



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

PUBLIC DISCLOSURE

February 16, 1999

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Stearns Bank National Association
Charter Number 15576
4191 Second Street South
St. Cloud, Minnesota 56302**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

<p>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.</p>

TABLE OF CONTENTS

Glossary of Terms and Common Abbreviations	3-4
General Information	5-6
Scope of Examination	6-7
Description of Institution	8-9
Description of Assessment Areas	9-11
Conclusions with Respect to Performance Tests	
<i>Lending Test</i>	12-17
<i>Investment Test</i>	18
<i>Service Test</i>	19
Fair Lending Review	20
Appendix	
<i>A. Performance Tests Tables</i>	
Table 1. Lending Volume.	A-1
Table 2. Geographic Distribution of Home Purchase Loan Originations.	A-2
Table 3. Geographic Distribution of Home Improvement Loan Originations.	A-3
Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations. .	A-4
Table 5. Geographic Distribution of Multifamily Loan Originations.	A-5
Table 6. Geographic Distribution of Small Business Loan Originations	A-6
Table 7. Geographic Distribution of Small Farm Loan Originations.	A-7
Table 8. Borrower Distribution of Home Purchase Loan Originations	A-8
Table 9. Borrower distribution of Home Improvement Loan Originations.	A-9
Table 10. Borrower Distribution of Home Mortgage Refinance Loan Originations ...	A-10
Table 11. Borrower Distribution of Small Business Loan Originations.	A-11
Table 12. Borrower Distribution of Small Farm Loan Originations	A-12
Table 13. Qualified Investments.	A-13
Table 14. Distribution of Branch and ATM Delivery System.	A-14
Table 15. Geographic and Borrower Distribution of Consumer Loan Originations ...	A-15

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Assessment Area (AA) - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of an MSA. A rural assessment area may contain one or more neighboring counties.

Block Numbering Area (BNA) or Census Tract (CT) - Small, locally defined statistical area, determined by the U.S. Census Bureau in an attempt to group homogeneous populations. A BNA or CT has defined boundaries per ten-year census and an average population of four thousand.

Community Development Loan - A loan which must have as its *primary* purpose community development. Community development loans specifically exclude loans which have been reported under the Home Mortgage Disclosure Act or as small loans to businesses and farms, except for multi-family rental housing loans which can be reported under both categories.

Community Development Service - A service that must have community development as its *primary* purpose and must be related to the provision of financial services.

Community Development Purpose - Defined per 12 C.F.R. § 25.12(h) as affordable housing (including multi-family rental housing) for low- and moderate-income (LMI) individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet size eligibility standards defined by the CRA regulation; or activities that revitalize or stabilize LMI geographies.

Geography - A Census Tract (CT) or Block Numbering Area (BNA).

Home Mortgage Disclosure Act (HMDA) - A statute requiring certain mortgage lenders that do business or have banking offices in MSAs to file annual summary reports of their lending activity. The reports include such data as the race, gender, and income of the applicant(s), the amount of loan requested, and its disposition (e.g made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase loans, home improvement loans, refinancing of home purchase and home improvement loans, and loans for the purchase of multi-family (5 or more units) dwellings. *(This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. § 2801, as amended, and 12 C.F.R. § 203, as amended.)*

Income Levels - These relate to individuals, families, or the CTs in a Metropolitan Statistical Area (MSA).

Low = An income level that is less than 50% of the median income.

Moderate = An income level that is at least 50% and less than 80% of the median income.

Low- and Moderate-Income (LMI) = An income level that is less than 80% of the median income.

Middle = An income level that is at least 80% and less than 120% of the median income.

Upper = An income level that is 120% or more of the median income.

Large Financial Institution - A financial institution with total banking assets of \$250 million or more or an institution of any size that is an affiliate of a bank holding company with \$1 billion or more in banking and thrift assets.

Market Share - The portion of loans or deposits in a specific geographic area attributed to a financial institution, expressed as a percent of the total loans or deposits reported by all financial institutions subject to loan and deposit reporting requirements in the same area.

Median Family Income - The median family income for a specific MSA or nonmetropolitan statewide area as determined by the U.S. Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

Community Reinvestment Act Performance Evaluation

Stearns Bank National Association, St. Cloud, Minnesota

Metropolitan Statistical Area (MSA) - An area containing a city with a population of at least 50 thousand or an urbanized area with a population of at least 50 thousand and a total metropolitan population of at least 100 thousand. Generally, MSAs consist of one or more whole counties that have a high degree of interaction.

Qualified Investment - A lawful investment that has as its *primary* purpose community development.

Small Business or Farm - A business or farm that has \$1 million or less in gross annual revenues.

Small Loan to a Business or Farm - A loan of \$1 million or less to a business of any size or a loan of \$500 thousand or less to a farm of any size.

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 CRA performance of **Stearns Bank National Association, (SBNA) St. Cloud, Minnesota**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 16, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with provisions set forth in Appendix A to 12 C.F.R. § 25.

Institution's CRA Rating: We rated the bank's CRA performance "**Satisfactory Record of Meeting Community Credit Needs.**" The bank was previously rated "Satisfactory Record of Meeting Community Credit Needs" on March 25, 1997. The main factors contributing to SBNA's Satisfactory rating include:

- C A strong responsiveness to small business and small farm credit needs. SBNA is a leader in providing small business and farm loans in its assessment areas (AA). This includes lending for its own portfolio as well as lending in conjunction with government agencies.
- C A very good level of community development loans and investments. These loans and investments include providing financing and equity investments for low-income housing projects.
- C An adequate responsiveness to the residential real estate and retail credit needs of the community. The bank's retail portfolio originations continue to grow and help meet the identified credit needs of the communities it serves.
- C Bank services are appropriately tailored to meet the needs of the communities it serves, including the low- and moderate-income customers.

The following table indicates the performance level of **SBNA** with respect to the lending, investment and service tests.

Performance Levels	Bank Name Performance Tests		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	x		
Low Satisfactory		x	x
Needs To Improve			
Substantial Noncompliance			

SCOPE OF EXAMINATION

The scope of the examination included completing procedures to assess the bank's performance in each of the three performance tests: lending, investment, and services as prescribed in the regulation. We give the lending test the greatest weight in the overall rating.

We analyzed lending patterns in the small business, small farm, and HMDA loan portfolios. Also, at the bank's option we included an analysis of consumer lending to arrive at any overall rating. Our analysis included loans originated in both of the assessment areas; however, greater consideration was given to the St. Cloud AA due to the greater volume of loans generated out of this AA, a larger portion of deposits are originated out of the AA, and a greater number of people reside in the AA. Performance in the investment and service tests were also given greater consideration in the St. Cloud AA for the same reasons.

Our analysis of lending patterns is based on sampling loans within the different portfolios. We used numerical sampling techniques to verify the accuracy of bank reports and accepted the data as presented.

Our analysis of lending included HMDA reportable loans for 1997 and 1998, CRA disclosure loans (small business and small farm loans) originated during 1998, and consumer lending during 1998. SBNA was required to report large bank data beginning in 1998. We limited our analysis of CRA disclosure loans and consumer loans for 1998 because the bank had complete, collected data for the time period.

Within the lending test, we placed greater emphasis on the bank's activity in small business, small farm, and community development loans because the bank has historically been a business and agriculture lender and its primary business strategy is to continue to be a business bank. As part of this business banking philosophy, SBNA has cultivated business relationships with developers of affordable housing projects; therefore, community development loans for

Community Reinvestment Act Performance Evaluation

Stearns Bank National Association, St. Cloud, Minnesota

affordable housing are also a major portion of the bank's lending focus. Residential real estate lending has historically not been a large portion of the bank's lending activity. The bank has added home mortgage lending staff over the last several years and our analysis includes the recent growth in this portfolio.

Tables 1 through 15 in the appendix provide additional details regarding the performance tests.

DESCRIPTION OF INSTITUTION

Stearns Bank National Association (SBNA) is a \$435 million commercial bank located in central Minnesota, with th locations all in Minnesota. SBNA is considered an intrastate bank for CRA purposes. The bank has its main office i the city of St. Cloud and full service branches located in the cities of Albany and Ely. Bank owned ATMs are locate at the main bank and at a supermarket located in Albany.

SBNA defines itself as a business bank. The strategic focus is to provide loan/lease/deposit products and services to businesses of all sizes and all types. The bank is very unique in that it has increased its size through loan growth ratl than acquisitions and funded the growth through nationally marketed consumer deposit products. Since the last CR evaluation period, the bank's assets have grown from \$304 million to the current \$435 million.

SBNA caters to professionals, executives, and business owners from all walks of life. Bank loan officers have developed niche expertise in innovative and complex governmental agency loan products. These include Section 42 Low Income Housing Tax Credit Financing (LIHTC) loans, United States Department of Agriculture loan products, Small Business Administration loans, and equipment leases. Bank officers have developed long-term relationships v business owners who utilize these programs and subsequently have established lending practices which frequently ar outside of the bank's assessment area. The bank defines its lending strategy as serving the needs of its AA first, and then developing and cultivating strong business relationships with clients regardless of the physical location of credi project.

The bank's loan mix is illustrated in the Tables 1 and 15 in the appendix. As the tables illustrate, HMDA loan produ and small business loans make up the largest dollar amount of loans. Table 15 illustrates that the bank is very active consumer lending; the number of loans for consumer lending is the greatest volume of all loan types. The following illustrates the bank's current loan portfolio as of December 31, 1998.

Loan Mix		
Loan Type	Dollar Amount	% of Total Loans
Commercial Real Estate	174,204	50%
Commercial Loans	49,280	14%
Commercial Leases	105,716	31%
HMDA and Consumer Loans	12,890	4%
Agriculture	4,198	1%
Totals	346,288	100%

SBNA is owned by Stearns Financial Services, Inc. (SFSI), a \$674 million holding company headquartered in St. Cloud, Minnesota. SFSI has five national bank subsidiaries and one state bank subsidiary. The national banks are located in Minnesota and the state bank subsidiary is located in Arizona. Another affiliate, Stearns Insurance Service Incorporated, provides a full line of personal and business insurance products.

There are no financial, legal, or other factors which impede the bank’s ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREAS

The bank operates in two distinct assessment areas, the St. Cloud/Albany community and the Ely community. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- or moderate- income geographies.

St. Cloud/Stearns County Assessment Area (AA)

The St. Cloud AA includes all of Stearns, Benton, and Sherburne Counties. The AA consists of the whole St. Cloud Metropolitan Statistical Area (MSA) and the northwest portion of the Minneapolis/St. Paul MSA. Population within the AA is estimated to be 190,921. Cities in the AA include but are not limited to: St. Cloud, Waite Park, Albany, Avon, Cold Spring, Sartel, and Sauk Rapids.

The AA consists of 43 census tracts. The income characteristics of the tracts are very similar. The following tables illustrates the distribution of census tracts, families and housing units within the bank’s AA by census tract income level.

Census Tract Income Level	Census Tracts		Families		Housing Units	
	#	%	#	%	#	%
Low-Income	1	2%	20	0%	313	0%
Moderate-Income	1	2%	989	2%	1,464	2%
Middle-Income	35	82%	40,596	87%	61,688	88%
Upper-Income	5	12%	4,866	11%	6,826	10%
Unknown	1	2%	0	0%	0	0%
TOTALS	43	100%	46,471	100%	70,291	100%

Source: 1990 U.S. Census Data

The unknown census tract consists entirely of a prison facility. The remainder of this report excludes this tract to provide clearer data presentation. The low-income tract is located in downtown St. Cloud and includes a long-term

care facility. As the table illustrates, less than 1% of families and available housing units are located within this tract. The moderate-income tract is the furthest distance of all tracts from the bank and is predominately rural.

The 1998 updated estimated median family income for the AA, as determined by the Department of Housing and Urban Development (HUD), is \$45,300 for the St. Cloud MSA and \$60,800 for the Minneapolis/Saint Paul MSA. Approximately 7,514 households or 11% of all households live below the poverty level. The weighted average median housing cost for a single family residence is \$63,805. Owner occupied units make up 66% of housing stock. Family income levels for the AA are: low 17.22%, moderate 19.43%, middle 27.57%, and upper income 35.78%.

The St. Cloud area economy is strong. St. Cloud is the fastest growing metropolitan area in Minnesota. Since 1970 the population has grown greater than 40%. Unemployment in the AA is low, currently estimated to be at 2.81%. Services, retail, manufacturing and government are all major sources of employment. Also, St. Cloud serves as a regional hospital and health treatment center. St. Cloud is home to diversified manufacturers such as granite manufacturers, optical lens producers, and paper production companies. A strong majority of the businesses and farms in the AA have revenues less than \$1 million, as illustrated in Tables 11 and 12 in the appendix.

Competition in financial services industry is fierce. Over 50 financial institutions, 3 branches of regional banks, several credit unions, and numerous mortgage brokers offer financial products and services in the AA. Asset sizes range from \$60 million to \$1.9 billion for the area competition. Our analysis of HMDA loans revealed competition for home mortgage products is very strong. During 1997, HMDA loan reporters in the AA totaled 211 lenders. The bank's primary competition includes four similar sized banks and the three regional bank branches. The primary competitor banks serve the same market area and also are predominately commercial lenders.

Primary credit needs of the community include business and housing loans of all types. Business credit needs include financing for start-up and expanding businesses. Housing credit needs include affordable housing loans, low-income multifamily projects, and first time home buyers down payment assistance. Housing costs are considered high. As the population of the St. Cloud area grows, demand for new and existing housing continues to outpace the supply of housing stock available on the market, thereby escalating housing costs. To determine the community credit needs, we reviewed twelve prior contacts conducted by the OCC and other governmental agencies. We also contacted two business development officials and one local housing official.

Ely Assessment Area

The Ely AA includes portions of Lake and St. Louis Counties. The city of Ely is located in northwest Minnesota, approximately 100 miles from the city of Duluth, Minnesota. The AA includes two BNAs which are located in Lake County and five census tracts which are located in St. Louis County and are part of the Duluth MSA. The 1998 updated HUD median family income for the MSA portion of the AA is \$42,600 and the nonmetropolitan portion of the AA has a 1998 HUD estimated median family income of \$40,500. The population of the AA is 19,235. Cities in the AA include but are not limited to Ely, Babbitt, Cook City and Vermillion.

The following table illustrates the distribution of census tracts/BNAs, families, and housing units within the bank's AA by census tract income level.

Census Tract Income Level	Census Tracts		Families		Housing Units	
	#	%	#	%	#	%
Moderate-Income	2	29%	1,561	28%	2,812	18%
Middle-Income	5	71%	4,043	72%	13,123	82%
TOTALS	7	100%	5,604	100%	15,935	100%

Source: 1990 U.S. Census Data

Family income levels within the AA are: low 22%, moderate 22%, middle 24%, and upper 32%. Unemployment of 5.25% is higher than the state average of 3%. This is primarily due to the seasonality of the local economy. Approximately 15% or 1,216 households live below the poverty level. This information provides additional insight when analyzing the bank's lending patterns. Average housing costs are \$42,378 and 71% of housing stock is owner occupied.

The local economy is good. The area relies heavily on the seasonal tourism industry to lead the economy. The Minnesota Department of Trade and Economic Development states the Ely area is the primary entrance to the Boundary Waters Canoe Area and hosts over one million visitors per year. The Ely area has recently been experiencing a large surge in commercial and lake shore development. Area businesses continue to expand and start up companies have been lured by the overall low labor costs. Major employers include area health facilities and services, government offices, and the local school district, as well as the tourism industry. The majority of businesses and farms have revenues less than \$1 million as illustrated in Tables 11 and 12 in the appendix. It should be noted that the bank originated no farm loans in the assessment area; however, the most recent business data available indicates only thirteen farms are located within the AA.

Banking competition includes nine banks or bank branches, two thrifts and three credit unions. Financial companies required to report HMDA loan information numbered sixty-two during 1997. Primary competition defined by the bank includes a branch of a regional bank, one state chartered bank, and a local credit union. All three are located within the AA and have asset sizes ranging from \$8 million to \$824 million.

Primary credit needs of the community include business loans of all types to existing area businesses and start-up businesses, as well as housing loans. We determined the needs of the community by contacting a local government official and reviewing community demographic data provided by the Minnesota Department of Trade and Economic Development.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST:

Lending Activity

SBNA's lending patterns show a strong responsiveness to community credit needs. Historically, the bank has been primarily a business lender, but the addition of a mortgage department has helped meet the communities' housing credit needs. Table 1 in the appendix highlights the lending activity in the home mortgage, small business, small farm, and community development portfolios. Also, Table 15 of the appendix reflects the consumer lending patterns in both AAs. As discussed earlier, Home Mortgage lending is the only product in which we analyzed two full years of data.

The activity trends are very good for mortgage products. The St. Cloud AA has seen its mortgage activity increase from 147 loans in 1997 to 397 loans during 1998 or a 270% increase. The mortgage lending ranks the bank fourteen out of 211 mortgage reporters during 1997. Included in the 211 mortgage reporters is 50 financial institutions ranging in asset size from \$60 million to \$1.9 billion. The Ely mortgage activity also increased from 74 loans in 1997 to 119 loans in 1998, or a 61% increase in activity. The mortgage lending ranks the bank third out of 62 mortgage reporters during 1997.

SBNA's small business and small farm lending activity reflects a good responsiveness to the credit needs of commercial and agriculture borrowers in the AAs. Aggregate business and small farm lending for SBNA was not available for 1997 as previously discussed. However, as a proxy for evaluating SBNA's lending activity for 1997, we compared business and farm loan originations made in 1998 to the aggregate data on record. Small business lending activity for 1998 would have ranked SBNA first in the St. Cloud market out of 42 small business loan reporters and fourth in the Ely market out of 32 reporters. Using the same proxy for small farm loans, SBNA would have ranked second out of eight reporters in the St. Cloud AA. The lending activity as depicted in Tables 1, 6, 7, 11, and 12 in the appendix reflect the bank's commitment to small businesses and small farms.

The distribution of loans by geography also included an analysis to determine whether any gaps exist in lending activity. We analyzed lending activity for each income category by identifying groups of contiguous geographies that have no loans or have low lending penetration relative to the other geographies. Our analysis revealed no unexplained gaps in loan penetration for all loan types.

Distribution of Loans by Borrower Profile - HMDA Loans

Overall, SBNA's record of making home purchase, home improvement and home refinancing loans to borrowers of all income levels is adequate.

Home Purchase Loans - St. Cloud AA

Lending for home purchase loans in the St. Cloud AA is adequate and supports the overall conclusion. Table 8 depicts home purchase loans to different income borrowers. Lending to low-income families for home purchases is low.

However, high housing costs and the number of households living below the poverty level help explain the relatively level of lending to low-income borrowers. In the moderate-income sector, bank performance is good and actually exceeds the market demographics. Overall, the bank ranks eighth out of 211 home mortgage lenders for market share of originations for home purchase loans for 1997.

Home Purchase Loans - Ely AA

The distribution of home purchase loans is not favorable as table 8 in the appendix illustrates. The majority of home purchase loans are extended to borrowers in the upper-income market demographic. The lack of home purchase lending in low- and moderate-income borrower demographics is attributed to recent escalation of single family housing costs as the local economy has seen the majority of its new housing starts on higher priced lake shore lots. While the lending patterns are not favorable, the overall lending pattern for home purchase loans supports the overall conclusion.

Home Improvement - St. Cloud AA and Ely AA

The bank does not meet the income demographics of the market for home improvement loans. Home improvement loans have not been a large portion of the bank's mortgage lending focus. According to the bank, the disparity illustrated in Table 9 is attributed to the bank not reporting its home equity lines on the HMDA-LAR. The bank feels it is meeting the home improvement needs of the community through offering home equity lines which are included in the consumer lending analysis illustrated in Table 15. Our analysis of the consumer loan portfolio confirmed SBNA's explanation and we determined the level of home improvement lending is adequate.

Home Refinance - St. Cloud and Ely AA

Overall, the bank is meeting the home refinance needs of borrowers of all income levels. However, as Table 10 illustrates, lending to low-income borrowers is not consistent with the market demographics. Moderate-income lending is approaching market demographics. Affordable housing stock, escalating housing costs, consumer debt levels, and the percentage of households living below the poverty level in part explain the disparity for the low level of lending to low-income borrower group. The bank's overall market rank in each AA is favorable.

Distribution of Borrower Profile - Consumer Loans

SBNA is responsive to consumer credit needs in its assessment areas. The distribution of consumer credit to different borrower income levels is good. Table 15 illustrates the bank's consumer lending exceeds the market demographics for LMI borrowers in both AAs.

Distribution of Loans by Borrower Profile - Small Loans to Businesses

SBNA is very responsive to small business credit needs within its assessment areas. Table 11 in the appendix illustrates the borrower distribution of small business loans. Market share data was not available.

St. Cloud/Albany AA

Small business lending in the AA is consistent with the overall performance of small business lending. A substantial majority (82%) of the loans are made to businesses with revenues of less than \$1 million. This compares favorably to market demographics as 68% of businesses in the area have revenues of less than \$1 million. Table 11 also depicts that 265 of the 334 (79%) reported loan originations were less than \$100,000. The business lending in the St. Cloud

market meets the demographics of the community and helps fulfill the business credit needs identified by community contacts.

Ely AA

Business lending in the Ely AA also mirrors the demographics of the market. Loans to businesses with revenues less than \$1 million exceed the market percentage of businesses with revenues less than \$1 million, 93% to 82%. Also, 1 amount is predominately less than \$100,000; 120 of the 128 loans or 94% are originated for less than \$100,000. This business lending activity helps meet the identified business credit needs of the community.

Distribution of Loans by Borrower Profile - Small Loans to Farms

The responsiveness to small farm credit needs is good. Table 12 highlights the bank's performance of extending credit to farms of all sizes. Loans to farms with revenues of less than \$1 million make up 100% of the farm loan originations compared to 90% of farms in the market place. Table 12 illustrates 97% of farm loan originations were for less than \$100,000. This further supports the bank's commitment to small farms. Market share data was not available.

The bank originated no small farm loans in the Ely AA. However, demographic reports indicate only thirteen farms operate in the AA.

Distribution of Loans by Geography - HMDA Loans

The overall distribution of HMDA loans is adequate. Our analysis of HMDA loan product distribution in the different income geographies is illustrated in Tables 2, 3, and 4 of the appendix.

St. Cloud/Albany AA

The originations of home purchase, home improvement, and refinancing loans in the different income geographies are adequate given the demographics of the tracts. The bank extended no HMDA loans in the low- and moderate-income tracts during 1997 and 1998. However, the low-income tract contains no owner occupied housing units and the moderate-income tract contains only two percent of owner occupied units. The low- and moderate-income areas also include only 2% of the population and 2% of the families. Therefore, the geographic makeup of the AA is homogenous and further analysis of the distribution of HMDA loans by tract would not be meaningful.

The bank's overall market share out of 211 HMDA reporters for the different loan products includes: home purchase - 8th, home improvement - 29th, and home refinancing - 23rd.

Ely AA

The geographic distribution of HMDA loans in the Ely AA is good and reflects favorably on the overall conclusion regarding distribution analysis. The bank exceeds the market demographics of percentage of owner occupied units to the percentage of bank loans in the income geographies for all HMDA loan products. The moderate tract lending is very good: 28.4% of the owner occupied units are located in the moderate-income geographies compared to 38.5% of home purchase, 53.1% of home improvement, and 59.4% of home refinancing loans originated in the different tracts

The bank's overall market rank for the three product categories is 3rd, 4th, and 3rd for home purchase, home improvement and refinance, respectively. The rank population is based on 62 HMDA reporters.

Distribution of Loans by Geography - Small Loans to Businesses

The geographic distribution of small business loans reflects good dispersion throughout the AA. Table 6 illustrates business lending within the different geographies of the AA. Overall market share and market share by geography information was not available.

St. Cloud/Albany AA

Lending in the St. Cloud/Albany AA approaches the demographics of the market; 2.7% of small business loans are extended in the low-income census tract compared to 4.3% of businesses located in the tract. Lending in the moderate-income tract appears to be low. However, this tract is the furthest distance from the bank's locations and is predominately rural. Also, only 2% of businesses are located within the tract. Lending patterns in the remaining tracts meet the demographics of the market. The geographic distribution of lending carried less weight in our analysis due to the homogeneity of the census tracts. Greater emphasis was placed on the distribution of borrower profile.

Ely AA

Small business lending in the Ely AA shows very good dispersion throughout the AA, especially in the moderate-income tracts; 72.7% of the small business loans are originated in the moderate-income tract compared to 43.8% of businesses located in the tracts.

Distribution of Loans by Geography - Small Loans to Farms

The geographic distribution of loans by geography to farms is good. Table 7 illustrates SBNA's lending to small farms in the different income geographies. Market rank and market share by geography information was not available.

St. Cloud/Albany AA

The lending patterns for small farm loans in the assessment area approach the demographics of the market. The bank extended no loans in the low-income tract; however, this tract is located in downtown St. Cloud and no farm loans would be expected to be extended in the tract. Lending in the moderate-income geography is consistent with the number of farms in the tract; 2.4% of the bank's loans are extended in the geography compared to 4.6% of the farms located in the tract. On the surface this may appear low, however, this tract is the furthest distance from the bank's offices and is served by several community banks located in the tract.

Ely AA

The Ely branch made no farm loans during the assessment period. The AA contains only thirteen reported farms; therefore, a lack of lending is not deemed unfavorable.

Distribution of Loans by Geography - Consumer Loans

The distribution of consumer loans is good and meets the demographics of the markets the bank serves. Table 15 in the appendix reflects the bank's consumer lending patterns for 1997 and 1998.

St. Cloud/Albany AA

The geographic distribution of loans is comparable to the percentage of the population which lives in the different income tracts. Less than 1% of the population and consumer loans were extended in the low-income tract. This is due to the tract encompassing the downtown St. Cloud business district. The moderate-income tract contains 2% of population and 1% of the bank's consumer loans. This tract is very rural, the furthest distance from any bank branch and served by community banks located in the tract. Consumer lending in the middle- and upper-income tracts meet the population demographics of the tracts.

Ely AA

The distribution of loans to the two income geographies is very good and supports the overall conclusion for consumer loan distribution. Consumer loans extended in the moderate-income tracts total 71% of originations compared to 29% of the population residing in the tracts. The remaining loans were made in the middle-income tracts.

Assessment Area Concentration:

A majority of the number of loans are made within the bank's assessment area. Bank prepared reports which track loans made in and out of the assessment area for 1997 and 1998 indicate that 78% of loan originations are made within the bank's assessment areas. Our verifications of various loan products determined the bank's reports are accurate.

Community Development Lending:

SBNA's level of community development loan originations since the last CRA evaluation is very good. During 1998 SBNA extended 9 loans totaling \$16.4 million. The bank was not required to report community development loans during 1997, but our analysis included 1997 community development loan data. Examples of the community development loans include:

- < SBNA originated 9 loans totaling \$16.4 million which funded Low Income Housing Tax Credit (LIHTC) projects during 1998. These projects provided 427 housing units. The housing projects directly impact low- and moderate income individuals because a percentage of the units must be set aside as affordable housing units under the LIHTC program. During 1997, the bank originated four loans totaling \$8.8 million under the LIHTC financing program. These projects funded the development of 226 housing units. Development of these projects helps meet multifamily housing needs as described by our community contacts.

The bank has extensive expertise in these types of projects and has an excellent reputation among developers and tax credit housing officials as a lead lender in these projects. SBNA has been an active participant in LIHTC program since 1990. Several developers based in the St. Cloud market have expanded beyond the St. Cloud market with LIHTC projects and have retained SBNA's lending expertise to fund the projects. In addition to the originations mentioned above, SBNA also provided LIHTC financing for three other projects totaling \$8.2 million during 1998. These projects were developed in Kansas, Mississippi, and Arizona and developed 255 housing units. During 1997, the bank financed one LIHTC project in Montana for \$1.6 million which developed 63 housing units.

Innovative/Flexible Lending:

SBNA offers a large variety of loan and lease products. One example of complex and innovative projects includes the LIHTC projects mentioned previously. Other examples of innovative or flexible lending include:

- < SBNA is a Preferred SBA Lender. During 1997 and 1998, the bank extended 78 SBA loans totaling \$32,994,316 to small businesses under various SBA loan programs. The 1998 originations are included in the small business 1 data. The programs offer credit products to businesses that fall outside the bank's standard underwriting guidelines. These products aid in the development and expansion of new and existing businesses.
- < SBNA provided financing on a large ethanol processing cooperative plant totaling \$13.2 million during 1998. The ethanol plant is owned by area farmers and provides an alternative market for area farmers to sell their corn crop. The bank worked with various governmental agencies to put the financing package together.
- < The bank offers an extensive small business and farm equipment leasing program. Currently the bank has \$105 million outstanding in equipment leases. The lease products provide a valuable alternative to traditional credit financing. Many of these businesses are small start-up businesses which would not qualify for conventional financing. The bank elected not to report the leases as other loan data; therefore, we did not include any lease data in our business and farm loan analysis.

INVESTMENT TEST:

SBNA's level of qualified investments is good. The investments the bank made are related to providing affordable housing to LMI individuals. The bank made equity investments in LIHTC projects via becoming limited partners in projects. The projects receive the capital needed to be a viable housing project and the bank receives tax credits as a return on the investment. These investments help meet the identified housing needs of LMI individuals. Table 13 illustrates the number and dollar amount of affordable housing investments the bank has made.

SBNA has the capacity and willingness to make more qualified investments in the communities it serves; however, the community contacts we interviewed indicated the level of opportunity for these types of investments are scarce.

The bank made no qualified investments in the Ely assessment area.

SERVICE TEST:

SBNA's services and delivery systems are adequate for the assessment areas the bank serves.

Retail Banking Services

SBNA's delivery systems are reasonably accessible to all geographies and individuals of different income levels in the assessment areas. The bank closed one branch location since the last CRA examination. The branch was located in a mall in the city of St. Cloud and just one city block from the bank's main office. The branch was located in a middle income census tract. Customers were not inconvenienced because of the closing.

Table 14 illustrates the location of branches and ATMs in the bank's assessment areas. The two locations in the St. Cloud AA are located in the middle-income tracts and the branch office in Ely is located in a moderate-income tract. Both of the bank owned ATMs are located in middle-income tracts. The location of the branches and ATMs is comparable to the percentages of the population living in the tracts.

Banking hours are reasonable and commensurate with other bank competitors' hours. All locations have extended hours on Fridays and are open until noon on Saturdays. Differences of products and services offered between locations is negligible.

Community Development Services

SBNA provides an adequate level of community development services. These services include:

- < Home Buyer Assistance Program - mortgage lending staff provide technical expertise to individuals and groups that seek information or counseling on home ownership issues.
- < Housing Coalition - lending staff spoke at a first time home buyer program seminar offered through the St. Cloud Housing Coalition group.
- < Central Minnesota Community Foundation - the organization's mission is to assist area industries and organizations in achieving charitable goals for the benefit of the LMI community through grants. The organization also provides general service and education to disadvantaged individuals. The bank's chairman is a director.
- < Minnesota Business Finance Corporation - the organization is a Community Development Corporation (CDC) which provides financing and credit expertise to expanding businesses and works with area banks on the SBA's 5 loan program. SBNA's president is a director of the organization.
- < St. Cloud Area Economic Development Board Partners - the organization promotes economic development by financing small businesses and farms. One of the bank's vice presidents is a board member and executive committee member with the organization.

FAIR LENDING REVIEW

We completed fair lending procedures as part of our examination of SBNA. We did this to assess the bank's level of compliance with fair lending laws. Examiners sampled home purchase loans and subjected the sample to a comparative file analysis. Based on our review, the bank is complying with anti-discrimination laws. Examiners found no substantial violations of the fair lending laws. The bank has adequate policies, procedures and internal assessment efforts in place to help ensure compliance with the fair lending laws.

Table 1. Lending Volume

LENDING VOLUME													State: Minnesota	Evaluation Period: January 1, 1997 to December 31, 1998
MSA/Assessment Area:	% of Total Bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farm		Community Development		Total Reported Loans		% of Total Reported Bank Loans in Rated Area		
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)			
Full-Scope:														
St. Cloud/Albany	96.85%	544	48,825	334	29,511	169	3,516	9	16,400	1,056	98,252	76.72%		
Ely	3.15%	193	12,568	128	4,763	0	0	0	0	321	17,331	23.28%		
Limited-Scope:														

Table 2. Geographic Distribution of Home Purchase Loan Originations

Geographic Distribution: HOME PURCHASE																State: Minnesota		Evaluation Period: January 1, 1997 to December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans				
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total			
Full-Scope:																			
St. Cloud/Albany	0.0%	0.0%	2.4%	0.0%	87.4%	82.3%	10.2%	17.7%	8	2.4	ND	ND	2.4%	3.0%	198	75%			
Ely	NA	NA	28.4%	38.5%	71.6%	61.5%	NA	NA	3	11.9	ND	ND	9.1%	ND	65	25%			
Limited-Scope:																			

(*) Based on 1997 Aggregate HMDA Data only.

Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations

Geographic Distribution: HOME MORTGAGE REFINANCE																
State: Minnesota																
Evaluation Period: January 1, 1997 to December 31, 1998																
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Mortgage Refinance Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
St. Cloud/Albany	0.0%	0.0%	2.4%	0.0%	87.4%	78.0%	10.2%	22.0%	23	1.35	ND	ND	1.10	3.49	304	76%
Ely	NA	NA	28.4%	59.4%	71.6%	40.6%	NA	NA	3	11.08	ND	28.89	4.96	ND	96	24%
Limited-Scope:																

(*) Based on 1997 Aggregate HMDA Data only.

Table 5. Geographic Distribution of Multifamily Loan Originations

Geographic Distribution: MULTIFAMILY																State: Minnesota		Evaluation Period: January 1, 1997 to December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Multifamily Loans				
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total			
Full-Scope:																			
St. Cloud/Albany	0.0%	0.0%	2.4%	0.0%	87.4%	80.0%	10.2%	20.0%	ND	ND	ND	ND	ND	ND	5	100%			
Ely	NA	NA	28.4%	0.0%	71.6%	0.0%	NA	NA	ND	ND	ND	ND	ND	ND	0	0%			
Limited-Scope:																			

(*) Based on 1997 Aggregate HMDA Data only.

Table 7. Geographic Distribution of Small Farm Loan Originations

Geographic Distribution: SMALL FARM		State: Minnesota		Evaluation Period: January 1, 1997 to December 31, 1998												
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans	
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
St. Cloud/Albany	0.4%	0.0%	4.6%	2.4%	88.8%	96.5%	6.3%	1.2%	NA	NA	NA	NA	NA	NA	169	100%
Ely	0.0%	NA	38.5%	NA	61.5%	NA	0.0%	NA	NA	NA	NA	NA	NA	NA	0	0%
Limited-Scope:																

(*) Based on 1997 Aggregate Small Farm Data only.

Table 8. Borrower Distribution of Home Purchase Loan Originations

Borrower Distribution: HMDA HOME PURCHASE				State: Minnesota				Evaluation Period: January 1, 1997 to December 31, 1998								
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Purchase Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
St. Cloud/Albany	17.2%	4.0%	19.4%	25.3%	27.6%	33.3%	35.8%	37.4%	8	1.3%	1.9	2.6	2.9	ND	198	75%
Ely	22.6%	12.3%	22.1%	10.8%	23.7%	23.1%	31.6%	53.8%	3	11.9%	ND	ND	ND	12.4	65	25%
Limited-Scope:																

(*) As a percentage of loans with borrower income information available.

(**) Based on 1997 Aggregate HMDA Data only.

Table 9. Borrower Distribution of Home Improvement Loan Originations

Borrower Distribution: HOME IMPROVEMENT		State: Minnesota				Evaluation Period: January 1, 1997 to December 31, 1998										
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Improvement Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
St. Cloud/Albany	17.2%	0.0%	19.4%	15.8%	27.6%	42.1%	35.8%	42.1%	29	1.11	ND	0.9	1.11	1.54	38	54%
Ely	22.6%	9.4%	22.1%	15.6%	23.7%	43.8%	31.6%	31.2%	4	10.1	ND	ND	ND	8.45	32	46%
Limited-Scope:																

(*) As a percentage of loans with borrower income information available.

(**) Based on 1997 Aggregate HMDA Data only.

Table 11. Borrower Distribution of Small Business Loan Originations

Borrower Distribution: SMALL BUSINESS			State: Minnesota		Evaluation Period: January 1, 1997 to December 31, 1998						
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans		
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full-Scope:											
St. Cloud/Albany	68%	82%	NA	265	38	31	NA	NA	334	72.29	88M
Ely	82%	93%	NA	120	5	3	NA	NA	128	28	37M
Limited-Scope:											

(*) As a percentage of businesses with known revenues.

(**) As a percentage of loans with revenue information available.

(***) The market consists of all other Small Business reporters in SBNA's assessment area and is based on 1997 Aggregate Small Business Data only.

(****) Based on 1997 Aggregate Small Business Data only.

Table 12. Borrower Distribution of Small Farm Loan Originations

Borrower Distribution: SMALL FARM			State: Minnesota			Evaluation Period: January 1, 1997 to December 31, 1998					
MSA/Assessment Area:	Farms with Revenues of \$1 million or less			Loans by Original Amount Regardless of Farm Size			Market Share****		Total Small Farm Loans		
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$500,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full-Scope:											
St. Cloud/Albany	90%	100%	NA	164	5	0	NA	NA	169	100%	20.8
Ely	100%	NA	NA	0	0	0	NA	NA	0	NA	NA
Limited-Scope:											

(*) As a percentage of farms with known revenues.

(**) As a percentage of loans with revenue information available.

(***) The market consists of all other Small Farm reporters in SBNA's assessment area and is based on 1997 Aggregate Small Farm Data only.

(****) Based on 1997 Aggregate Small Farm Data only.

Table 13. Qualified Investments

QUALIFIED INVESTMENTS												State: Minnesota	Evaluation Period: January 1, 1997 to December 31, 1998
MSA/Assessment Areas:	Affordable Housing		Community Service		Economic Development/ Small Business		Revitalize or Stabilize		Total Investments				
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	% of Total \$'s		
Full-Scope:													
St. Cloud/Albany	9	2,211	0	0	0	0	0	0	9	2,211	100%		
Ely	0	0	0	0	0	0	0	0	0	0	NA		
Limited-Scope:													

Table 14. Distribution of Branch and ATM Delivery System

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM				State: Minnesota				Evaluation Period: January 1, 1997 to December 31, 1998									
MSA/Assessment Area:	Deposits	Branches						ATMs				Population					
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full-Scope:																	
St. Cloud/Albany	96.85%	2	66.67%	0	0	2	0	2	100%	0	0	2	0	0%	2.0%	86%	12%
Ely	3.15%	1	33.33%	NA	1	0	NA	0	NA	NA	NA	NA	NA	NA	29%	71%	NA
Limited-Scope:																	

Table 15. Geographic and Borrower Distribution of Consumer Loan Originations (Optional)

Geographic and Borrower Distribution: CONSUMER LOANS																		State: Minnesota		Evaluation Period: January 1, 1997 to December 31, 1998	
MSA/Assessment Area:	Geographic Distribution								Borrower Distribution									Total Consumer Loans			
	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		#	% of Total			
	% of Pop*	% BANK Loans	% of Pop*	% BANK Loans	% of Pop*	% BANK Loans	% of Pop*	% BANK Loans	% of Hshlds	% BANK Loans	% of Hshlds	% BANK Loans	% of Hshlds	% BANK Loans	% of Hshlds	% BANK Loans					
Full-Scope:																					
St. Cloud/Albany	0%	0%	2%	1%	86%	84%	12%	15%	22%	23%	17%	27%	23%	26%	38%	24%	593	74%			
Ely	NA	NA	29%	71%	71%	29%	NA	NA	27%	45%	18%	27%	19%	12%	36%	16%	209	26%			
Limited-Scope:																					

(*) The percentage of the population in the MSA/assessment area that resides in these geographies.