

PUBLIC DISCLOSURE

February 25, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Stearns Bank Evansville National Association
Charter Number: 23459**

**303 Kron Street
Evansville, Minnesota 56326**

**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 Evansville National Association, Evansville, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 25, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CAR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

- C The bank has a very good record of extending consumer auto loans to low-income borrowers.
- C The bank's record of extending credit to small agriculture and commercial borrowers is good.
- C The loan-to-deposit ratio is reasonable compared to other banks of similar size located in the assessment area.

DESCRIPTION OF INSTITUTION

Stearns Bank Evansville National Association (Stearns Bank) is a \$44 million institution located in west central Minnesota. Stearns Bank's primary stockholder is Stearns Financial Services, Inc., St. Cloud, Minnesota, which is a multi-bank holding company with total assets of \$676 million as of December 31, 1998. The affiliated banks are located in St. Cloud, Holdingford, Canby, and Upsala, Minnesota and in Scottsdale, Arizona. The bank has no branch locations or automatic teller machines.

The bank has experienced significant asset growth since December 31, 1996 when total assets were \$28.6 million. The growth is attributed to the purchase of commercial loans, leases, and deposit products from Stearns Bank National Association, St. Cloud, Minnesota. The bank is a full service bank offering traditional loan and deposit products and services. In addition, the bank uses the expertise of Stearns Bank National Association, St. Cloud to finance the sales of residential real estate loans on the secondary market and to finance larger commercial projects. The primary lending focus is consumer, agriculture, and commercial loans. Loan volume represents 58% of total assets as of December 31, 1998. Table 1 reflects the bank's loan mix.

Table 1 - Lending Distribution

Loan Type	Dollar Volume (000's)	% of Total
Commercial (including RE)	14,912	58%
Agriculture (including RE)	3,204	12%
Residential Real Estate	1,016	4%
Consumer Loans	507	2%
Lease	6,237	24%

Source: Bank Report of Condition as of 12/31/98
RE = Real Estate

There are no legal or financial factors impeding the bank's ability to help meet the credit needs of the communities it serves. The bank's last CRA performance rating was Satisfactory and was issued by the Federal Deposit Insurance Corporation on August 19, 1996.

DESCRIPTION OF STEARNS BANK'S ASSESSMENT AREA

The assessment area (AA) of Stearns Bank consists of 12 contiguous block numbering areas (BNAs) in west central Minnesota. The AA includes all of Douglas County and parts of Grant and Otter Tail Counties. The AA contains no low-income BNAs, one moderate-income BNA, and the remaining BNAs are middle-income. The larger cities in the AA are Alexandria, Ashby, Brandon, Carlos, Elbow Lake, Evansville, Garfield, Osakis and Parkers Prairie. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

The population of the AA based upon the 1990 census information is 37,038. The unemployment rate is 3% with 16% of the total population living below the poverty level. The bank's primary trade area is considered rural in nature with the local economy reliant on agriculture and, to a lesser extent, manufacturing businesses and tourism related industry. Major employers include the local school district and Crestview Manor Health Care nursing home.

The 1998 updated median family income for the AA is \$40,500. The profile of family income levels within the BNA is: low income 21%, moderate income 22%, middle income 25% and upper income 32%. Information from the 1990 Census indicates that the AA's housing stock has a median age of 35 years with a median value of \$50,964.

Stearns Bank's primary competition includes six similarly sized banks located within its AA and two regional and one mid-sized bank located in the Alexandria area.

The area's economy is generally stable but is dependant upon the fortunes of the agriculture economy. Corn, wheat and soybeans are the primary crops grown in the AA. There also continues to be dairy and livestock production. Management stated that continued low commodity prices could negatively impact the local economy; however, many family farming operations in the AA are supplemented by off-farm income.

We determined the credit needs of the AA through discussions with bank management and through contacts in the community. Community contacts include a city council member, a realtor, a county housing official and the manager of a local business. Community contacts identified the need for affordable housing and affordable rental units. Contacts indicate that the bank is meeting the needs of the communities it serves.

DESCRIPTION OF LOANS SAMPLED

Our review of Stearns Bank’s lending activities was conducted through sampling various loan products. The sample focused on the bank’s primary lending activities including commercial, agriculture and consumer loans. A random sample of loans was selected from all originations in 1997 and 1998. Bank prepared reports made available during the examination were sampled and the reports were found to be accurate. Table 2 describes our sample size.

Table 2 - Description of Loans Sampled

	Commercial	Agriculture	Consumer
Sample Size	20	20	20
Dollar Amount of Sample	\$1,945,000	\$437,000	\$105,000
Dollar Amount of Loans Originated	\$19,341,000	\$3,816,000	\$1,271,000
Number of loans Originated	212	149	217

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

Stearns Bank distribution of loans to borrowers of different incomes and businesses of different sizes within the AA is good. The primary product lines are discussed below.

Consumer Auto Loans

The bank has a very good record of lending to borrowers in the low-income level. Our review focused on consumer automobile loans. Table 3 illustrates lending to borrowers of different income levels.

Table 3 - Consumer Auto Loans

Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family income*	21%	55%	41%
Moderate-Income at least 50% < 80% Median Family Income*	22%	10%	17%
Middle-Income at least 80% < 120% Median Family Income*	25%	30%	37%
Upper-Income 120% and > Median Family Income*	32%	5%	5%

* 1998 Outstate Median Family Income \$40,500

Small Farm Loans

The bank's record of lending to small agriculture borrowers is very good. Table 4 shows that 90% of the number of loans and 82% of the dollar volume of loans were originated to borrowers with annual gross revenues under \$250,000. This compares favorably to the demographics of the farms in the AA. The State of Minnesota 1992 Agriculture Census (the most current data available) discloses that 95% of the farms in the three counties included in the AA (Douglas, Grant and Otter Tail counties) had annual gross revenues of less than \$250,000.

Table 4 - Agriculture Loans

Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	55%	42%
\$101 - \$250	35%	40%
\$251 - \$1,000	10%	18%
> \$1,000	0%	0%

Commercial Loans

The bank's record of extending credit to small businesses is good. While there is no information available concerning sizes of businesses in the area, Table 5 shows that 85% of the number and 75% of the dollar volume of loans sampled were to businesses with annual gross sales under \$1 million.

Table 5 - Commercial Loans

Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	40%	29%
\$101 - \$250	10%	3%
\$251 - \$1,000	35%	43%
> \$1,000	15%	25%

The analysis for consumer, agriculture and commercial loans shows the bank does a very good job in meeting the needs of small borrowers.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is acceptable. The quarterly LTD ratio has averaged 66.5% since the last CRA examination. Table 6 shows the bank's ratio is comparable to other banks within the AA with average ratios for banks of similar size within the AA ranging from 57% to 89%. The bank's ratio ranks 5 of 7 banks.

Table 6 - Loan-to-Deposit Comparison

Name of Bank	Location	Population	County	Total Assets	LTD Ratio*
Stearns Bank Evansville	Evansville	566	Douglas	\$44,443	66.5%
First State Bank of Ashby	Ashby	469	Grant	\$17,743	72.2%
First State Bank of Alexandria-Carlos	Alexandria	8,348	Douglas	\$36,731	77.6%
West Central Bank Barrett Elbow Lake - Branch	Elbow Lake	1,186	Grant	\$38,013	89.4%
First State Bank of Kensington	Kensington	295	Grant	\$36,103	56.9%
First National Bank Osakis	Osakis	1,256	Douglas	\$39,615	68.6%
First National Bank Parkers Prairie	Parkers Prairie	956	Otter Tail	\$40,827	57.7%

LTD= average Loan-to-Deposit from 9/96 to 12/98

The bank purchases a large amount of commercial loans and leases through an affiliate bank to supplement local loans. These loans are funded through the purchase of nonlocal deposits. To determine the bank's local loan-to-deposit ratio, an analysis was performed netting these numbers. As of December 31, 1998 the bank's direct lending activities represent 45% of local deposits. In addition, Stearns Bank referred \$1.2 million in residential real estate and commercial loans to Stearns Bank National Association, St. Cloud in 1998. These additional loans increase the 1998 local loan-to-deposit ratio to 51%. It appears that in light of this analysis and through contacts within the community, the bank's loan-to-deposit ratio is reasonable given the bank's resources, assessment area credit needs and the performance of similarly situated lenders.

Lending in the Assessment Area

A majority of the bank's loan originations are extended within the designated AA. We conducted an analysis of 60 loans included in our consumer, agriculture and commercial loan sample. Table 7 reflects the distribution of that sample.

	Consumer	Agriculture	Commercial
Number of Loans Sampled	20	20	20
Percentage in the AA	85%	95%	80%
Dollar Volume of loans Sampled	\$105,000	\$437,000	\$1,945,000
Percentage in the AA	84%	97%	15%

These results are representative of the aggregate results maintained by the bank. Table 8 reflects consolidated loan originations from 1997 and 1998.

Table 8 - Bank Aggregated Distribution

	Loans Originated
Total number of Loans Originated	631
Number of Loan Originations in AA	552
Percentage In AA	87%
Total Dollar of Total Loans Originated	\$26,305,000
Dollar of Loans Originated In AA	\$10,238,000
Percentage In AA	39%

While the size of the commercial loans adversely affects the ratio for dollar amount of loans located in the bank's AA, the number of commercial loans that are located within the bank's AA is reasonable. To illustrate the impact purchased loans have on lending within the AA, an analysis was performed netting these numbers. We find that 92% of the number of originations and 73% of the dollar volume of loans were located within the AA.

The bank also attempts to meet the needs of small borrowers. A stratification of outstanding loans as of December 31, 1998 shows that one-third of all loans originated by the bank are loans under \$5,000. In addition, the analysis of consumer and agricultural loans shows the bank's sound effort in lending within the assessment area. Taken as a whole, a majority of the sampled loans is within the bank's assessment area.

Geographic Distribution of Loans

The geographic distribution of loans within the bank's AA is reasonable. The bank's AA has no low-income BNAs and one BNA that is considered moderate-income. The remaining 11 BNAs within the AA are middle-income. Based on aggregate loan origination data provided by the bank, a majority of the loans originated are in the immediate Evansville area. Lending occurs in all BNAs except BNA 9504 which consists primarily of a large lake, and BNA 9506 which is located in the City of Alexandria. As discussed earlier, this BNA is served by a number of financial institutions including two regional banks and a mid-size bank. The only moderate-income BNA was extended eight loans totaling \$153,000. This BNA is located on the northeastern most part of the AA. There are four banks closer to that BNA than Stearns Bank. In addition, there is not a direct highway connection from Evansville to that BNA, which further limits lending opportunities. A review of loan denials shows that there were no denials for this BNA. Based on this information, the geographic distribution of sampled loans reflects a reasonable dispersion throughout the assessment

area.

Record of Response to Complaints

The bank has not received any CRA-related complaints since the previous examination.

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.