



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Public Disclosure

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Community Reinvestment Act Performance Evaluation

American Heritage National Bank
Charter Number: 15037

24 Second Street South
Long Prairie, Minnesota 56347

Office of the Comptroller of the Currency
North Dakota and Northwest Minnesota
3211 Fiechtner Drive Southwest
Fargo, North Dakota 58103

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.

Table of Contents

Institution's Rating	1
Description of Institution	1
Description of Assessment Area(s)	2
Loan Sampling	4
Conclusions about Performance Criteria	4
Loan-to-Deposit Ratio	4
Lending in Assessment Area	5
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	6
Geographic Distribution of Loans	7
Responses to Complaints	8
Fair Lending Review	8

Institution's CRA Rating: This institution is rated satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of the assessment area in a manner that is consistent with its resources and capabilities. The bank's performance for each of the performance criteria is satisfactory for both the St. Cloud Metropolitan Statistical Area (MSA) and non-MSA portions of the assessment area (AA).

- American Heritage National Bank's average net loan-to-deposit ratio of 77% demonstrates a reasonable willingness to lend given the bank's financial condition, size, and comparison with other lenders within the assessment area.
- The bank's lending in the AA meets the standard for satisfactory performance. A majority of the bank's loans are made within the AA.
- The bank's record of lending to individuals of different income levels and agriculture and business borrowers of different sizes meets the standard for satisfactory performance.
- The bank's geographic distribution of loans throughout the AA is reasonable when considering demographic information, the location of the bank's offices and competition from other lenders.

Description of Institution

American Heritage National Bank (AHNB) is a \$173 million dollar financial institution with its main office located in Long Prairie in central Minnesota, which is located in Todd County. The bank has a branch office located in Browerville in Todd County and two branches located in St. Cloud in Stearns County. The bank operates one depository automatic teller machine in St. Cloud. The bank is family owned. There is no holding company. There have been no acquisitions or mergers since the previous CRA examination.

The bank's loan portfolio is diverse. As of September 30, 2002, the composition of the portfolio is as follows:

Loan Portfolio Composition	\$ (000)*	%
Commercial (including Real Estate)	74,852	64.8%
Residential Real Estate	21,478	18.6%
Agricultural (including Real Estate)	11,418	9.9%
Individual	6,007	5.2%
Construction	927	.8%
All Other Loans	547	.5%
Obligations of State & Political Subdivisions	191	.2%
Total	115,420	100.0%

*Source: September 30, 2002 Call Report

AHNB offers a wide variety of financial product and services and its lending focus is on commercial and residential real estate loans. Net loans represent 66% of total assets. The bank's Tier One Leverage Capital is 8.92% of average assets, or \$15.3 million. There are no legal or financial impediments that would restrict the bank's ability to meet the credit needs of the community. The bank's structure has not changed since the previous examination.

AHNB was rated "Satisfactory" at the last CRA examination dated November 26, 1997.

Description of American Heritage National Bank's Assessment Area

AHNB's assessment area includes all of Todd, Benton, and Stearns Counties. The Todd County portion of the AA includes the Long Prairie and Browerville offices. The St. Cloud MSA comprises all of Stearns and Benton counties and includes the two St. Cloud branches. There is one low-income census tract (CT) in the downtown St. Cloud business district, three moderate-income tracts, thirty-five middle-income tracts and five upper income tracts in the AA.

The AA meets the requirements of the regulation including only whole BNA's or CT's that are contiguous. The AA's do not arbitrarily exclude low- or moderate-income geographies. Some of the cities in the AA are Long Prairie, Browerville, Staples, Sauk Centre, St. Cloud, Sartell, Saint Joseph, Cold Spring, Sauk Rapids, Rice and Foley.

Non-MSA portion of AA:

CT's 9902 and 9903 are designated as moderate-income CT's. All of the remaining CT's are designated as middle-income tracts.

The Todd County portion of the AA has an agriculture base but is also supported by several large employers including Hart Press, Inc., Long Prairie Packing, Long Prairie Memorial Hospital, Todd County government, Dan's Prize and the local school district. Information obtained from the U.S. Labor Statistics website lists Todd County's 2001 unemployment level as 6.1%. Based on information received from a recent community contact on file, economic conditions in the City of Long Prairie are relatively stable, with good employment opportunities.

St. Cloud MSA portion of AA:

All of the CT's in Benton County are designated middle-income areas. CT 001.00 in Stearns County is designated as a low-income area and CT 109.00 in Stearns County is designated as a moderate-income area. CT's 002.00, 004.00, 101.00, 113.03, and 114.00 in Stearns County are designated as upper-income areas. All of the remaining CT's are designated as middle-income areas.

The Stearns and Benton County portions of the AA are largely urban, with an identified need for business lending. Major employers in the area are St. Cloud Hospital, the State of Minnesota, Frigidaire, and the St. Cloud school district. The Bureau of Labor Statistics' November 2002 unemployment rate for the St. Cloud MSA is 3.6%, which compares favorably to the national average of 6.0%. Population growth is expected to increase when 2000 census data is available.

During our evaluation, we contacted a community organization and relied on recent community contacts on file to better understand the primary credit needs of the AA. Based on this information, we determined that affordable housing is an identified credit need throughout the AA. In addition, agriculture lending in the Todd County portion of the AA and business lending in the St. Cloud MSA are important credit needs of each of the respective portions of the AA.

The demographics of the AA are illustrated in the table below. The information is based on 1990 census data, which is the most recent information available during our evaluation.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Population	172,339
Number of Families	42,018
Number of Households	59,330
Number of Low-Income Families	7,857
% of Low-Income Families	18.70%
Number of Moderate-Income Families	7,988
% of Moderate-Income Families	19.01%
Number of Middle-Income Families	11,131
% of Middle-Income Families	26.49%
Number of Upper-Income Families	15,042
% of Upper-Income Families	35.80%
% Minority Population	1.47%
<i>Geographies</i>	
Number of Census Tracts/BNA	44
% Low-Income Census Tracts/BNA	2.27%
% Moderate-Income Census Tracts/BNA	6.82%
% Middle-Income Census Tracts/BNA	79.55%
% Upper-Income Census Tracts/BNA	11.36%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$32,009
2002 HUD-Adjusted MFI	\$54,882
<i>Economic Indicators</i>	
Unemployment Rate	2.74%
Owner-Occupied Housing	64.14%
Median Housing Value	\$56,787
% of Households Below Poverty Level	13.82%

Loan Sampling

The bank's primary loan types were determined by taking all originated and purchased loans for the period since January 1, 2000 with an outstanding balance.

Loan Products	#	%	\$(000's)	%
Agriculture Loans	351	16.7	12,381	8.6
Commercial Loans	590	28.1	104,581	73.0
Consumer Loans	778	37.0	7,425	5.2
Residential Real Estate Loans	248	11.8	10,195	7.1
Other	136	6.4	8,743	6.1
Total	2,103	100.0	143,325	100.0

For the purpose of this evaluation, the primary loan types are commercial real estate and consumer loans. Commercial loans account for 73% of the volume of loans originated and consumer loans represent 37% of the number of all originations. Based on further analysis and community contacts made, commercial and residential real estate loans are the primary products of the MSA and consumer and agriculture loans are the primary products of the non-MSA.

To conduct our analysis, we performed statistically valid sampling techniques selecting a sample of 21 commercial real estate loans, 26 agriculture loans and 29 consumer loans. Information for residential real estate loans was obtained using data reported by the bank under the Home Mortgage Disclosure Act (HMDA). After initial sampling to determine the bank's lending within the AA, additional files were selected if needed so that all loans in the sample were made within the AA. This resulted in a final sample of 20 commercial real estate loans, 24 agriculture loans and 25 consumer loans.

Conclusions about Performance Criteria

Loan-to-Deposit Ratio

AHNB's loan-to-deposit ratio (LTD) meets the standards for satisfactory performance given the size, financial condition, assessment area needs, and local economic conditions. Since the last CRA evaluation, the bank's average quarterly LTD ratio is 77%.

A comparison to ten similarly situated banks in the AA shows AHNB is ranked third out of the eleven banks. These banks have similar asset sizes ranging from \$70 to \$250 million. The quarterly LTD ratios range from 59% to 89%. The following table illustrates the total assets and LTD ratios for these banks.

Institution	Assets 9/30/02	Average Quarterly LTD Ratio
Star Bank, NA	\$85 Million	89%
North American State Bank	\$84 Million	80%
American Heritage National Bank	\$173 Million	77%
The First National Bank of Cold Spring	\$76 Million	76%
Lake Country State Bank	\$64 Million	76%
Rural American Bank Foley/Gilman	\$70 Million	76%
First Integrity Bank, NA	\$90 Million	74%
Plaza Park State Bank	\$110 Million	70%
Avon State Bank	\$91 Million	69%
First National Bank of Sauk Centre	\$87 Million	68%
First State Bank of Sauk Centre	\$83 Million	59%

Lending in Assessment Area

Lending within the AA meets the standard for satisfactory performance. A majority of the loans are originated within the AA with 79% of the number and 71% of the dollar of all sampled loans originating in the AA. We used both our sample of commercial real estate, agriculture and consumer loans and data reported by the bank under the HMDA. The following table illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial Real Estate Sample	17	80%	7,468	80%	4	20%	1,907	20%
Agriculture Sample	25	96%	389	89%	1	4%	47	11%
Consumer Sample	25	86%	197	83%	4	14%	39	17%
Residential Real Estate (HMDA data)	403	75%	26,783	69%	114	25%	12,239	31%
Total	470	79%	34,837	71%	123	21%	14,232	29%

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

Lending to borrowers of different incomes and to businesses and farms of different sizes meets the standard for satisfactory performance.

St. Cloud MSA portion of AA:

Based on our sample of residential real estate and commercial real estate loans, AHNB's record of lending to borrowers of different incomes and borrowers of different sizes is satisfactory.

Residential Real Estate Loans

The analysis of residential real estate loan borrowers shows that a reasonable number and dollar amount of loans are originated to low- and moderate-income borrowers.

The number and dollar of residential real estate loans to low-income borrowers is slightly less than the demographics of the AA. This is attributed to the limited availability of affordable housing stock in the AA. Residential real estate loans in the moderate-income category meets the demographics of the AA.

RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	17%		19%		27%		37%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	10%	6%	21%	15%	37%	35%	32%	44%

Loans to Small Businesses

AHNB's lending to small businesses is adequate. Lending to businesses with revenues under \$1 million is slightly less than the demographics of the AA. The following table illustrates that 75% of the number of loans and 81% of the dollar volume of loans is somewhat less than the demographics of the AA where 91% of businesses have annual revenues of less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	< \$1,000,000	>\$1,000,000
% of AA Businesses	91%	9%
% of Business Loans in AA #	75%	25%
% of Business Loans in AA \$	81%	19%

Non-MSA portion of AA:

Based on our sample of consumer and agriculture loans, AHNB's record of lending to borrower's of different incomes and borrower's of different sizes is satisfactory.

Consumer Loans

Consumer loans originated to low-income individuals are below the demographics of the AA while the number and dollar of loans to moderate-income individuals exceeds the demographics of the AA.

CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	32%		18%		19%		31%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	16%	13%	40%	47%	32%	32%	12%	8%

Agriculture Loans

AHNB’s lending to farms of different sizes is good. Lending to farms with revenues under \$1 million exceeds the demographics of the AA. The following chart illustrates that all of the sampled loans were to farms with revenues under \$1 million where 99% of farms have annual revenues of less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS		
Farm Revenues	<\$1,000,000	>\$1,000,000
% of AA Farms	99%	1%
% of Farm Loans in AA #	100%	0%
% of Farm Loans in AA \$	100%	0%

Geographic Distribution of Loans

AHNB’s geographic distribution of loans throughout its AA meets the standard for satisfactory performance. The sampled residential real estate, consumer and agriculture loans were further analyzed to determine whether the lending institution’s lending activity is reasonably dispersed throughout the assessment area. As evidenced by the following analysis, AHNB’s geographic distribution is reasonable given the demographic information, the location of the bank’s offices and competition with other lenders.

St. Cloud MSA portion of AA:

As detailed in the following tables, a majority of the sampled loans were originated in middle-income geographies. This appears reasonable considering that the bank’s branches are all located in middle-income geographies. No residential loans were originated in the low-income census tract, which is consistent with the demographics of that AA considering this census tract is located in St. Cloud’s downtown business district. The bank’s lending opportunities in this census tract are limited because there are only 313 housing units in comparison to the MSA total of 55,327 housing units. AHNB approaches the AA demographics for loans to moderate-income borrowers.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0%*		3%		84%		13%	
	*less than 1%							
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	0	0	3%	1%	83%	74%	14%	25%

Non-MSA portion of AA:

AHNB is reasonably meeting the credit needs of the moderate-income geographies. Consumer loans sampled reveal that loans to moderate-income borrowers are not reflective of the AA. The moderate-income census tracts are predominantly rural in nature and are at the far end of the AA. Financial institutions in the immediate area of the moderate-income geographies serve these census tracts. The number of agriculture loans to moderate-income geographies exceeds the AA's demographics.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		24%		76%		0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	0	0	4%	1%	96%	99%	0	0

AGRICULTURE LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Farms	0		16%		84%		0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	0	0	21%	15%	79%	85%	0	0

Responses to Complaints

AHNB has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending Review

An analysis of public comments, consumer complaint information, and HMDA data was performed according to the OCC's risk based fair lending approach. Based on analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to

be conducted in connection with the CRA evaluation this year.