



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 28, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Olmsted National Bank
Charter Number 22997**

**120 Elton Hills Drive NW
Rochester, MN 55901**

**Comptroller of the Currency
Eau Claire Field Office
1310 West Clairemont Avenue Suite 100
Eau Claire, WI 54702**

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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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The satisfactory rating for this bank is based on the lending performance of the bank within the assessment area. Olmsted National Bank (ONB) is meeting the credit needs of the community as demonstrated by the high loan-to-deposit ratio, high level of loans originated within the assessment area and by maintaining a satisfactory distribution of loans to low- and moderate-income borrowers and small businesses.

- The average loan-to-deposit (LTD) ratio for the 19 quarters since the last CRA examination is 94%. This LTD ratio is more than reasonable and the second highest among four other similarly situated banks operating within the assessment area.
- The bank has a substantial majority of business loan originations within the assessment area. We found that 95% by number and 99% by dollar of business loans originated were to businesses within the assessment area.
- The bank has a majority of home mortgage loan originations within the assessment area. We found that 70% by number and 71.5% by dollar of home mortgage loans were made in the assessment area.
- The geographic distribution of business loans and home mortgages reflects reasonable dispersion throughout the assessment area.
- The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

DESCRIPTION OF INSTITUTION

Olmsted National Bank (ONB) is a \$26 million bank with one office located in Rochester, Minnesota. The bank office is located in a middle-income geography. The bank opened for business May 9, 1996 and offers traditional business and consumer lending products that include real estate loans, operating lines of credit, home mortgages, and installment loans. The bank has two primary lending products, which are business loans and home mortgages. On December 31, 2001 the bank's loan portfolio mix was as follows: business and business real estate loans \$9.3 million (45.76%), home mortgages \$6.8 million (33.68%), consumer loans \$3.7 million (18.11%) and other loans \$500 thousand (2.45%). Total outstanding loans equal \$20 million or 81% of assets.

ONB is owned by a two-bank holding company Evans Bancshares, Inc. The holding company is located in Evansdale, Iowa. Total assets of the holding company as of December 31, 2001 were

\$91.3 million. There is no financial or legal impediment limiting the ability of the bank to meet the community credit needs. The bank's last CRA evaluation was rated Satisfactory on May 8, 1997. The bank does not have any affiliates engaged in activities that impact the bank's CRA performance. There have been no changes in corporate structure since the last CRA examination.

DESCRIPTION OF OLMSTED COUNTY

The bank's assessment area is Olmsted County, Minnesota and is located in southeastern Minnesota. Olmsted County makes up the Rochester Metropolitan Statistical Area (MSA). The city of Rochester is a major regional employment, retail, medical, and business center. The assessment area contains no low-income, 4 moderate-income, 14 middle-income, 3 upper-income and one undefined tract. The tract not defined contains the Federal Medical Facility.

Based on 2000 estimated census data, the population of Olmsted County is 124,277. Rochester is the fifth largest city in Minnesota with a population of 85,806. The weighted average updated median family income for the Rochester MSA is \$71,600. Olmsted County covers 653 square miles. The Rochester area has been experiencing significant growth over the past decade. In 2000, there were 1,552 permits for new housing. Home ownership rate totaled 76%. A total of 775 permits for new commercial construction were issued in 1999.

Two large employers, Mayo Medical Center and IBM Corporation dominate the Rochester employment market. Mayo Medical Center employs 19,485 people followed by IBM Corporation with 6,000. Industry employment in Olmsted County is dominated by the service sector with 33,369 employees, followed by retail trade with 13,251, manufacturing with 13,216, and government with 6,855. The unemployment rate in the area has been lower than the State average due to the stability in the medical services sector. As of January 2002, the unemployment rate in the Rochester MSA was 3.6%. This is an increase from January 2001 unemployment rate of 2.5% and can be attributed to the downturn in the economy experienced nation wide.

The banking environment is extremely competitive in the Rochester MSA. For example, ONB competes with 14 financial institutions with headquarters or branch locations in Olmsted County. ONB has a deposit market share of 1.5%. There are three large regional banks that dominate the market. Wells Fargo, Marquette Bank and US Bank, collectively control over 61% of the deposit market share.

One new community contact and two existing contacts were used as part of the evaluation. The new contact stated there is a need for home mortgages to low- and moderate-income borrowers and a need for loans to businesses developing products or expanding their markets. The contact stated that all banks are competitively seeking to make loans in the area. There are no unmet credit needs. The results of the CRA examination show that ONB is actively lending to meet the credit needs of the community. Contacts were made with a small business development organization and a community housing authority.

The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. Table 1 below shows the assessment area composition by census tract income level based on the 1990 census data.

| Table 1. Assessment Area by Income Level | Number of Census Tracts | Percent of Census Tract |
|---|--------------------------------|--------------------------------|
| Low | 0 | 0.00% |
| Moderate | 4 | 18.18% |
| Middle | 14 | 63.64% |
| Upper | 3 | 13.64% |
| NA | 1 | 4.55% |

Table 2 shows family income level based on the 2001 updated MSA median family income of \$71,600.

| Table 2. Family Income Level | Percent of Families |
|-------------------------------------|----------------------------|
| Low | 15.48% |
| Moderate | 19.43% |
| Middle | 28.55% |
| Upper | 36.54% |

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

ONB has a loan-to-deposit ratio that is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio since its last CRA examination is 94%. Similarly situated banks had a quarterly average loan-to-deposit ratio ranging from 32% to 125% with an overall average ratio of 82%. Similarly situated banks are those operating primarily in Olmsted County with total assets less than \$101 million. The loan-to-deposit ratio for ONB ranked second out of the four banks in the comparison.

Lending in Assessment Area

The bank’s record for lending in the assessment area is excellent. A substantial majority of loans and other lending-related activities are in the bank’s assessment area. The bank’s ratio of lending within the assessment area was calculated from the bank’s two primary loan products, business loans and home mortgage loans. Primary loan products were identified using loan originations from May 1997 through February 2002. A random sample of 20 business loans and 20 home mortgage loans were evaluated. Table 3 below shows the bank’s lending within the assessment area based on the two primary product types.

| Table 3. In/Out Lending Analysis | In Assessment Area by Number % | In Assessment Area by Dollar % |
|---|---------------------------------------|---------------------------------------|
| Business Loans | 95.00% | 99.99% |
| Residential Real Estate Loans | 70.00% | 71.51% |

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

The distribution of loans reflects, given the demographics of the assessment area, excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

Lending to small business is reasonable compared to the demographic information. We reviewed a sample of 60 loans originated within the assessment area. The bank originated 60% by number and 40% by dollar of loans in our sample to businesses with revenues less than or equal to \$1 million per year. This compares with a small business demographic of 88%. ONB has targeted its marketing efforts on the construction trades and trucking markets, some of which are large businesses. Rather than extending large loans to borrowers in those industries, the bank has accommodated some of them by extending numerous small dollar loans. By structuring loan facilities in this way, a higher percentage of the bank’s loans are made to large businesses. Had the bank structured its loan facilities to those borrowers in a different manner, the bank’s lending performance would more closely approximate the demographic. Table 4 below shows loan distribution to businesses based on annual revenues.

| Table 4. Business Loans Income Distribution | By Number % | By Dollar % | % of Businesses in Assessment Area |
|--|--------------------|--------------------|---|
| Revenues ≤ \$1,000,000 | 60.34% | 39.50% | 87.82% |
| Revenues > \$1,000,000 | 39.66% | 60.50% | 7.17% |

The distribution of loans to low- and moderate-income families is excellent given the demographics of the assessment area. We reviewed a sample of home mortgage loans and found that the bank originated 15% by number and 13% by dollar to low-income borrowers. This indicates good performance considering the low-income number also includes borrowers below the poverty line that may not qualify for a home mortgage. For moderate-income families the bank originated home mortgages that total 20% by number and 15% by dollar. The bank's performance closely approximates the demographic for the assessment area. Table 5 below shows the loan distribution by income category.

| Table 5. Annual Income of Borrower | By Number % | By Dollar % | % Families in Assessment Area |
|---|--------------------|--------------------|--------------------------------------|
| Low | 15.00% | 13.29% | 15.48% |
| Moderate | 20.00% | 14.86% | 19.43% |
| Middle | 25.00% | 20.98% | 28.55% |
| Upper | 40.00% | 50.87% | 36.54% |

The bank's strong performance with lending to low- and moderate-income borrowers demonstrates that it is helping meet a key credit need that was mentioned during a community contact.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion through all areas of the assessment area. The banking environment in the assessment area is very competitive. A total of 14 banks and savings associations have offices in the assessment area. ONB is located within a middle-income geography. An analysis of the bank's lending within all geographies of the assessment area was performed. There were no conspicuous gaps or areas of low penetration identified.

Geographic distribution of loans to businesses reflects reasonable dispersion through all areas of the assessment area. From a sample of 60 loans made within the assessment area we determined that 13% by number and 5% by dollar, were made in moderate-income geographies. Demographic information indicates that 13% of businesses in the assessment area are located within moderate-income geographies. Table 6 below shows the geographic distribution of business loans within the assessment area.

| Table 6. Business Loans Geographic Distribution | By Number % | By Dollar % | % of Businesses in Assessment Area |
|--|--------------------|--------------------|---|
| Low | 0.00% | 0.00% | 0.00% |
| Moderate | 13.33% | 4.60% | 13.47% |
| Middle | 75.00% | 82.88% | 70.41% |
| Upper | 11.67% | 12.52% | 15.86% |

Geographic distribution of home mortgage loans reflects excellent dispersion throughout the assessment area. The percentage of loans the bank made to borrowers in the moderate-income areas of the assessment area exceeds the area demographics. From a sample of 20 loans made within the assessment area we determined that 20% by number and 13% by dollar were made to borrowers located in moderate-income geographies of the assessment area. 14% of the owner-occupied housing in the assessment area is located in moderate-income geographies. Table 7 below shows the geographic distribution of home mortgage loans within the assessment area.

| Table 7. Real Estate Loans Geographic Distribution | By Number % | By Dollar % | % Owner Occupied in Assessment Area |
|---|--------------------|--------------------|--|
| Low | 0.00% | 0.00% | 0.00% |
| Moderate | 20.00% | 12.98% | 14.39% |
| Middle | 55.00% | 64.47% | 66.29% |
| Upper | 25.00% | 22.55% | 19.32% |

Responses to Complaints

There have been no CRA related complaints.

Fair Lending Review

An analysis of 2000 HMDA data, public comments, and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its 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.