%	\$0	0%
\$500 and up	5%	0	0%	\$0	0%
Total	100%	17	100%	\$280	100%

Source: 2007 D&B data and FDIC sample from loan trial balance (dollars in 000s)

*Includes only those farms that reported revenues (0% of the total farms did not report)

Residential Real Estate Loans

The analysis of the data for residential real estate loans, detailed in Table 5, reveals that FFB is making a reasonable effort to lend to borrowers of different income levels within its assessment area, including low- and moderate-income borrowers. From the analysis of the seven residential real estate loans that were located within the bank's assessment area, approximately 29 percent, by number, were extended to low-income borrowers. In comparison, 2000 U.S. Census data indicates that 19 percent of families within the assessment area are low income. Similarly, approximately 14 percent, by number, of the sampled loans were extended to moderate-income borrowers whereas the 2000 U.S. Census indicates that 22 percent of families within the assessment area are moderate income. While the percentage of the sampled loans within the assessment area that were originated to moderate-income borrowers was less than comparable data from the U.S. Census, it is evident that the bank is making a reasonable effort to make loans to borrowers of various income levels.

Gross Annual Income	Percent of Families in Assessment Area	Bank's Residential Lending			
		Number	Percent	Dollars	Percent
Low	19%	2	29%	\$11	13%
Moderate	22%	1	14%	\$8	10%
Middle	35%	4	57%	\$65	77%
Upper	24%	0	0%	\$0	0%
Total	100%	7	100%	\$84	100%

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

Small Business Loans

The analysis of the data for small business loans, as detailed in Table 6, reveals that FFB is making a more than reasonable effort to lend to businesses of different revenue levels located within its assessment area. From the analysis of the 13 small business loans that were located within the assessment area, 100 percent, by number, were extended to business operations having gross annual revenues below \$250,000. In comparison, 2007 D&B data from reporting businesses indicates that approximately 79 percent of the businesses within the assessment area, by number, had gross annual revenues below \$250,000. As noted earlier, the bank offers SBA loans. As of the date of this evaluation, the bank had four SBA loans on its books. Given these facts, the bank's distribution of business loans to borrowers of varying revenue sizes is deemed more than reasonable.

Gross Annual Revenue	Percent of Businesses in Assessment Area*	Bank's Small Business Lending			
		Number	Percent	Dollars	Percent
\$0 < \$100	56%	6	46%	\$35	17%
\$100 < \$250	23%	7	54%	\$176	83%
\$250 < \$500	6%	0	0%	\$0	0%
\$500 and up	15%	0	0%	\$0	0%
Total	100%	13	100%	\$211	100%

Source: 2007 D&B data and FDIC sample from loan trial balance (dollars in 000s)

**Includes only those businesses that reported revenues (46% of the total businesses did not report)*

IV. GEOGRAPHIC DISTRIBUTION OF LOANS

As stated earlier, the only CT within the bank's assessment area is considered to be middle income, as well as underserved and distressed. The purpose of performing an analysis of the geographic distribution of loans is to review the bank's performance of lending in low- and moderate-income CT's. Since there are none in the bank's assessment area, no further geographic distribution analysis was done. Additionally, since the bank only has one CT and it is an underserved and distressed CT, all of the sampled loans located within the bank's assessment area are located in an underserved and distressed CT.

V. RESPONSE TO CRA-RELATED COMPLAINTS

The institution has not received any CRA-related complaints since the previous evaluation. Therefore, this performance criterion was not evaluated.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

There was no evidence of discriminatory or other illegal credit practices identified at the examination that would be inconsistent with helping to meet community credit needs.