



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 28, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**St. Martin National Bank
Charter Number: 15198**

**136 Maine Street
St. Martin, MN 56376**

**Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 N, Suite 102
Alexandria, MN 56308**

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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

St. Martin National Bank's rating is based on the following factors:

- A substantial majority of loans are in the bank's assessment area.
- The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The geographic distribution of loans does not reflect reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

St. Martin National Bank (SMNB) is a \$15 million institution located in St. Martin, MN. Forty-six shareholders own the bank, with the largest shareholder controlling only six percent of the total shares. The bank is located in Stearns County in central Minnesota and does not own any automated teller machines (ATMs). For tax treatment purposes, the bank is a Subchapter S corporation. There have been no acquisitions or mergers since the last CRA examination.

Both the overall strategy and lending philosophy are conservative. SMNB offers traditional banking products and services. Using December 31, 2007 financial data, total loans represent 72.00 percent of total assets. The bank's loan portfolio continues to be diverse. The primary lending focus is in the residential real estate and agricultural areas. Table 1 depicts the loan portfolio composition.

Table 1: Loan Portfolio Composition	\$ (000)	%
Commercial Loans	1,227	10.93
Agriculture Loans	1,656	14.75
Consumer Loans	1,093	9.74
Real Estate Loans	7,248	64.58
Total	\$11,224	100%

Source: December 31, 2007 Consolidated Reports of Condition RC-C

The last CRA examination was November 15, 2001 and the bank was rated "Satisfactory". There are no legal or financial impediments limiting the bank's ability to help meet community credit needs.

DESCRIPTION OF ST. MARTIN NATIONAL BANK'S ASSESSMENT AREA

Five census tracts located in Stearns County comprise the assessment area (AA). The AA is located in the St. Cloud metropolitan statistical area (MSA). According to the 2000 U.S. Census, the population of the AA is 20,255 people. The five census tracts are contiguous and include one moderate-income tract and four middle-income tracts. There are no low- or upper-income tracts in the AA. No low- or moderate-income tracts are arbitrarily excluded from the AA.

The demographics of the AA are illustrated in Table 2 below. The information is based on the 2000 U.S. Census data unless otherwise noted.

Table 2: Demographic and Economic Characteristics of AA	
<i>Population</i>	
Number of Families	5,466
Number of Households	7,364
Number of Low-Income Families	1,154
% of Low-Income Families	21.11%
Number of Moderate-Income Families	1,139
% of Moderate-Income Families	20.84%
Number of Middle-Income Families	1,557
% of Middle-Income Families	28.49%
Number of Upper-Income Families	1,616
% of Upper-Income Families	29.56%
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	20.00%
% Middle-Income Census Tracts/BNA	80.00%
% Upper-Income Census Tracts/BNA	0.00%
<i>Median Family Income (MFI)</i>	
2007 MFI for AA	\$51,474
2007 HUD-Adjusted MFI	\$61,800
<i>Economic Indicators</i>	
Unemployment Rate Stearns County	3.80%
2007 Median Housing Value	92,750
% of Households Below Poverty Level	9.66%

Source: 2000 U.S. Census information with updated information when available.

The bank's AA is dependent on agriculture. Over the past several years, the agricultural focus

has shifted from dairy operations to crop and cattle production. Conglomerate agricultural companies continue to buy out smaller farms with the outcome having a profound effect on the farming economy. Dealers and suppliers suffer from shrinking price margins and the family farmer struggles to compete with increasingly competitive prices. Non-farm related employment within the community includes two manufacturing plants, an implement dealership, and the local co-op. A large portion of the community commutes to the neighboring community of St. Cloud for employment.

Area competition includes several state banks and a credit union located in or near the AA. SMNB's major competitors of similar size are located in Brooten, Cold Spring, Freeport, Paynesville, and Richmond. These banks range in asset size from \$23 million to \$70 million. There are also two branches of larger institutions that are competitors in one Census Tract (CT).

During our CRA examination, we made a community contact to determine the bank's involvement in providing available credit in the local community.

LOAN SAMPLING

The primary loan types were determined by reviewing all loans originated and purchased during the period from January 1, 2005 to December 31, 2007. As shown in Table 3, SMNB's primary loan products by number and dollar volume of loan originations are residential real estate, agricultural, and consumer loans.

Table 3: Loan Products	#	%	\$	%
Consumer Loans	102	43.00	1,312,853	12.00
Commercial Loans	17	7.00	1,581,896	14.00
Residential Real Estate Loans	68	29.00	6,209,814	57.00
Agricultural Loans	51	21.00	1,827,017	17.00
Total	238	100.00%	10,931,580	100.00%

Source: Loan origination report from January 1, 2005 through December 31, 2007.

To complete our analysis, we randomly selected a sample of 20 consumer loans, 20 residential real estate loans, and 20 agricultural loans originated and purchased during the evaluation period regardless of location. We used the initial 60 loans to determine the bank's in/out ratio. To determine borrower and geographic distribution, we sampled loans until we selected 20 loans for each primary product within SMNB's AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

SMNB's CRA performance evaluation is based on loan-to-deposit ratio, lending within the AA, lending to borrowers of different incomes, geographic distributions, and responses to complaints. In addition to criteria above, we reviewed the bank's public CRA file.

Loan-to-Deposit Ratio

SMNB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, AA credit needs, local economic factors, and comparisons with similarly situated lenders.

The average loan-to-deposit ratio measured quarterly from December 31, 2001 to September 30, 2007 is 70.08 percent. Table 4 illustrates the average loan-to-deposit ratios from December 31, 2001 to September 30, 2007 for SMNB and other similarly situated institutions.

Table 4: Average Loan-to-Deposit Ratio (as of (9/30/07))	Assets in thousands (\$000)	Average LTD Ratio (%)
Institution		
Bonanza Valley State Bank	39,544	91.07
St. Stephen State Bank	27,346	86.69
State Bank of Cold Spring	47,868	85.53
Freeport State Bank	69,104	85.25
State Bank of Kimball	67,880	83.26
St. Martin National Bank	15,393	70.08
State Bank of Richmond	69,928	65.18
Farmers and Merchants Bank Paynesville	23,161	34.16

Source: Uniform Bank Performance Reports December 31, 2001 to September 30, 2007.

Lending in Assessment Area

SMNB exceeds the standard for satisfactory performance for lending within its AA. A substantial majority of loans are originated within the AA. The percentage of residential real estate, agricultural, and consumer loans reviewed that were originated within the AA was 91.67 percent by number and 78.99 percent by dollar volume of loans. Table 5 illustrates the bank's commitment to lending within their AA.

Table 5: Lending in St. Martin's AA										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$
Real Estate Loans	16	80.00	4	20.00	20	1,441,995	73.11	530,428	26.89	1,972,423
Consumer Loans	19	95.00	1	5.00	20	137,497	98.91	1,510	1.09	139,007
Agricultural Loans	20	100.00	0	0.00	20	420,383	100.00	0	0.00	420,383
Total	55	91.67%	5	8.33%	60	\$1,999,875	78.99%	\$531,938	21.01%	\$2,531,813

Source: Loan Sample

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

SMNB's lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance. SMNB's lending practice provides reasonable distribution to individuals in different income levels and businesses of different sizes.

Residential Real Estate Loans

Residential real estate lending to low- and moderate-income borrowers meets the standard for satisfactory performance for lending to borrowers of different incomes. The bank’s level of residential real estate lending is comparable to the AA.

Based on the AA demographics, 21.11 percent of families in the bank’s AA are considered low-income and 20.84 percent are in the moderate-income level. Based on our loan sample, the percentage by number of loans to low-income families exceeds the demographic information with 25.00 percent of loans to low-income families and the percentage by number of loans to moderate-income families is below the demographic information with 15.00 percent to families in the moderate-income category. However, combining the low- and moderate-income loans, lending to low- and moderate-income meets the demographic data. Table 6a depicts the bank’s lending pattern for residential real estate lending compared to the demographics in the AA.

Table 6a: Borrower Distribution of Residential Real Estate Loans in St. Martin’s AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
	21.11%	25.00%	20.84%	15.00%	28.49%	20.00%	29.56%	40.00%

Source: Loan Sample and 2000 U.S. Census Data

Agricultural Loans

SMNB’s lending to farms with gross revenues \$1 million or less meets the standard for satisfactory performance of the AA by both number and dollar volume.

Loans to farms with revenues \$1 million or less represent 100 percent of our agricultural loan sample and are consistent with the 98.38 percent reported by the Business Geodemographic Data. Table 6b illustrates the bank’s lending pattern to farms of different sizes.

Table 6b: Borrower Distribution of Loans to Farms in St. Martin’s AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	98.38%	0.90%	0.72%	100%
% of Bank Loans in AA by #	100%	0	0	100%
% of Bank Loans in AA by \$	100%	0	0	100%

Source: Loan Sample and 2007 Business Geodemographics Data

Consumer Loans

Consumer lending to low-and moderate-income households exceeds the standard of satisfactory performance for lending to borrowers of different incomes in comparison to demographics in the AA. Based on our loan sample, the percentage of loans to low-income households meets the demographic information with 25.00 percent of loans distributed to low-income households and the percentage of loans to moderate-income households exceeds the demographic information with 30.00 percent. Table 6c compares the bank's consumer lending pattern to U.S. Census data demographics within the AA.

Table 6c: Borrower Distribution of Consumer Loans in St. Martin's AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	25.11%	25.00%	16.59%	30.00%	23.22%	15.00%	35.08%	30.00%

Source: Loan Sample and 2000 U.S. Census Data

Geographic Distribution of Loans

SMNB's geographic distribution of residential real estate, agricultural, and consumer loans within its AA does not meet the standard for satisfactory performance. The moderate-income tract is primarily dependent on agriculture with minimal demand for residential real estate and consumer loans.

SMNB is located in a middle-income CT that lies to the east of a large moderate-income CT. The bank primarily lends to the eastern edge of the moderate-income CT due to the proximity to the bank's office. The western and central portions of the moderate-income CT has financial institutions that serve the needs of the CT. North American State Bank has offices in the western and central portion of the CT. In addition, Bonanza Valley State Bank is located in the western portion of the CT.

Residential Real Estate Loans

Geographic distribution of residential real estate loans does not meet the standard for satisfactory performance. Demographic information of the AA indicates 19.07 percent of owner occupied housing is located in the moderate-income tract. Our residential real estate sample illustrates no loans to borrowers in the moderate-income tract. This is attributed to the characteristics of the tract versus the location of the tract to the bank. Loans for residences are often incorporated in agricultural real estate loans. There is competition in the western part of this track from two other institutions that meet the residential real estate loan needs of the CT. Table 7a depicts the geographic distribution of real estate loans compared to 2000 U.S. Census data

7a: Geographic Distribution of Real Estate Loans in St. Martin’s AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
	0.00%	0.00%	19.07%	0.00%	80.93%	100.00%	0.00%	0.00%

Source: Loan Sample and 2000 U.S. Census Data

Agricultural Loans

SMNB’s geographic distribution of agricultural loans within its AA does not meet the standard for satisfactory performance. According to the Business Geodemographic Data, 32.01 percent of agricultural loans are in the moderate-income tract. Our loan sample indicates 20.00 percent of loans are to borrowers located in the moderate-income tract. The bank primarily lends to the eastern edge of the CT which is closer proximity to the bank’s office. There is competition from two other institutions on the eastern edge of the CT that meet the credit needs of the CT. Table 7b illustrates the geographic distribution of consumer loans compared to 2007 Business Geodemographic Data.

Table 7b: Geographic Distribution of Loans to Farms in St. Martin's AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0.00%	0.00%	32.01%	20.00%	67.99%	80.00%	0.00%	0.00%

Source: Loan Sample and 2007 Business Geodemographic Data

Consumer Loans

SMNB's geographic distribution of consumer loans within its AA does not meet the standard for satisfactory performance. U.S. Census demographic information of the AA indicates 19.07 percent of the households are located in the moderate-income tract. Our consumer loan sample did not contain any loans to households within the moderate-income tract. This is attributed to the characteristics of the tract versus the location of the tract to the bank. There is competition in the western part of this tract from two other institutions that meet the consumer loan needs of this primarily agricultural CT. Table 7c depicts the geographic distribution of consumer loans compared to 2000 U.S. Census data.

Table 7c: Geographic Distribution of Consumer Loans in St. Martin's AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00%	0.00%	19.07%	0.00%	80.93%	100.00%	0.00%	0.00%

Source: Loan Sample and 2000 U.S. Census Data

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices inconsistent with helping to meet community credit needs.