



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 13, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Stearns County National Bank
Charter Number 15576**

**140 Fifth Street
Albany, Minnesota 56307**

**Office of the Comptroller of the Currency
Alexandria Duty Station
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 County National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 13, 1997. 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 County National Bank's rating is based on the following factors:

- ◆ The bank's record of extending credit to businesses of different sizes is good.
- ◆ The bank's loan-to-deposit ratio is strong.
- ◆ The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment areas.

The following table indicates the performance level of *Stearns County National Bank* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	STEARNS COUNTY NATIONAL BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	x		
Lending in Assessment Area		x	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		x	
Geographic Distribution of Loans		x	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Stearns County National Bank (SCNB) is located in the west central Minnesota city of Albany. SCNB has had steady growth the last several years. Total assets the prior two year ends, December 31, 1995 and 1996, were \$230 million and \$304 million, respectively.

SCNB has three branches, two located in the neighboring city of St. Cloud and one located in the northeast Minnesota city of Ely. Full banking services are available at the Albany, Ely and one of the St. Cloud locations. The other St. Cloud branch is located in a shopping mall and provides teller services.

SCNB is owned by Stearns Financial Services, Inc.; a five bank holding company located in Albany with assets of \$462 million. A nonbank affiliate, Stearns Insurance Services, Inc., provides each location with an independent insurance agent and insurance services.

SCNB defines itself as a full service bank offering a wide variety of financial products and services. The primary lending focus is loans and leases to businesses of all sizes and residential real estate mortgages. Using December 31, 1996 financial information, gross loans and leases represent 76% of total assets. The loan portfolio consists of commercial and residential real estate loans (49%), commercial and agriculture leases (32%), commercial and agriculture loans (15%), and consumer instalment loans (4%).

SCNB was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination, dated June 1, 1994. There are no legal or financial impediments limiting SCNB's ability to help meet the credit needs of the community.

DESCRIPTION OF STEARNS COUNTY NATIONAL BANK'S ASSESSMENT AREAS

SCNB has two distinct assessment areas, the St. Cloud/Stearns County and the Ely communities. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low or moderate income geographies.

St. Cloud Assessment Area

The St. Cloud assessment area (AA) includes all of Stearns, Benton, and Sherburne Counties. Population within the area is 190,921. The assessment area consists of the

whole St. Cloud Metropolitan Statistical Area (MSA) and the northwest portion of the Minneapolis/St. Paul MSA.

The MSA's contain 43 individual census tracts, 36 in the St. Cloud MSA and seven in the Minneapolis/St. Paul MSA. Census tract income characteristics are: one low-income tract; one moderate-income tract; thirty five middle-income tracts; five upper-income tracts; and one undefined census tract. The undefined census tract consists wholly of a state prison. Cities within the area include but are not limited to St. Cloud, Waite Park, Sartell, Sauk Rapids, Albany, Avon, and St. Joseph.

According to 1990 U.S. Census data, 46,471 families reside in the AA with a median family income of \$43,633. Family incomes within the AA are: 17% low income; 19% moderate income; 28% middle income; and 36% upper income.

The local economy is strong and expanding. Major employers include Fingerhut, Coborn's Grocery, Frigidaire, St. Cloud State University, and the St. Cloud school district. Employment data indicates job growth is strong and expanding in all sectors of the economy over the last five years.

Competition for banking and other financial services within the AA is very strong. Competition includes 25 banks or bank branches, 12 mortgage brokers, five thrifts, and five credit unions. Included in the competition numbers is a branch of a regional bank and a branch of a regional thrift.

The primary credit needs of the area include loans for all types of housing and commercial credit to expanding and new businesses. We determined this by meeting with three representatives from local housing and development agencies.

The median house value is \$62,300 with a median age of 26 years. The expanding economic, employment, and population bases are driving increased demand for multi-family and single family housing. Vacancy rates for rental units are low and single family housing costs continue to rise.

Ely Assessment Area Description

The city of Ely is located in northeast Minnesota, approximately 100 miles north of Duluth, Minnesota. The Ely assessment area includes portions of St. Louis and Lake Counties. The AA includes five contiguous census tracts which are part of the Duluth/Superior MSA, and two contiguous Block Number Areas (BNAs) in Lake County. The assessment area meets the requirements of the CRA.

The population of the AA is 19,235 with a median family income of \$37,914. The census tracts and BNAs include 2 moderate-income geographies and 5 middle-income geographies. Family incomes in the area are: 23% low income; 22% moderate income;

24% middle income; and 31% upper income.

The local economy is stable. Primary industries include logging, mining, and tourism. Major employers include the local hospital, Vermillion Community College, and the school district. Competition in the AA includes nine banks or bank branches, two savings and loans, and three credit unions.

Major credit needs include loans to small businesses, tourism industry loans, and housing loans. We identified the credit needs of the community by contacting a representative from a local development agency. The median housing value is \$34,600 with a median age of 35 years.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

SCNB's loan-to-deposit ratio (LTD) is strong. The LTD ratio has been stable and averaged 86% since the last CRA examination. The average ranks the bank second out of the 34 banks within the assessment areas. The LTD ratios of the competing banks range from 47% to 88%. Also, SCNB has \$51,169,000 in loan participation sales and sells substantially all of its residential real estate mortgages on the secondary market. These loan sales would substantially increase SCNB's ratio.

Lending in the Assessment Areas

A majority of the loans are extended in SCNB's assessment areas. A bank prepared analysis of all loans originated in 1996 is detailed in the following table. Our sampling of business and real estate loans verified the banks analysis. Table One illustrates lending in each of the assessment areas.

Table One

Assessment Area (AA)	St. Cloud AA		Ely AA	
# of Total Loan Originations	1,423		414	
# of Loan Originations in AA	1,135		396	
# of Loan Originations Outside AA	288		18	
% In/Out of AA	80%	20%	96%	4%
\$ of Total Loan Originations	158,668,386		10,715,229	
\$ of Loan Originations In AA	86,608,281		9,698,400	
\$ of Loan Originations Outside AA	72,060,105		1,016,829	
% of \$ In/Out of AA	55%	45%	91%	9%

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

SCNB has a good record of lending to individuals of different income levels and businesses of different sizes. Lending patterns reveal SCNB is helping to meet the identified housing and business credit needs of the communities it serves. The next four tables and narratives describe SCNB's performance in each assessment area.

St Cloud AA

Table Two illustrates business lending in the St. Cloud AA. We sampled 38 loans totaling \$15,189,814 which were originated during the last three months of 1996. The sample represents 20% of the total loan originations and 58% of the dollar volume of originations for the time period.

Table Two

Annual Gross Sales	% of Number of Loans	% of Dollar Volume
<\$100,000	39%	5%
\$100,000-\$250,000	13%	6%
\$250,000-\$500,000	16%	8%
\$500,000-\$1,000,000	11%	24%
>\$1,000,000	21%	57%

Table Three illustrates 1995 and 1996 Home Mortgage Disclosure Act (HMDA) data for SCNB, Albany and St. Cloud locations. The table depicts all home mortgage loans

originated by SCNB in the St. Cloud MSA in 1995 and 1996. The data represents 309 residential real estate loan originations totaling \$24,153,000.

Table Three

Income Level	% of Families	1995		1996	
		% Number	% Dollar	% Number	% Dollar
Low	17.22%	* 4.1%	2.3%	6.9%	6.1%
Moderate	19.43%	20.7%	13.2%	19.1%	19.1%
Middle	27.55%	33.1%	31.7%	37.2%	32.7%
Upper	35.79%	36.4%	47.5%	34.0%	40.7%
Unreported	NA	5.8%	5.3%	2.7%	1.4%

* Lending in the low-income category appears low. However, low-cost housing stock is scarce. The level of lending to all income categories is consistent with the areas demographics and housing opportunities.

Ely AA

Table Four illustrates business lending in the Ely AA. We sampled 17 business loans totaling \$427,772 originated in the last three months of 1996. The sample represents 33% of the number of loans and 25.4% of the dollar volume of business loans originated in the time period.

Table Four

Annual Gross Sales	% of Number of Loans	% of Dollar Volume
<\$100,000	35.3%	32.4%
\$100,000-\$250,000	11.8%	4.8%
\$250,000-\$500,000	29.4%	29.9%
\$500,000-\$1,000,000	17.6%	30.3%
>\$1,000,000	5.9%	2.6%

Table Five illustrates 1995 and 1996 Home Mortgage Disclosure data for SCNB, Ely

branch. The table depicts all home mortgage loans originated by SCNB in the Duluth MSA in 1995 and 1996. The data represents 112 residential real estate loan originations totaling \$5,022,000.

Table Five

Income Level	% of Families	1995		1996	
		% Number	% Dollar	% Number	% Dollar
Low	22.6%	* 0%	0%	11.3%	6.8%
Moderate	22.1%	24.4%	14.3%	15.5%	8.0%
Middle	23.7%	24.4%	20.9%	35.2%	37.3%
Upper	31.6%	51.2%	64.8%	38.0%	47.9%

* Lending to low-income families for home mortgages appears low for 1995. However, the bank received only one application in this income category during 1995; the application was subsequently withdrawn. The loan distribution approximates the income characteristics of the AA.

Geographic Distribution of Loans

The distribution of loans reflects reasonable dispersion throughout SCNB’s assessment areas. A bank prepared analysis of all loans originated during 1996 reveals lending in most census tracts. We verified the internal analysis using the sample of business and home loans. The following two tables and narratives describe the geographic distribution of loans in each assessment area.

St. Cloud AA

Table Six represents 1,135 loans totaling \$86,608,281 originated during 1996 in the St. Cloud assessment area. A majority of the census tracts are represented. The middle-income tracts not represented are predominately rural and of greater distance from SCNB locations than other tracts.

Table Six

Census Tract type	# of Tracts	% of Tracts	% of Tracts with Loans	# of Loans %	\$ Volume of Loans%
Low	1	2.3%	100%	1.41%	1.66%
Moderate	1	2.3%	100%	.79%	3.16%
Middle	35	81.4%	86%	85.9%	86.4%
Upper	5	11.7%	100%	11.9%	8.8%
NA-Prison	1	2.3%	NA	NA	NA

Ely AA

Table Seven depicts 396 loans totaling \$9,698,400 originated during 1996 in the Ely assessment area. All tracts are represented.

Table Seven

Census Tract type	# of Tracts	% of Tracts	% of Tracts with Loans	# of Loans %	\$ Volume of Loans%
Low	0	0%	NA	NA	NA
Moderate	2	28.6%	100%	69.9%	68.8%
Middle	5	71.4%	100%	30.1%	31.2%
Upper	0	0%	NA	NA	NA

Record of Compliance with Anti-discrimination Laws

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