



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

February 25, 2013

### 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

Campbell Mithun Tower  
222 South Ninth Street Suite 800  
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.

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

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

The major factors supporting the institution's rating include:<sup>1</sup>

- A reasonable loan-to-deposit ratio given the bank's size, financial condition, and assessment area (AA) credit needs;
- A majority of loans originated within the designated AAs;
- An excellent penetration of borrowers of different income levels
- A reasonable dispersion of lending throughout the bank's assessment areas; and
- Excellent responsiveness to community development needs through community development, loans, and qualified investments and services.

## **Scope of Examination**

We evaluated Merchants Bank, National Association's (Merchants) Community Reinvestment Act (CRA) performance utilizing intermediate small bank performance standards. The lending test analysis is based on the bank's primary loans products for the period of January 1, 2010, through December 31, 2011. The evaluation period for community development (CD) activity was October 1, 2009 through December 31, 2011. We cut off lending activity at year end 2011 due to census data changes that took effect in 2010 and impact how lending activity is evaluated after 2011. In order to ensure consistency, we also cut off CD activity as of year end 2011.

For purposes of this evaluation, we determined the bank's primary loans products based on the bank's internal loan production reports for 2010 and 2011. The bank's primary loan products vary by assessment area (AA) and consisted of the following:

- La Crosse- Consumer loans
- Winona– Home Mortgage loans
- Twin Cities – Commercial loans
- Rochester – Commercial and Consumer loans
- Goodhue County– Commercial and Consumer loans

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<sup>1</sup> The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and multistate metropolitan areas.

We utilized loan samples to analyze the bank's lending test performance. The bank is a HMDA reporter; however, they only report geocoding information on MSA transactions as permitted for banks not subject to large bank CRA. We thus conducted sampling of home mortgage transactions rather than relying on HMDA data. We also sampled consumer and commercial loans since the bank is not required to, nor do they voluntarily collect and report this information. For all loan types we initially sampled a minimum of 20 loans per AA and expanded these samples as necessary.

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

## **Description of Institution**

Merchants is an interstate community bank headquartered in Winona, Minnesota. The bank is the sole subsidiary of Merchants Financial Group, Inc. a private bank holding company also located in Winona. The bank has operations in southeastern Minnesota and southwestern Wisconsin. In total the bank operates 18 branches throughout the market area. All but one of the bank's branches are located in Minnesota.

As of December 31, 2012, Merchants had total assets of \$1.3 billion and Tier One Capital of \$128 million. At this time net loans and leases totaled \$866 million, or 68 percent of total assets and 81 percent of bank deposits. The loan portfolio is comprised of commercial loans including commercial real estate (45%), residential real estate loans (34%), leases (12%), consumer loans (4%), and agricultural loans (4%).

Merchants is a full-service financial institution offering a wide variety of loan and deposit products and services to both retail and commercial customers. The institution's primary focus is in commercial lending, home mortgage lending, and industrial leasing.

Merchants plays an important role in the region acting as correspondent mortgage lender. In this arrangement, the bank helps smaller financial institutions across a five state area originate a wide variety of mortgage loans to their local customers at terms and prices the smaller banks might otherwise not be able to offer. The bank works with over 100 small financial institutions including a number located in underserved and or distressed middle-income census tracts. These financial institutions forward customer applications to Merchants, who then underwrites and HMDA reports these loans. Merchants does not, however, provide the permanent financing as the loans are subsequently sold to Fannie Mae or Freddie Mac. Merchants' retains all servicing for these loans.

The last CRA performance evaluation was conducted as of October 31, 2009, and resulted in a Satisfactory rating.

There are no known financial or legal impediments that would affect Merchants ability to meet the credit needs within its communities.

## **Selection of Areas for Full-Scope Review**

In each state and multistate metropolitan area where the bank has an office, a sample of AAs within that state/multistate metropolitan area was selected for full-scope reviews.

Merchants has one AA in the La Crosse, WI-MN multistate MSA and four AAs in the State of Minnesota including two Non MSA areas and two representing portions of MSAs. These include; Winona AA, Twin Cities AA, Rochester AA and Goodhue County AA. In selecting AAs for full scope reviews within the State of Minnesota, we considered the number of branches in the AA, as well as deposit volume and lending activity during the evaluation period in the AA.

Refer to the “Scope” section under each State and Multistate Metropolitan Area Rating section for details regarding how the areas were selected.

## **Ratings**

The bank’s overall rating is a blend of the La Crosse, WI-MN multistate metropolitan area rating and state rating for Minnesota. The State of Minnesota rating was more heavily weighted in arriving at our overall conclusion as the majority of the bank’s operations are in this rated area. Fourteen of the bank’s 18 offices and 83 percent of total deposits are located within the State of Minnesota rated area.

The multistate metropolitan area rating and state rating are based primarily on those areas that received full-scope reviews. Refer to the “Scope” section under each State and Multistate Metropolitan Area Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

## **Conclusions with Respect to Performance Criteria**

Merchants’ performance under the Lending Test is Satisfactory. Merchants’ loan-to-deposit ratio is reasonable and a majority of the loans originated were inside the bank’s AAs. The bank’s borrower distribution of lending reflects excellent penetration among borrowers of different income levels and businesses of different sizes. The geographic distribution of loans reflects reasonable dispersion throughout the bank’s AAs.

### **Loan-to-Deposit Ratio**

Merchant’s loan-to-deposit (LTD) ratio is reasonable, given the bank’s size, financial condition, and assessment area credit needs. The bank’s quarterly average LTD ratio is 79 percent for the 16 quarters since the previous CRA evaluation. The ratio ranged from a high of 93 percent the first quarter of 2009 to a low of 74 percent in the first quarter of 2012. The following table demonstrates Merchants’ average LTD as compared to five other similarly situated financial institutions.

<b>Loan-to-deposit Ratio Institution (Headquarters)</b>	<b>Assets as of 12/31/12 (\$000s)</b>	<b>Average LTD Ratio (%)</b>
Winona National Bank (Winona, MN)	\$258,000	59.40%
<b>Merchants National Bank (Winona, MN)</b>	<b>\$1,280,000</b>	<b>79.27%</b>
Eastwood Bank (Rochester, MN)	\$574,000	81.06%
Coulee Bank (La Crosse, WI)	\$289,000	83.13%
River Bank (Vernon, WI)	\$437,000	91.48%
Alliance (Lake City, MN)	\$607,000	92.51%

Source: Call Report data as of December 31, 2012.

## Lending in Assessment Area

A majority of Merchants' home mortgage, consumer and commercial loans are made inside the bank's designated assessment areas. We selected 20 loans for each primary product type in each assessment area to determine the bank's in/out lending performance. The home mortgage initial sample resulted in less than 50 percent of loans by number in the bank's AAs. We thus expanded our sample to 60 loans for this loan type.

<b>Lending in Merchants AAs</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	50	83%	10	17%	60	925	95%	50	5%	975
HMDA Loans	31	52%	29	48%	60	4,634	56%	3,706	44%	8,340
Commercial Loans	47	78%	13	22%	60	13,890	89%	1,713	11%	15,603
Totals	128	71%	52	29%	180	19,449	78%	5,469	22%	24,918

Source: Home mortgage, commercial and consumer loan samples.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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

## Multistate Metropolitan Area Rating

### La Crosse, WI-MN Multistate MSA

**CRA Rating for the La Crosse, WI-MN Multistate MSA<sup>2</sup>: Satisfactory.**

**The Lending test is rated: Satisfactory.**

**The Community development test is rated Satisfactory.**

The major factors that support this rating include:

- The distribution of loans reflects excellent penetration among individuals of different income levels.
- The geographic distribution of loans reflects poor dispersion throughout the AA.
- Merchants demonstrates adequate responsiveness to community development needs through community development loans, qualified investments and services.

**Note: The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to the multistate metropolitan areas.**

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN La Crosse, WI-MN Multistate MSA

Merchants has one AA in the La Crosse, WI-MN Multistate MSA. The AA is comprised of the whole MSA which includes La Crosse County in Wisconsin and Houston County in Minnesota. The bank operates four branches in the AA, including three in Minnesota and one in Wisconsin. The bank opened one branch in a middle-income tract in Spring Grove, MN during the review period. Merchants also has three deposit taking ATMs throughout the AA. None of the branches or ATMs are located in low- or moderate-income tracts. The following table illustrates the demographics of the La Crosse, WI-MN MSA.

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<sup>2</sup>This rating reflects performance within the multistate metropolitan area. The statewide evaluations do not reflect performance in the parts of those states contained within the multistate metropolitan area.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE LA CROSSE, WI-MN MSA AA</b>	
Population	
Number of Families	31,230
Number of Households	49,238
% of Low-Income Families	16.30%
% of Moderate-Income Families	19.93%
% of Middle-Income Families	26.77%
% of Upper-Income Families	37.01%
Geographies	
Number of Census Tracts	30
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	13.33%
% Middle-Income Census Tracts	76.67%
% Upper-Income Census Tracts	10.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$50,889
2011 HUD-Adjusted MFI	\$67,500
Economic Indicators	
2011 Unemployment Rate	5.9%
2000 Median Housing Value	\$93,073
% of Households Below Poverty Level	9.98%

Source: 2000 U.S. Census data with updated information when available

Competition in the AA is moderate with 18 financial institutions operating 50 offices and reporting \$2.2 billion in deposits. As of June 30, 2012, Merchants ranked sixth in deposit market share with a 7.76 percent share of the market. Bank competitors include Associated Bank, Wells Fargo, River Bank and Coulee Bank. There is no dominant leader in the market as none of the financial institutions has more than a 15 percent share of the market.

Local economic conditions in the La Crosse, WI-MN Multistate MSA are good. The area benefits from favorable business costs, a low cost of living, stable housing prices, and relatively stable employment. The area unemployment rate for 2011 was 5.9 percent which compares favorably to both the Wisconsin and Minnesota state unemployment rates of 7.5 percent and 6.4 percent respectively. Major employers in the area include Gunderson-Lutheran Medical Center, Mayo Clinic, Trane Company (air equipment), Reinhart Companies (grocery wholesale), and La Crosse County. Top industries include state & local government and general medical & surgical hospitals.

## **SCOPE OF EVALUATION IN LA CROSSE, WI-MN MULTISTATE MSA**

The La Crosse, WI-MN Multistate MSA is the only AA in the rated area and thus received a full-scope review. As such, the ratings are based solely on results of the bank's performance in the La Crosse, WI-MN Multistate MSA AA.

As part of the examination we contacted a member of the Coulee Cap organization to help gain a better understanding of the area including community needs and opportunities as well as to gain a perspective on local financial institution involvement. Coulee Cap Inc. is a non-profit community action program that serves the needs of low-income people and families in southwestern Wisconsin. The organization operates 95 different programs that range from affordable housing to community services for low- and moderate-income individuals to economic development activities. The contact indicated that there is a great need in the area for quality affordable rental housing as most of the current affordable housing stock is not of good quality. In addition, there is a need for rehabilitation of older rental properties; however, the contact felt that funding for these types of projects is limited given that they are not owner-occupied.

The contact felt that local financial institutions are overall doing a good job of meeting the credit needs of the community. She specifically mentioned Merchants Bank as a major supporter of their programs. She noted that Merchants stepped up in helping the organization last year with funding to complete a home as part of their Community Land Trust Homeownership program when other funding fell through at the last minute.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN LA CROSSE, WI-MN MULTISTATE MSA**

Merchants CRA performance in the La Crosse, WI-MN Multistate MSA is Satisfactory.

The bank has only one AA within the La Crosse, WI-MN Multistate MSA. As such, we performed a full-scope review of this AA and the multistate ratings are based entirely on performance in the AA.

### **LENDING TEST**

The bank's performance under the lending test in the La Crosse, WI-MN multistate MSA is rated Satisfactory.

The lending test is based on our sampling of consumer loans which were determined to be the primary product of the AA based on loan originations and purchases for 2010 and 2011.

#### **Lending to Borrowers of Different Incomes**

The distribution of borrowers reflects excellent penetration among individuals of different income levels given the AA demographics. The bank's performance in lending to low-income borrowers significantly exceeded the demographic comparator of low-income AA households. In lending to moderate-income borrowers, the bank's performance met the demographic comparator of moderate-income households in the AA. In addition, for 15 percent of borrowers in our sample, income information was not available.

<b>Borrower Distribution of Consumer Loans in La Crosse MSA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	21.35%	35%	17.73%	15%	20.66%	20%	40.25%	15%

Source: Consumer loan sample; 2000 U.S. Census data. For 15% of borrowers in sample income information was "NA".

## Geographic Distribution of Loans

The geographic distribution of loans reflects poor dispersion throughout the AA. The AA does not include any low-income tracts, therefore our analysis focused on the bank's performance in the moderate-income census tracts. Lending in the moderate-income tracts fell below the demographic comparator of AA households located in moderate-income tracts. However, we noted that the bank does not have any branches in the city of La Crosse, where the moderate-income tracts are located and competition in this area is very strong. We also noted that the majority (over 90%) of the bank's consumer lending activity during the review period in the AA was conducted at the three MN branches. The MN portion of the MSA is comprised entirely of middle-income tracts.

<b>Geographic Distribution of Consumer Loans in La Crosse MSA</b>								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	0.00%	0.00%	18.36%	8.33%	72.81%	90%	8.84%	1.67%

Source: Consumer loan sample; 2000 U.S. Census data.

## Responses to Complaints

The bank has not received any complaints regarding its CRA performance during the evaluation period.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in the La Crosse, WI-MN MSA is Satisfactory.

Merchants' demonstrated adequate responsiveness to community development needs in its AA through community development loans and qualified investments and services considering the bank's capacity and the need and availability for community development in the bank's AAs.

## **Number and Amount of Community Development Loans**

Merchants' level of community development lending demonstrates excellent responsiveness to AA needs. Merchants originated six community development loans totaling \$1.7 million during the review period. These loans supported affordable housing and community services for low- and moderate-income individuals. CD loans included:

- Three loans to the Coulee Cap organization totaling \$248,000. Funds were used to either build or remodel affordable housing properties in La Crosse.
- A \$1 million working capital line of credit to the Family & Children's Center which provides services and community support programs that benefit LMI families and individuals in the area.

## **Number and Amount of Qualified Investments**

Merchants' level of qualified investments demonstrates adequate responsiveness to AA needs. The bank made 27 donations totaling \$29 thousand during the evaluation period. Donations were primarily to organizations providing needed community services to low- and moderate- income individuals. Contributions included:

- \$13,000 donated to the Boys and Girls Club of La Crosse which has two locations both in moderate-income tracts and primarily serves LMI youth.

## **Extent to Which the Bank Provides Community Development Services**

Merchants' level of community development services reflects adequate responsiveness to AA needs. During the review period, a total of six bank employees served with six different organizations that promote economic development or provide needed community services to low- and moderate-income individuals. At least two of the bank employees serve in a leadership capacity including one employee who served as President of the Caledonia Economic Development Authority and another serving as the Vice President of the Great Rivers United Way Board.

## **Responsiveness to Community Development Needs**

Merchants is responsive to community development needs through CD loans, investments and services. In addition, our community contact specifically noted Merchants involvement with their programs that support community development.

# State Rating

## State of Minnesota

**CRA Rating for Minnesota:<sup>3</sup> Outstanding.**

**The Lending test is rated: Outstanding.**

**The Community development test is rated: Outstanding.**

The major factors supporting the institution's state rating include:

- The distribution of loans reflects excellent penetration among individuals of different income levels.
- Merchants demonstrates excellent responsiveness to community development needs in its AAs through community development loans, qualified investments and services.

**Note: The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states, and assessment areas.**

## DESCRIPTION OF INSTITUTION'S OPERATIONS IN MINNESOTA

Merchants Bank has four designated AAs in the State of Minnesota, two of which represent portions of MSAs and two which are Non MSA areas. The following table illustrates more details of the bank's AAs in the State of Minnesota.

List of Bank Assessment Areas			
Area	Deposits as of 6/30/12 (\$000s)	Type of Review	Description of AA
<b>State of Minnesota</b>			
Winona Non MSA AA	\$476,557	Full Scope	Winona County, Part of Fillmore County
Twins Cities AA (part of MSA #33460)	\$195,685	Limited Scope	Part of Dakota County, Part of Washington County
Goodhue County Non MSA AA	\$113,246	Limited Scope	Goodhue County
Rochester AA (part of MSA #40340)	\$71,274	Limited Scope	Olmsted County

*Source: June 30, 2012 FDIC Deposit Market Share Report*

<sup>3</sup> For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation does not reflect performance in the parts of this state contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

Merchants operates 14 full-service branch offices in the State of Minnesota, including four in the Winona AA, six in the Twin Cities AA, and two each in the Rochester AA and Goodhue County AA. The bank opened two branches in middle-income tracts in the Twin Cities AA during the review period. They also closed one branch in an upper-income tract in the Twin Cities AA. In addition to the full- service branches, the bank provides depository services at three Winona area assisted living centers one day per month. They also provide this same service at a Lakeville assisted living center on Tuesdays and Fridays for two hours. Merchants' operates a total of 16 ATMs throughout the rated area including nine full-service ATMs and seven non-depository ATMs.

## **SCOPE OF EVALUATION IN MINNESOTA**

Within the State of Minnesota, Merchants has four designated AAs. We selected the Winona AA for full-scope review given that this is the area where the bank is headquartered and it is also where the bank derives the greatest amount of deposits. The other three AAs in the State of Minnesota received limited-scope reviews. The ratings in the State of Minnesota are based primarily on results of the area that received a full-scope review. As such, the Winona AA was weighted heaviest in arriving at the overall conclusions.

The following table illustrates the demographics of the Winona AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE WINONA AA</b>	
Population	
Number of Families	14,390
Number of Households	22,611
% of Low-Income Families	14.31%
% of Moderate-Income Families	18.59%
% of Middle-Income Families	26.00%
% of Upper-Income Families	41.10%
Geographies	
Number of Census Tracts	13
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	84.62%
% Upper-Income Census Tracts	15.38%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$49,198
2011 HUD-Adjusted MFI	\$59,200
Economic Indicators	
2011 Unemployment Rate	6.4% Fillmore County 5.7% Winona County
2000 Median Housing Value	\$96,176
% of Households Below Poverty Level	11.88%

Source: 2000 U.S. Census data with updated information when available.

Competition within the Winona AA is moderate with 18 financial institutions operating 50 offices and reporting \$2.2 billion in deposits. As of June 30, 2012, Merchants ranked first in deposit market share with a 32.93 percent share of the market. The next closest competitor in deposit market share is Winona National Bank at 13.69 percent market share.

Local economic conditions in Winona are good. The area benefits from a diversified employment base. Within the area there are nearly 80 manufacturing entities including electronic components manufacturing and composites manufacturing. The area is also home to three colleges and universities. Major area employers include Fastenal Company, Winona Health, TRW Automotive Electronics, and Winona State University. The top industries in the area are manufacturing and educational, health and social services.

As part of the examination we contacted the Director of the City of Winona's Economic Development department to gain a better understanding of the community including local economic conditions, credit needs, and opportunities for bank involvement. Our contact indicated that there is a need for creating and retaining affordable housing stock in the area. Per the contact, the Winona area has an above average supply of older homes and a lack of affordable lots for development of moderately priced homes. Nearly half of all homes in the city were built before 1940. Thus, preserving and

improving the existing stock of housing in Winona is an important strategy for creating and maintaining affordable housing stock. The City has been successful in providing programs for low-and moderate-income homeowners with deferred loans for housing rehabilitation. There is also a need for affordable rental housing, as evidenced by the very high rate of occupancy in subsidized rental housing and the waiting list in place for Housing Choice Vouchers, which provide rental assistance to lower-income tenants. In addition, the large student population can put a strain on the rental market in the area.

Opportunities for participation by local financial institutions include owner occupied housing rehabilitation loans, affordable housing renovation, and small business lending financing for businesses to grow and expand. The City offers lending programs that leverage bank financing to help homeowners and small businesses; these include the Core Neighborhood Rehabilitation Program which assists low- and moderate- income homeowners by providing deferred loans for housing rehabilitation projects and the Port Authority's Revolving Loan Fund which funds business growth in partnership with local banks.

The contact felt that local financial institutions do a great job of getting involved in the community. She mentioned Merchants Bank specifically as a local bank that has been actively involved with their programs.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MINNESOTA**

Merchants' performance in the State of Minnesota is Outstanding. Both the lending and community development tests are rated Outstanding in the State of Minnesota. Ratings are based primarily on the bank's performance in the Winona AA which received a full-scope review.

### **LENDING TEST**

The bank's performance under the lending test in Minnesota is rated Outstanding.

The lending test is based on our sampling of loans by primary product per assessment area which was based on loan originations and purchases for 2010 and 2011.

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

#### **Winona AA**

The distribution of borrowers reflects excellent penetration among individuals of different income levels given the AA demographics. Merchants' lending performance exceeds the standard for satisfactory performance. The bank's performance in lending to both low- and moderate-income borrowers exceeded the demographic comparator of low- and moderate- income families within the AA.

<b>Borrower Distribution of Home Mortgage Loans in Winona AA</b>								
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 Mortgage	14.31%	15.00%	18.59%	20.00%	26.00%	30.00%	41.10%	35.00%

Source: Home mortgage loan sample; 2000 U.S. Census data.

### **Borrower Distribution Conclusions for Areas Receiving Limited-Scope Review**

Based on limited-scope reviews, the bank's borrower distribution performance in the Twin Cities, Rochester, and Goodhue County AAs is weaker than the bank's overall outstanding performance under the Lending Test in the State of Minnesota.

#### **Twin Cities AA**

Merchants' borrower distribution of loans to businesses in the Twin Cities AA met the standard for satisfactory performance. Although the number of bank loans to small businesses exceeded the demographic comparator, there are a large number of businesses with unknown revenues.

<b>Borrower Distribution of Loans to Businesses in Twin Cities AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73.16%	1.85%	24.99%	100%
% of Bank Loans in AA by #	80.00%	20.00%	0.00%	100%
% of Bank Loans in AA by \$	76.57%	23.43%	0.00%	100%

Source: Business loan sample; 2011 Dunn & Bradstreet Data.

#### **Rochester AA**

Merchants' borrower distribution of loans to businesses in the Rochester AA met the standard for satisfactory performance. The number of bank loans to businesses with revenues less than a million was near the demographic comparator; however, there are a large number of businesses with unknown revenues.

<b>Borrower Distribution of Loans to Businesses in Rochester AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.62%	2.90%	26.48%	100%
% of Bank Loans in AA by #	65.00%	30.00%	5.00%	100%
% of Bank Loans in AA by \$	14.34%	83.87%	1.79%	100%

Source: Business loan sample; 2011 Dunn & Bradstreet Data

The borrower distribution of consumer loans in the Rochester AA exceeded the standard for satisfactory performance. Loans to low-income borrowers met the demographic comparator of low-income AA households while loans to moderate-income borrowers significantly exceeded the demographic comparator.

<b>Borrower Distribution of Consumer Loans in Rochester MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	20.66%	20.00%	17.81%	35%	21.51%	5.00%	40.00%	40.00%

Source: Consumer loan sample; 2000 U.S. Census Data

**Goodhue County AA**

Merchants' borrower distribution of loans to businesses in the Goodhue County AA met the standard for satisfactory performance. The number of bank loans to businesses with revenues less than a million was near the demographic comparator; however, there are a large number of businesses with unknown revenues.

<b>Borrower Distribution of Loans to Businesses in Goodhue County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73.65%	2.31%	24.04%	100%
% of Bank Loans in AA by #	60.00%	25.00%	15.00%	100%
% of Bank Loans in AA by \$	33.36%	64.19%	2.45%	100%

Source: Business loan sample; 2011 Dunn & Bradstreet Data

The borrower distribution of consumer loans in the Goodhue County AA exceeded the standard for satisfactory performance. Loans to low-income borrowers significantly exceeded the demographic comparator of low-income AA households while loans to moderate-income borrowers met the demographic comparator.

<b>Borrower Distribution of Consumer Loans in Goodhue County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	16.36%	30.00%	13.04%	10.00%	19.02%	45.00%	51.58%	15.00%

Source: Consumer loan sample; 2000 U.S. Census Data

**Geographic Distribution of Loans**

**Winona AA**

A geographic distribution of loans is not meaningful in the Winona AA given that the area is comprised entirely of middle- and upper- income census tracts.

**Geographic Distribution Conclusions for Areas Receiving Limited-Scope Review**

Based on limited-scope reviews, the bank’s geographic distribution performance in the Twin Cities and Rochester AAs is not inconsistent with the bank’s overall outstanding performance under the Lending Test.

There are no low-income tracts in the areas receiving limited-scope reviews so our analysis focused on the bank’s performance in moderate-income tracts. In addition, a geographic distribution of loans was not meaningful in the Goodhue County AA since the area is comprised entirely of middle- and upper-income tracts.

**Twin Cities AA**

The bank’s performance in the Twin Cities AA exceeds the standard for satisfactory performance. In lending to businesses the bank’s performance exceeds the demographic comparator of AA businesses located in moderate-income tracts.

Geographic Distribution of Loans to Businesses in Twin Cities AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans
Business	0.00%	0.00%	5.48%	20.00%	56.39%	45.00%	38.18%	35.00%

*Source: Business loan sample; 2011 Dunn & Bradstreet Data*

**Rochester AA**

In the Rochester AA, the bank’s performance exceeds the standard for satisfactory performance in lending to AA businesses.

Geographic Distribution of Loans to Businesses in Rochester AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans
Business	0.00%	0.00%	14.77%	20.00%	56.07%	55.00%	28.96%	25.00%

Source: Business loan sample; 2011 Dunn & Bradstreet Data; For 0.20% of AA businesses census tract income level was "NA"

The bank's performance does not meet the standards for satisfactory performance for consumer loans. The bank's lending performance fell short of the demographic comparator of AA households located in moderate-income tracts.

Geographic Distribution of Consumer Loans in Rochester AA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	0.00%	0.00%	16.77%	10.00%	59.25%	55.00%	23.97%	35.00%

Source: Consumer loan sample; 2000 U.S. Census Data

## Responses to Complaints

The bank has not received any complaints regarding its CRA performance during the evaluation period.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test in Minnesota is rated Outstanding.

Merchants demonstrated excellent responsiveness to community development needs in its AAs through community development loans, and qualified investments and services considering the bank's capacity and the need and availability for community development in the bank's AAs.

## Number and Amount of Community Development Loans

### Winona AA

Merchants' level of community development lending represents excellent responsive to AA needs. During the review period, the bank originated four CD loans totaling \$2.4 million. These loans went to support affordable housing and community services targeted to low- and moderate- income individuals in the Winona AA. These included:

- A loan for \$862,500 to remodel the Family & Children’s Center Winona location. The organization provides services and community support programs to assist LMI families and individuals.
- A \$1 million working capital line to the Family & Children’s Center to support operations.

## **Number and Amount of Qualified Investments**

### **Winona AA**

Merchants’ level of qualified investments demonstrates excellent responsiveness to AA needs. During the evaluation period Merchants made 35 qualified charitable contributions totaling \$105,025. These donations supported a variety of CD purposes including affordable housing, economic development and community services targeted to low- and moderate-income individuals. Contributions included;

- \$10,000 donated to Home & Community Options an organization that provides support and residential services (HUD housing) to people with developmental disabilities.
- \$24,365 donated to Winona Volunteer Services an organization that coordinates the Home Delivered Meals program and operates the largest food shelf in the county for low-income residents of Winona County.
- \$34,250 donated to the United Way of Greater Winona which primarily serves the LMI population through various programs including scholarships, affordable housing and other essential community services.

The bank also had prior period investments in two low-income housing tax credit projects totaling \$2.0 million. These affordable housing projects for low-income seniors are technically outside of the bank’s AAs, nonetheless they evidence the bank’s responsiveness to affordable housing needs in the greater regional area. Further, we noted that the Winona AA has limited opportunities for community development equity investments.

## **Extent to Which the Bank Provides Community Development Services**

### **Winona AA**

Merchants’ level of community development services reflects excellent responsiveness to area needs. During the review period, 22 bank employees served with 16 different organizations providing community development services in the AA. A number of employees served with multiple organizations, so there were 32 memberships recorded with these organizations in all. At least two employees served in a leadership capacity with these organizations including one employee who served as the Board President of the Winona Volunteer Services in 2010 and another who serves as a member of the Executive Committee for the Winona Development Achievement.

### **Conclusion for limited-scope AAs**

Merchants' performance in the limited scope areas was not inconsistent with the overall outstanding performance under the community development test for the State of Minnesota.

#### **CD Loans**

- The bank made six CD loans totaling \$2.4 million in the Rochester AA.
- The bank made one CD loan in the Twin Cities AA totaling \$627,200.
- The bank made two CD loans totaling \$172,000 in the Goodhue County AA.

#### **CD Investments**

- In the Rochester AA, the bank made eight donations totaling \$20,180.
- In the Twin Cities AA the bank made 10 donations totaling \$11,956.
- In the Goodhue County AA the bank made 16 donations totaling \$6,378.

#### **CD Services**

- In the Rochester AA, five employees served with six different organizations providing community development services.
- In the Twin Cities AA, seven employees served with 9 different community organizations.
- In the Goodhue County AA, three bank employees provided services to five different community development organizations.

### **Responsiveness to Community Development Needs**

Merchants is responsive to area community development need through CD loans, investments and services. Our community contact from the City of Winona's Economic Development department specifically mentioned Merchants as being an active participant in their programs supporting community development.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: 01/01/10 to 12/31/11 Community Development Test: 11/01/09 to 12/31/11	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Merchants National Bank (Merchants) Winona, MN	Home mortgage loans Commercial loans Consumer loans CD loans	
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
La Crosse, WI-MN Multistate MSA #29100	Full-Scope	
Winona Non Metropolitan Area	Full-Scope	
Rochester MSA #40340	Limited-Scope	
Minneapolis-St Paul MSA #33460	Limited-Scope	
Goodhue County	Limited-Scope	

## Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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Overall Bank:	Lending Test Rating	Community Development Test Rating	Overall Bank/State/Multistate Rating
Merchants National Bank	Satisfactory	Outstanding	Outstanding
La Crosse, WI-MN Multistate MSA	Satisfactory	Satisfactory	Satisfactory
Minnesota	Outstanding	Outstanding	Outstanding