



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 31, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Merchants Bank, National Association
Charter Number: 14488

102 Plaza East
Winona, MN 55987

Office of the Comptroller of the Currency

Minneapolis Field Office
Campbell Mithun Tower 222 South Ninth Street
Minneapolis, MN. 55402-3393

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.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Excellent.

The major factors that support this rating are:

- The overall distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable.
- The overall dispersion of loans to geographies of different income levels is reasonable.
- The loan-to-deposit ratio evidences a more than reasonable volume of lending activity.
- A majority of bank loans are inside the bank's assessment areas.
- Responsiveness to community development needs is excellent in relation to the bank's capacity and area opportunities.
- The bank has not received any complaints regarding its CRA performance since the previous evaluation.

Scope of Examination

The lending test analysis is based on the bank's primary loan products for the period January 1, 2006, through December 31, 2008. We used the most recent three whole year period to be consistent with prior evaluations and the scope of our data integrity work which was conducted in early 2009.

Merchants' primary loan products are business and home mortgage loans in all assessment areas. The general weighting of bank products is described below. Primary product determinations and weightings are based on internal loan production reports, HMDA data and other available home mortgage geocode information.

- Business loans generally carry more weight than mortgage loans in our evaluation as they represent a larger percentage of bank production (by number of loans) in all markets, taking the effects of the correspondent loan program into consideration (explained in the Description of Institution section).
- Home purchase loans are weighted more heavily than refinance loans in all markets but the Twin Cities, where refinance loans received more emphasis.
- Only the Winona and Rochester markets have sufficient home improvement lending for meaningful analysis, but the product carries the least weight. It is notable that the bank elected to have most home improvement loans related to flood repair considered under the community development test (as permitted for Intermediate Small Banks).

We used a combination of HMDA data and loan samples to analyze lending test performance. Home mortgage lending performance in metropolitan statistical areas (MSAs) is based on HMDA data for the years 2006-2008. Examiners tested the accuracy of HMDA data in early 2009 and did not identify any material errors. Loan samples from the same period were used to assess home mortgage lending performance in rural areas, business lending distributions and the distribution of loans inside the bank's assessment areas. While Merchants is a HMDA data reporter, it only reports geocode information on MSA transactions (as permitted for banks that are not subject to large bank CRA). The bank also is not subject to (and does not voluntarily comply with) large bank CRA data collection and reporting requirements.

Geographic distribution analysis was only performed in the Twin Cities and Rochester markets. Geographic analysis is not meaningful in the Winona or Cannon Falls markets as these areas are entirely comprised of middle- and upper-income geographies.

We performed a full-scope review of the Winona Assessment Area because it accounts for the largest share of bank deposits. Limited scope reviews were performed in the Twin Cities, Cannon Falls, and Rochester markets. The La Crosse WI-MN MSA is not in the scope of this evaluation because Merchants just recently established the assessment area with the June 2009 merger of two affiliate banks.

The community development test considers qualified loans, investments and services for the period September 1, 2005 through October 31, 2009. Examiners reviewed all of the bank's community development activities. Only those activities that qualified are presented and considered in this evaluation.

Merchants did not request consideration of any affiliate activities in this performance review.

Description of Institution

Merchants Bank, National Association (Merchants) is an interstate community bank with 17 banking offices that serve more than 13 communities in southeastern Minnesota and western Wisconsin. The bank had assets of \$1.1 billion and Tier I Capital of \$112 million as of June 30, 2009.

Merchants is the sole bank subsidiary of Merchants Financial Group, Inc., a private bank holding company located in Winona, Minnesota. The bank underwent several mergers and acquisitions over the evaluation period. On September 20, 2007, Merchants merged with Merchants Bank, N.A. in Hampton, Minnesota and acquired First National Bank in Cannon Falls, an unaffiliated \$117 million community bank. On June 28, 2009, Merchants merged with Merchants Bank, N.A. in Caledonia, Minnesota and Merchants Bank, N.A. in La Crescent, Minnesota. The La Crescent affiliate had previously merged with Merchants Bank, N.A. in Onalaska, Wisconsin on April 1, 2008. Lastly on June 13, 2009, Merchants purchased a branch facility (and related deposits) in Cottage Grove, Minnesota from the now defunct and unaffiliated Mainstreet Bank.

Merchants is a full-service financial institution that offers a wide variety of retail and commercial banking products and services. Its focus is commercial lending, home mortgage lending and industrial leasing. As of June 30, 2009, the bank's net loans and leases totaled \$705 million, representing 64% of total assets and 79% of bank deposits. The loan portfolio is comprised of commercial and commercial real estate loans (39%), residential real estate loans (23%), leases (18%), agricultural loans (6%) construction and land development loans (5%), loans to individuals (7%), and other loans (2%).

Merchants plays a somewhat unique role in the region by helping smaller financial institutions originate home mortgage loans via a correspondent lending program. This program generates a significant volume of HMDA loans and serves consumers across a broad trade area (Wisconsin, Minnesota, South Dakota, North Dakota, and Iowa). Consumers can apply for a home mortgage loan with their local financial institution that, in turn, forwards the application to Merchants. Merchants underwrites (and therefore also HMDA-reports) the loan. Merchants does not, however, provide the permanent financing - the loans are sold to Fannie Mae or Freddie Mac instead. Through these correspondent relationships, Merchants helps smaller financial institutions originate a wide variety of mortgage loans to their local customers at terms and prices the banks might not otherwise be able to offer.

The activities of Merchants subsidiaries and affiliates do not adversely affect the bank’s capacity for community reinvestment. Merchants has a leasing subsidiary and an inactive real estate subsidiary. The bank also has a title company affiliate and inactive mortgage company affiliate, which are both owned by Merchants Financial Group, Inc.

There are no legal, financial, or other factors that impede Merchants’ ability to help meet credit needs in its assessment areas. The bank’s previous Intermediate Small Bank CRA evaluation, dated September 7, 2005, resulted in an “Outstanding” rating. The merged affiliate banks all had “Satisfactory” ratings at their previous Small Bank CRA evaluations – Hampton (9/8/2003), La Crescent (10/25/2004), Onalaska (9/7/2006) and Calendonia (9/15/2008).

Description of Bank Assessment Area(s)

Merchants has four assessment areas in the State of Minnesota – two represent portions of metropolitan statistical areas (MSAs) and two are non-metropolitan areas. As of June 30, 2009, these assessment areas collectively account for 14 (or 82%) of the bank’s branches, 17 (or 89%) of the bank’s automated teller machines (ATMs), and \$761 million (or 86%) of its deposit base. The Winona Assessment has the most deposits at \$473 million, representing 62% of all Minnesota assessment area deposits and 53% of total bank deposits.

Merchants recently established the Lacrosse Wisconsin-Minnesota MSA as an assessment area with the June 2009 merger of two bank affiliates. This area accounts for 3 (or 18%) of the bank’s branches, 2 (or 11%) of the bank’s ATMs, and \$129 million (or 14%) of its deposit base.

The table below provides a more detailed listing of Merchants’ assessment areas.

List of Bank Assessment Areas			
Area	Deposits as of 6/30/09 (\$000s)	Type of Review	Other Information
State of Minnesota			
Winona AA	\$472,555	Full Scope	Winona County, Part of Fillmore County
Twins Cities AA (part of MSA #33460)	\$136,500	Limited Scope	Part of Dakota County, Part of Washington County
Cannon Falls AA	\$98,999	Limited Scope	Goodhue County
Rochester AA (part of MSA #40340)	\$53,059	Limited Scope	Olmsted County
Multi-State Metropolitan Areas			
MSA # 29100 – La Crosse, WI-MN	\$128,997	Not Reviewed	La Crosse County WI, Houston County MN. AA established June 2009 – insufficient time to evaluate performance

Market Profile for Full Scope Area

Demographic Information for Full Scope Winona Assessment Area					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	13	n/a*	n/a	84.62	15.38
Population by Geography	59,821	n/a	n/a	77.46	22.54
Owner-Occupied Housing by Geography	16,430	n/a	n/a	78.25	21.75
Business by Geography	5,023	n/a	n/a	85.92	14.08
Farms by Geography	598	n/a	n/a	89.13	10.87
Family Distribution by Income Level	14,390	14.31	18.59	26.00	41.10
Distribution of Low and Moderate Income Families by Geography	4,734	n/a	n/a	81.96	18.04
Median Family Income		45,608	Median Housing Value		96,176
HUD Adjusted Median Family Income for 2009		58,500	Unemployment Rate (2008 average for Winona County)		4.7%
Households Below Poverty Level		12%			

Source: 2000 US Census, 2009 US Department of Housing & Urban Development (HUD) updated MFI, U.S. Bureau of Labor Statistics

The Winona Assessment Area (AA) is a non-metropolitan area in southeastern Minnesota. The AA consists of Winona County and roughly half of the adjacent Fillmore County (tracts #9601, #9604, and #9606). The Fillmore County geographies excluded from the AA are middle-income tracts located away from Merchants' branches, which are all in Winona County. The Winona AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

Merchants operates four full-service offices and five ATMs in this area. The main office and two branch facilities are in Winona and one branch is in St. Charles. The bank also provides monthly messenger services at two assisted living facilities in Winona-MN. The bank offers a full range of financial products and services in this market and is an active small business and home mortgage lender.

Bank competition is healthy. Competitors include several community banks, large multi-state banks, savings banks and credit unions. As of June 30, 2009, Winona County has 10 financial institutions with 19 offices and \$1 billion deposits. Merchants has \$473 million of Winona County deposits, representing a 46% market share and first place market rank.

The local economy has been adversely impacted by the national recession, but to a lesser degree. The 2008 seasonally adjusted average unemployment rate for Winona County is 4.7%, compared to 5.45% for the State of Minnesota, and 5.80% nationally. Manufacturing is the predominant industry and area employers include Fastenal Company and Benchmark Electronics, Inc. Winona is also home to three institutions of higher learning – Winona State University, St. Mary's University and the South Eastern Minnesota Technical College, which provide employment opportunities and draw approximately 10,000 students to the area each year.

There is a good level of opportunity for contributions and service work with nonprofit community development organizations. Our performance context research, community contact work, and a review of the CRA performance evaluations of competing banks, however, indicate there are limited opportunities for community development equity investments, particularly at the local level.

We contacted a local business representative during our review. The contact reaffirmed a continuing need for affordable housing stock in the area. The contact also believes the needs for business financing and financial education are increasing in the current economic downturn, but was still complimentary of local banks' lending activity and community involvement overall.

Portions of the assessment area were designated as federal disaster areas after flooding in August 2007 caused extensive property damage throughout southeastern Minnesota. This disaster created additional need for home improvement loans.

Conclusions with Respect to Performance Tests

LENDING TEST

Lending performance is satisfactory. The bank’s loan-to-deposit ratio is more than reasonable. A majority of bank loans are inside its assessment areas. The overall distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable. The overall dispersion of loans to geographies of different income levels is reasonable. The bank has not received any complaints regarding its CRA performance since the previous evaluation.

Lending Test Performance Summary					
	Overall Conclusion	Winona AA Full-scope	Twin Cities AA Limited Scope	Cannon Falls AA Limited Scope	Rochester AA Limited Scope
Loan to Deposit Ratio	More than reasonable				
In-Out Distribution	Majority inside				
Borrower Distribution	Reasonable	Reasonable	Reasonable	Reasonable	Excellent
Geographic Dispersion	Reasonable	n/a	Excellent	n/a	Poor
Complaints	Appropriate				

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is more than reasonable, evidencing a high volume of lending activity in light of the bank’s size, financial condition and assessment area credit needs. Merchants’ quarterly average loan-to deposit ratio is 96% for the 17 quarters since the previous CRA evaluation. This ratio is higher than that of six other similarly situated banks (institutions with deposits of at least \$300 million in the bank’s assessment areas that are not subject to large bank CRA).

Lending in Assessment Area

A majority of home mortgage and business loans are inside the bank’s assessment areas. The initial home mortgage sample resulted in a disproportionate level outside the banks AA. A second sample was selected from the loan population excluding the correspondent loans to show the bank’s responsiveness to the community. A substantial majority of loans are in the banks AA if you were to exclude the effects of the correspondent lending program (explained in the Description of Institution section).

Lending in Assessment Areas						
Loan Type	Numbers of Loans			Dollars of Loans		
	Inside		Total	Inside		Total \$ (000)
	#	%		\$ (000)	%	
Sample of Home Mortgage Loans – Including Correspondent Loans	6	30%	20	\$731	32%	\$2,307
Sample of Business Loans	45	74%	61	\$5,904	76%	\$7,762
Totals	51	75%	81	\$6,635	66%	\$10,069
Sample of Home Mortgage Loans – Excluding Correspondent Loans	16	80%	20	\$1,568	60%	\$2,603

Source: Samples of HMDA and business loans covering the years 2006, 2007 and 2008

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

The overall distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable in the Winona Assessment Area. Our evaluation gives more weight to business loans as they represent a larger percentage of bank production, after considering the effects of the correspondent loan program.

Home Mortgage Loans

The distribution of home mortgage loans to borrowers of different income levels is excellent overall. Our evaluation gives more weight to performance in the moderate-income sector as it accounts for more families in the area. Home purchase loans also received the most weight, followed by refinance and home improvement loans. These products respectively approximate 55%, 31% and 14% of home mortgage production in the Winona AA, based on available bank reports.

Performance in the moderate-income sector is excellent. As illustrated in the following table, the percentage of bank loans to moderate-income borrowers consistently exceeds the demographic comparator in all mortgage products.

Performance in the low-income sector is good. The percentage of home purchase to low-income borrowers is less than the demographic comparator, but we gave consideration to the percentage of families living below poverty level (5.74%) and the area’s identified need for affordable housing stock. The percentage of refinance loans to low-income borrowers is also less than the demographic comparator, but we gave consideration to the fact that fixed refinancing costs can be an impediment to low-income borrowers (since it takes longer to recoup costs through interest savings on smaller loans). The percentage of home improvement loans to low-income borrowers exceeds the demographic comparator.

Borrower Distribution of Home Loans in the Winona Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Purchase (20 loans)	14.31%	10%	18.59%	25%	26.00%	25%	41.10%	40%
Home Improvement (20 loans)		25%		35%		20%		20%
Home Refinance (20 loans)		10%		20%		35%		35%

Source: Samples of bank HMDA data covering the years 2006, 2007 and 2008; 2000 U.S. Census Data

Small Loans to Businesses

The distribution of business loans to businesses of different sizes in the Winona AA is reasonable. As the following table illustrates, the bank’s percentage of loans to small businesses (those with revenues of \$1 million or less) is near the demographic comparator.

Borrower Distribution of Businesses Loans in the Winona Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77%	4%	19%	100%
% of Bank Loans in AA by #	70%	30%	0%	100%
% of Bank Loans in AA by \$	46%	54%	0%	100%

Source: Sample of business loan originations covering the years 2006, 2007, and 2008; Dunn and Bradstreet Data

Borrower Distribution Conclusions for Areas Receiving Limited-Scope Review

Based on limited scope reviews, performance in the Twin Cities and Cannon Falls AAs is not inconsistent with the bank’s overall “reasonable” borrower distribution conclusion. Performance in the Rochester AA is stronger, but did not affect the overall assessment as the area accounts for a relatively small portion of bank operations and deposits. Refer to the following tables for the facts and data that support these conclusions.

Twin Cities Assessment Area Borrower Distributions

Borrower Distribution of Home Loans in the Twin Cities Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Purchase (49 loans)	14.31%	10.64%	15.59%	34.04%	26.00%	36.17%	41.10%	19.15%
Home Refinance (98 loans)		6.59%		36.26%		20.88%		36.26%

Source: Bank HMDA data for years 2006, 2007 and 2008; 2000 U.S. Census Data
 Borrower income information was not available for 4.08% of home purchase and 7.14% of home refinance loans.

Borrower Distribution of Businesses Loans in the Twin Cities Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	84%	3%	13%	100%
% of Bank Loans in AA by #	60%	40%	0%	100%
% of Bank Loans in AA by \$	56%	44%	0%	100%

Source: Sample of business loan originations covering the years 2006, 2007, and 2008; Dunn and Bradstreet Data

Cannon Falls Assessment Area Borrower Distributions

Borrower Distribution of Home Loans in the Cannon Falls Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Purchase (20 loans)	14.31%	5%	15.59%	15%	26.00%	35%	41.10%	45%
Home Refinance (20 loans)		10%				20%		45%

Source: Samples of bank HMDA data covering the years 2006, 2007 and 2008; 2000 U.S. Census Data

Borrower Distribution of Businesses Loans in the Cannon Falls Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	81%	4%	15%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	95%	5%	0%	100%

Source: Sample of business loan originations covering the years 2006, 2007, and 2008; Dunn and Bradstreet Data

Rochester Assessment Area Borrower Distributions

Borrower Distribution of Home Loans in the Rochester Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Home Purchase (199 loans)	14.78%	26.53%	18.03%	31.12%	26.74%	20.41%	40.45%	21.94%
Home Improvement (36 loans)		13.89%		27.78%		30.56%		27.78%
Home Refinance (166 loans)		11.25%		20.63%		31.87%		36.25%

Source: Bank HMDA data for years 2006, 2007 and 2008; 2000 U.S. Census Data
 Borrower income information was not available for 1.51% of home purchase, 2.70% of home improvement, and 4.19% of home refinance loans.

Borrower Distribution of Businesses Loans in the Rochester Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	79%	4%	17%	100%
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	61%	39%	0%	100%

Source: Sample of business loan originations covering the years 2006, 2007, and 2008; Dunn and Bradstreet Data

Geographic Distribution of Loans

Geographic distribution is not a meaningful analysis in the Winona AA as the area is entirely comprised of middle- and upper- income tracts.

Geographic Distribution Conclusions for Areas Receiving Limited-Scope Review

The overall dispersion of loans to geographies of different income levels is reasonable, based on bank performance in limited scope areas. Performance is stronger than this overall assessment in the Twin Cities AA and weaker in the Rochester AA. Geographic distribution is not meaningful in the Cannon Falls AA. Refer to the following tables for the facts and data that support these conclusions.

Twin Cities Assessment Area Geographic Distributions

Geographic Distribution of Home Loans in the Twin Cities Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Home Purchase (49 loans)	n/a	n/a	4.72%	16.33%	56.60%	69.39%	38.68%	14.29%
Home Refinance (98 loans)		n/a		6.12%		63.27%		30.61%

Source: Bank HMDA data for years 2006, 2007 and 2008; 2000 U.S. Census Data

Geographic Distribution of Business Loans in the Twin Cities Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Business	n/a	n/a	6%	20%	56%	65%	38%	15%

Source: Sample of business loan originations covering the years 2006, 2007, and 2008; Dunn and Bradstreet Data

Rochester Assessment Area Geographic Distributions

Geographic Distribution of Home Loans in the Rochester Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% 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
Home Purchase (199 loans)	n/a	n/a	10.87%	6.53%	61.08%	60.80%	28.04%	32.66%
Home Improvement (36 loans)		n/a		11.11%		75.00%		13.89%
Home Refinance (166 loans)		n/a		7.23%		63.89%		28.92%

Source: Bank HMDA data for years 2006, 2007 and 2008; 2000 U.S. Census Data

Geographic Distribution of Business Loans in the Rochester Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Business	n/a	n/a	18%	10%	55%	70%	27%	20%

Source: Sample of business loan originations covering the years 2006, 2007, and 2008; Dunn and Bradstreet Data

Responses to Complaints

The bank has not received any complaints regarding its CRA performance since the previous evaluation.

COMMUNITY DEVELOPMENT TEST

Community development performance is excellent overall in relation to the bank's capacity and assessment area opportunities. Merchants provided \$5.7 million in qualified loans, \$234 thousand in qualified investments, and 38 qualified service activities in the bank's assessment areas during the evaluation period.

Community Development Performance Summary										
	Bank Totals		Winona AA Full-scope		Twin Cities AA Limited Scope		Cannon Falls AA Limited Scope		Rochester AA Limited Scope	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Loans	88	\$5,755	75	\$1,962	0	\$0	6	\$741	7	\$3,052
Investments	65	\$234	53	\$222	2	\$1	1	\$1	9	\$10
Services	38		22		9		2		5	
Responsiveness	Excellent		Excellent		Poor		Excellent		Excellent	

Number and Amount of Community Development Loans

Merchants originated 75 qualifying loans in the Winona Assessment Area totaling nearly \$2 million over the evaluation period. None of the community development loans were considered under the lending test. Community development loans consist of:

- Two loans totaling \$493,000 to construct a residence for low- and moderate-income (LMI) persons with developmental disabilities.
- A \$364,000 participation for land purchase and infrastructure development of an affordable housing subdivision targeted to LMI.
- 57 loans totaling \$282,525 under a no-interest loan program created by the bank to assist individuals in the federally-designated disaster areas that resulted from the August 2007 flooding in southeastern Minnesota.
- A \$50,000 working capital line, a \$50,000 payroll line, and \$55,000 equipment loan to an organization that provides employment, training and counseling to LMI persons with physical and mental disabilities. The working capital and payroll lines each renewed three times annually during the evaluation period.
- A \$150,000 line to improve a local food pantry building.
- A \$91,000 real estate loan and \$10,000 working capital line to an organization that provides assistance to unwed mothers, who are predominantly LMI. The working capital line renewed twice annually during the evaluation period.
- A \$95,000 loan to purchase and rehabilitate a vacant, foreclosed property into affordable housing stock.

Number and Amount of Qualified Investments

Merchants made 53 qualified charitable contributions totaling \$222,376 in the Winona Assessment Area over the evaluation period. Contributions consist of:

- Four donations totaling \$9,000 to the local Habitat for Humanity, an organization that builds affordable housing.
- Four donations totaling \$4,000 to the Southeastern Minnesota Development Corporation which promotes economic development and affordable housing projects in the area.
- 45 donations totaling \$209,000 to 15 different organizations that provide social services to LMI individuals.

Merchants also invested \$2.7 million in two low-income housing tax credit projects in nearby communities. These affordable housing projects for low-income seniors are technically outside Merchants' assessment areas, but they still evidence the bank's responsiveness to affordable housing needs in the greater regional area.

As previously mentioned in the Assessment Area Description section, the Winona market has limited opportunities for community development equity investments.

Extent to Which the Bank Provides Community Development Services

Delivery systems are reasonably accessible to individuals of different income levels. Merchants operates four full-service offices, four deposit-taking automated teller machines (ATMs) and one cash-dispensing ATM in the Winona Assessment Area. Branch facilities provide similar hours of operations, with extended hours available through walk-up and drive-up facilities.

All bank loan products are available at the Main office and the St. Charles office. The Goodview and Lakeside branches only offer consumer loans, but these facilities are within close proximity to the Main office. During the evaluation period, the bank created a special no-interest loan program, to meet the home repair needs of area residents in federally-designated flood disaster areas.

In addition to this traditional delivery system, Merchants also operates messenger services at two assisted living homes in the Winona Assessment Area. The bank provides monthly depository services to the residents of these homes.

Merchant's employees provided 22 service activities, involving 12 different organizations during the evaluation period. Bank personnel frequently share their financial expertise by serving as Board members and officers for organizations that promote small business, affordable housing and social services for LMI individuals. At least three activities promote affordable housing and six promote technical assistance and financing for small businesses, which are identified needs in the assessment area.

The bank has also conducted/sponsored at least nine workshops targeted to first time homebuyers and small business owners over the evaluation period. The workshops help first time homebuyers understand the process and available financing options. The small business workshops have covered topics such as the stimulus package, strategies for success, and fraud protections.

Responsiveness to Community Development Needs

As previously noted, several of the bank's community development activities are responsive to identified needs in the assessment area. These needs include affordable housing stock, loans to repair flood-damaged homes in federally-designated disaster areas, small business financing and financial education.

Community Development Conclusions for Areas Receiving Limited-Scope Review

Based on limited scope reviews, performance in the Cannon Falls and Rochester Assessment Areas is not inconsistent with the bank's overall "excellent" community development performance conclusion. Performance in the Twin Cities market is weaker, but it did not affect the overall conclusion as the area accounts for a relatively small portion of bank operations and deposits.

Fair Lending or Other Illegal Credit Practices Review

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