



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 23, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Stearns Bank Canby National Association
Charter Number: 7427**

**102 Saint Olaf Avenue North
Canby, Minnesota**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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 **Stearns Bank Canby National Association** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 23, 1998**. 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**.

Stearns Bank Canby, N.A.'s rating is based on the following factors:

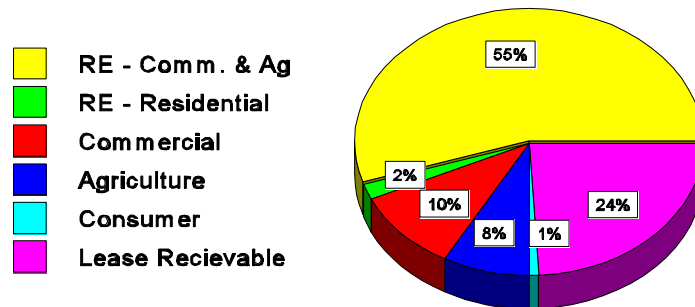
- o The bank's record of lending to businesses, farms, and individuals of different income levels within the assessment area is very good.
- o Positive trends under new management, including increased local loan volume and use of new loan products offered through the affiliate.
- o Acceptable loan-to-deposit ratio.

DESCRIPTION OF INSTITUTION

Stearns Bank Canby National Association (SBC) is a \$69 million bank located in Yellow Medicine County in southwest Minnesota. SBC is a full service bank offering a variety of loan and deposit products. The bank has two automated teller machines, both located in the city of Canby.

The primary lending focus is loans to agriculture and business borrowers, along with purchased leases and loans from its affiliate bank in St. Cloud. The bank's December 31, 1997 financial information reflects that gross loans and leases represent 58% of total assets. Loan volume by type is depicted in the following chart:

Distribution by Loan Type



Stearns Financial Services, Inc., a multi-bank holding company, owns 96% of SBC. The Holding Company is also a majority owner of four other banks, all located in Minnesota.

SBC was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination dated September 8, 1995. There are no legal or financial impediments limiting SBC's ability to help meet the credit needs of the area it serves.

DESCRIPTION OF STEARNS BANK CANBY NATIONAL ASSOCIATION'S ASSESSMENT AREA

The bank's assessment area (AA) includes all of Yellow Medicine County, western Lac Qui Parle County and central Lincoln County. The AA meets the requirements of the

regulation and does not arbitrarily exclude low- or moderate-income geographies. Based on 1990 census data information, 3,244 families reside in the AA with a median family income of \$25,046. Of the 3,244 families, 21.82% are considered low income, 22.84% moderate income, 27.19% middle income, and 28.18% upper income. All four block numbering areas in the AA are characterized as middle-income areas.

The local economy is reliant upon agriculture, as well as being supported by several large employers including the local hospital, school district, Schott Corporation, and SMI & Hydraulics.

Primary competitors include the local credit union and CENEX, and Farm Credit Services located in Marshall, Minnesota. Based on discussions with bank management and contacts in the community, identified credit needs include, affordable housing, housing rehabilitation loans, and consumer loans. Discussions with local business contacts were positive, they felt the bank has improved its lending activities within the community.

With assistance from its affiliate bank in St. Cloud, SBC is now active in offering residential real estate loans for the secondary market and Small Business Administration (SBA) loan programs. During 1997 the bank originated ten residential real estate loans for the secondary market totaling \$521 thousand and extended five SBA loans totaling \$458 thousand.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is marginal but acceptable. The quarterly LTD ratio has averaged 63% since the last CRA examination. As of December 1997, the LTD ratio was 62%, which ranks second lowest out of nine banks similar in size and located in or adjacent to the bank's AA. The range of ratios for these nine banks is 56% to 86%.

The bank participates in the Minnesota Housing Finance Agency Fix-up program and refers residential real estate mortgages to the secondary market. Including these loans, the adjusted LTD ratio would be 64%.

The bank's loan and deposit base includes purchased loans and leases, and acquired deposits from its affiliate bank. If we were to exclude these activities from our analysis, the bank's LTD ratio for 1997 would be 31%. This appears low; however, under new bank management the ratio has increased from 24% over the prior year.

Lending in the Assessment Area

A majority of the bank's loans and leases are not located in the bank's AA.

A significant portion of the bank's loan portfolio consists of purchased loans and leases from its affiliate bank in St. Cloud. These loans and leases are located over several states.

A majority of the loans the bank originates directly, are located in the bank's AA. This was determined by using a bank generated report which lists all new loans extended during 1997, and the BNA location of these loans. A sampling of these credits verified this analysis. The following table depicts the percentage and types of loans located in the bank's AA.

| | Bank Originated Loans | Purchased Loans | Purchased Leases |
|--|------------------------------|------------------------|-------------------------|
| Total number of Loans Originated | 282 | 30 | 1,079 |
| Number of Loan Originations in AA | 234 | 0 | 0 |
| Percentage In AA | 83% | 0% | 0% |
| Total Dollar of Total Loans Originated | \$2,677,677 | \$11,874,808 | \$4,137,400 |
| Dollar of Loans Originated In AA | \$1,901,552 | 0 | 0 |
| Percentage of In AA | 71% | 0% | 0% |

Lending to Borrowers of Different Incomes and to Business of Different Sizes in the Assessment Area

SBC has a very good record of lending to individuals of different income levels and businesses of all sizes. Based on the 1990 census, all the bank's BNA's are considered middle-income. Of the loans extended in the BNA's during 1997, 62% of the consumer loans were to low- or moderate-income level borrowers and 54% of the commercial loans were to small businesses.

Consumer and Residential Real Estate Loans

The following table illustrates consumer lending. We sampled 24 loans totaling \$233,754 which originated during 1997. The sample represents 26% of the total number of consumer and residential real estate loan originations, and 53% of the dollar volume of originations for the same time period.

| Income Level | % Number of Loans Sampled | % Dollar Volume Loans Sampled |
|---|----------------------------------|--------------------------------------|
| Low-Income > 50% Median Family income* | 35% | 15% |
| Moderate-Income at least 50% < 80% Median Family Income* | 27% | 22% |
| Middle-Income at least 80% < 120% Median Family Income* | 19% | 21% |
| Upper-Income 120% and > Median Family Income* | 19% | 43% |

* 1997 Outstate Median Family Income \$38,300

Business and Small Farm Loans

The table below illustrates loans to small businesses and farmers in the bank's AA. Our sample included 24 loans totaling \$2.7 million. The sample represents 17% of total number of loans extended during 1997 and 76% of the total dollar volume for the same time period.

| Annual Gross Sales (000's) | % Number of Loans Sampled | % Dollar Volume Sampled |
|-----------------------------------|----------------------------------|--------------------------------|
| \$100 or less | 21% | 16% |
| \$100 - \$250 | 33% | 26% |
| \$250 - \$1,000 | 21% | 28% |
| > \$1,000 | 8% | 6% |
| Information not Available | 17% | 24% |

Geographic Distribution of Loans

This information is not relevant since the bank's AA contains only middle-income block numbering areas.

Record of Response to Complaints

The bank received no complaints concerning its performance in meeting the credit needs of its assessment area.

Record of Compliance with Anti-discriminatory laws

Based on our review, the bank is complying with anti-discriminatory laws. We found no substantive violations of the fair lending laws.