



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

November 15, 2001

Community Reinvestment Act Performance Evaluation

**St. Martin National Bank
Charter Number: 15198**

**136 Maine Street
St. Martin, MN 56376**

**Office of the Comptroller of the Currency
Alexandria Field Office
P. O. Box 849
Alexandria, MN 56308**

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.

St. Martin National Bank's rating is based on the following factors:

- Our sample of loans to small farms, consumer residential real estate, and consumer loans reflects reasonable penetration to farms of different revenue sizes and consumers with different income levels.
- All sampled agricultural loans were extended to borrowers located in the bank's assessment area. A majority of loans secured by first mortgages on residential real estate and consumer loans were located within the bank's assessment area.
- The bank's loan-to-deposit ratio is reasonable.

Description of Institution

St. Martin National Bank (SMNB) is a \$14 million institution located in the community of St. Martin in Stearns County in central Minnesota. This community has a population of approximately 300 people. The bank is owned by 47 shareholders with no shareholder owning more than 6% of the total shares. The bank does not have any branches or automatic teller machines. There have been no acquisitions or mergers since the previous CRA evaluation. The bank converted to a sub S-corporation during the first quarter of 2001.

The bank's loan portfolio is diverse. As of September 30, 2001, the composition of the portfolio is as follows:

Loan Portfolio Composition	\$ (000)	%
Commercial and Agricultural Real Estate Loans	898	12%
Commercial Loans	1,261	17%
Agricultural Loans	1,404	19%
Residential Real Estate Loans	2,639	36%
Consumer Loans	1,180	16%
Total	7,382	100%

The bank's strategy and lending philosophy is conservative. SMNB offers traditional banking products. Lending focus is on agriculture, residential real estate, and consumer loans. Loans represent 52% of total bank assets and Tier One Leverage Capital is 11.97%. SMNB was rated "Satisfactory" at the prior CRA evaluation dated October 21, 1997.

The bank does not have any legal impediments that would restrict its ability to meet the credit needs of the community.

Description of St. Martin National Bank's Assessment Area

SMNB's assessment area includes ten census tracts. These include one moderate-income tract, six middle-income tracts, and one upper-income tract in Stearns County as well as two middle-income census tracts in Kandiyohi County. There are no low-income census tracts in the assessment area. These census tracts are whole and contiguous and the assessment area meets the requirement of the regulation. The assessment area does not arbitrarily exclude low- or moderate-income geographies. Cities included in the assessment area are Paynesville, Belgrade, Freeport, Richmond, Roscoe, Cold Spring, and St. Martin.

The bank's assessment area is dependent on agriculture, primarily dairy farming. Although the agricultural economy experienced unstable economic conditions over the past several years, government subsidies and off-farm income assist local farmers. A large population of the community commutes to the St. Cloud metropolitan area for employment. Local employment, outside of farming, includes a small manufacturing plant and an implement dealership.

The demographics of the assessment area are described in the table on the next page. The information is based on the 1990 census date unless otherwise noted.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	9,843
Number of Households	12,568
Number of Low-Income Families	1,799
% of Low-Income Families	18.28%
Number of Moderate-Income Families	1,894
% of Moderate-Income Families	19.24%
Number of Middle-Income Families	2,680
% of Middle-Income Families	27.23%
Number of Upper-Income Families	3,470
% of Upper-Income Families	35.25%
<i>Geographies</i>	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	10%
% Middle-Income Census Tracts/BNA	80%
% Upper-Income Census Tracts/BNA	10%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$31,359
2001 HUD-Adjusted MFI	\$53,500
<i>Economic Indicators</i>	
Unemployment Rate	2.89%
2001 Median Housing Value	\$55,716
% of Households Below Poverty Level	11.23%

The bank’s major competitors of similar size are located in Cold Spring, Paynesville, Richmond, and Freeport. These banks range in asset size from \$22 to \$75 million in assets. Central Minnesota Federal Credit Union in Melrose is the bank’s primary competition with locations throughout SMNB’s assessment area. This institution is larger with assets greater than \$200 million.

During our evaluation we contacted the local Economic Development Authority. A primary credit need identified by this contact includes owner occupied, residential real estate. Agricultural credit demand continues to be a staple for this bank.

Conclusions about Performance Criteria

The bank’s CRA performance is based on the assessment of five criteria. These criteria include Lending to Borrowers of Different Incomes and to Businesses of Different Sizes, Lending within the Assessment Area, Loan-to-Deposit Ratio, Geographical Distribution of Loans, and Responses to Complaints. We selected a sample of the bank’s consumer, agricultural, and residential real estate loans extended since the last evaluation. We also conducted interviews with local people in the community and reviewed the bank’s Public CRA file.

SMNB’s strength is its willingness to lend within its assessment area and to low- and moderate-income borrowers.

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

The bank’s efforts to lend to individuals of different income levels and businesses of different sizes are good.

The bank’s lending practices for residential real estate loans are consistent with 1990 census data information. The data indicates that 19% of families in the bank’s assessment area are considered low-income and 19% of families are moderate-income. Our loan sample indicates that 15% of the number of residential real estate are low-income borrowers and 50% of the number moderate-income families. The tables below summarize income levels of the 20 residential real estate loans in the sample of loans originated since the last CRA examination, that were in the bank’s assessment area.

RESIDENTIAL REAL ESTATE				
Borrower Income Level	LOW <50% of median family income*	MODERATE At least 50% and <80% of median family income*	MIDDLE At least 80% and <120% of median family income*	UPPER >120% of median family income
%of AA Families	19%	19%	27%	35%
Number of Loans	3	10	5	2
Percentage Number	15%	50%	25%	10%
Dollar Amount of Loans	\$201,000	\$548,000	\$258,000	\$142,000
Percentage Dollar Amount	18%	48%	22%	12%

The bank's lending practices for consumer loans is consistent with 1990 census data information. The data indicates that 22% of households in the bank's assessment area are considered low-income and 15% are moderate-income. Our loan sample indicates that 30% of the number of consumer loans were extended to low-income households and 40% of the number of consumer loans were extended to moderate-income households. The tables below summarize income levels of the 20 consumer loans in the sample of loans originated since the last CRA examination, that were in the bank's assessment area.

CONSUMER				
Borrower Income Level	LOW <50% of median family income*	MODERATE At least 50% and <80% of median family income*	MIDDLE At least 80% and <120% of median family income*	UPPER >120% of median family income
%of AA Households	22%	15%	23%	39%
Number of Loans	6	8	5	1
Percentage Number	30%	40%	25%	5%
Dollar Amount of Loans	\$15,000	\$95,000	\$106,000	\$8,000
Percentage Dollar Amount	7%	42%	47%	4%

*Median family income for 2001 is \$53,500

The bank's lending practices for small farm loans are consistent with 1990 census data. The data reflects that 98% of the farm businesses in the assessment area have revenues of <\$1 million dollars. Our sample of 20 agricultural loans in the assessment area revealed 100% had revenues of <\$1 million. The following table depicts revenues of our sample.

BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms	98%	2%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Lending in Assessment Area

The bank exceeds the standard performance of lending within its assessment area. We concluded this based on the location of the borrowers from our sample of 20 loans per loan type selected for reviewed. These loans included those originated since the last CRA examination. We found the majority of loans to be within the bank's assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agricultural (non RE)	20	100%	\$506	100%	0	0	\$0	0
Residential Real Estate	19	95%	\$1,098	89%	1	5%	\$136	11%
Consumer	16	80%	\$191	77%	4	20%	\$58	23%
Total Reviewed	55	92%	\$1,795	90%	5	8%	\$194	10%

Loan-to-Deposit Ratio

SMNB's loan-to-deposit meets the standard for satisfactory performance given the bank's size, financial condition and assessment area credit needs. Since the prior CRA examination, the bank's average quarterly loan-to-deposit ratio is 63%. When compared to five other similarly situated banks in the assessment area, SMNB is ranked fourth out of the six banks. The ratios ranged from 46% up to 79%. The following table depicts the comparison to these banks.

Institution	Assets 9/30/01	Average LTD Ratio
Farmers and Merchant Bank of Paynesville	\$22 million	46%
State Bank of Richmond	\$50 million	61%
St. Martin National Bank	\$14 million	63%
State Bank of Cold Spring	\$33 million	71%
First National Bank of Cold Spring	\$75 million	72%
Freeport State Bank	\$49 million	79%

Geographic Distribution of Loans

The bank's effort to lend to borrowers in each geography within the assessment area is acceptable. The moderate-income tract is located approximately 10 miles west of the bank and extends west to include the community of Belgrade. This tract is primarily agriculture with minimal demand for residential real estate and consumer loans. This is evident in the agricultural lending extended by SMNB versus consumer and residential real estate lending. The location of the majority of the population of the tract is located in communities that are served by other financial institutions.

Demographic information of the area indicates that 10% of owner occupied housing is located in the moderate-income census tract. Using our loan sample of residential real estate loans, 0% of the number and dollar volume of loans were located in the moderate-income tract. This is attributed to the characteristics of the tract versus the location of the tract to the bank. The following table illustrates the geographic distribution according to 1990 census data versus the conclusions based on our loan sample.

RESIDENTIAL REAL ESTATE				
Borrower Income Level	LOW <50% of median family income*	MODERATE At least 50% and <80% of median family income*	MIDDLE At least 80% and <120% of median family income*	UPPER >120% of median family income
%of AA Owner Occupied	None	10%	78%	12%
Number of Loans	N/A	0	20	0
Percentage Number	N/A	0%	100%	0%
Dollar Amount of Loans	N/A	\$0	\$1,149,000	\$0
Percentage Dollar Amount	N/A	0%	100%	0%

Demographic information of the area indicates that 11% of households are located in the moderate-income census tract. Using our loan sample of consumer loans, 0% of the number and dollar volume of loans were located in the moderate-income tract. This is attributed to the characteristics of the tract versus the location of the tract to the bank. The following table illustrates the geographic distribution according to 1990 census data versus the conclusions based on our loan sample.

CONSUMER				
Borrower Income Level	LOW <50% of median family income*	MODERATE At least 50% and <80% of median family income*	MIDDLE At least 80% and <120% of median family income*	UPPER >120% of median family income
%of AA Households	None	11%	78%	11%
Number of Loans	N/A	0	20	0
Percentage Number	N/A	0%	100%	0%
Dollar Amount of Loans	N/A	\$0	\$224,000	\$0
Percentage Dollar Amount	N/A	0%	100%	0%

Demographic information of the area indicates that 25% of farms are located in the moderate-income census tract. Using our loan sample of 20 loans made to farmers, 10% of the number and 20% of the dollar volume of loans were located in the moderate-income tract. The following table illustrates the geographic distribution according to 1990 census data versus the conclusions based on our loan sample.

FARMS				
Borrower Income Level	LOW <50% of median family income*	MODERATE At least 50% and <80% of median family income*	MIDDLE At least 80% and <120% of median family income*	UPPER >120% of median family income
%of AA Farms	None	25%	69%	6%
Number of Loans	N/A	2	18	0
Percentage Number	N/A	10%	90%	0%
Dollar Amount of Loans	N/A	\$102,000	\$404,000	\$0
Percentage Dollar Amount	N/A	20%	80%	0%

Responses to Complaints

SMNB has not received any complaints about its performance in helping to meet the credit needs of the assessment area during our evaluation period.

Fair Lending

An analysis of two years public comments and consumer complaint information since 1997 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. The latest comprehensive fair lending examination was performed in 1997.