



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Klein National Bank of Madison
Charter Number 13561**

**220 6th Avenue
Madison, Minnesota 56256**

**Office of the Comptroller of the Currency
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated “Satisfactory.”

- The Klein National Bank of Madison meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 75 percent since the bank’s prior CRA examination.
- A majority of loans by both number (87 percent) and by dollar volume (68 percent) are located within the bank’s defined assessment area.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers) and meets community demographics for lending to farms and businesses of different sizes.
- The bank participates in the Madison community’s economic development. The bank carries a \$100,000 municipal bond that was used to finance the costs associated with the acquisition and construction of an 8-unit low- and moderate- income residential rental housing facility located in Madison, Minnesota.

DESCRIPTION OF INSTITUTION

The Klein National Bank of Madison, Madison, Minnesota (KNB) is a \$61 million commercial bank. The bank's main office is a full service facility located in downtown Madison. This office also has a drive-up window and a deposit-taking automated teller machine (ATM), as well as an insurance agency and an investment center. The bank also has one cash-dispensing ATM located in a grocery store in Madison. The bank has one limited-service branch located in the Madison Lutheran Home known as the "Lutheran Home Branch." This branch opened in November 1999 and the hours of operation are Thursdays from 1:00 p.m. to 3:00 p.m.

KNB's business focus is agricultural, commercial, and consumer lending. According to its Report of Condition and Income, the bank has the following outstanding loans by dollar volume as of March 31, 2002: agricultural (54 percent), commercial (29 percent), residential real estate (10 percent), and consumer (7 percent). Net loans total 61 percent of total assets.

To draw our conclusions regarding the bank's performance, we reviewed agricultural, commercial, and consumer loans. We did not review KNB's residential real estate loan portfolio, as this is not a major product line for the bank. From July 1, 1997 to March 31, 2002, KNB originated only 179 home purchase, refinance, and home improvement loans.

KNB is 100 percent owned by Klein Financial, Inc., a multi-bank holding company headquartered in Chaska, Minnesota. As of March 31, 2002, total assets of Klein Financial, Inc. exceeded \$1 billion. Affiliated nationally chartered banks are located in Chaska, Waconia, Buffalo, and Montevideo, Minnesota. Affiliated state chartered banks are located in Victoria, Young America, Chanhassen, and Big Lake, Minnesota. In addition, Klein Realty and Appraisal, a holding company subsidiary, has an office located at KNB's main office.

KNB received a "Satisfactory" rating at its August 7, 1997 CRA examination. This Performance Evaluation assesses the bank's CRA activities from June 30, 1997, through March 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

KNB identifies its assessment area as Lac Qui Parle County, Minnesota, which includes three block numbering areas (BNAs), and the western half of Yellow Medicine County, Minnesota, which includes two BNAs. The two BNAs in Yellow Medicine County include the townships of Florida, Fortier, Norman, Hammer, Oshkosh, Wergeland, Burton, Omro, Tyro, Swede Prairie, Normania, and Friendship. The total population of the assessment area is 14,461 persons, according to 1990 U.S. Census data.

The assessment area complies with regulatory requirements. It includes KNB's main office, branch, and ATMs, as well as a majority of the bank's loans. The area does not arbitrarily exclude any low- or moderate- income BNAs.

The U.S. Department of Housing and Urban Development's 2002 updated statewide non-metropolitan area median family income (MFI) estimate for Minnesota is \$48,500. The following table summarizes the income levels of individual BNAs and families located within the bank's assessment area.

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
	Number of BNAs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
KNB Assessment Area	0	0	5	0	20%	22%	27%	31%

Source: U.S. Census Data (1990)

The assessment area has 11 percent of the families reporting income below the poverty level (less than 30 percent of the MFI).

The area's economy is largely dependent on agriculturally related businesses. Major employers in Madison are county health services, local and county government offices, and local manufacturers. These employers include: general hospitals (175), government offices (75), Municipal Castings, Inc. (30), and Madison Bottling Co. (28). Unemployment in Lac Qui Parle County is relatively low at 2.8 percent as of June 2002. Unemployment in Yellow Medicine County is 4.9 percent and is more comparable to the 4.3 percent unemployment rate for the state of Minnesota.

Competition from other financial institutions is strong. There are three financial institutions chartered in Madison, including KNB and a credit union. Nine financial institutions are chartered in Lac Qui Parle and Yellow Medicine Counties combined. The bank is the largest of the three financial institutions in Madison and ranks third among the nine banks in Lac Qui Parle and Yellow Medicine Counties based on asset size. KNB ranks first among the five banks with offices in Lac Qui Parle County with deposit share of 43 percent. Within the assessment area, KNB ranks third among the 12 banks with offices in Lac Qui Parle and Yellow Medicine Counties with a deposit share of 15 percent.

We did not identify any unmet credit needs in the assessment area through our contact with a local government official. Our contact indicated that all area banks have expressed a willingness to provide financing to the community, including joint financing programs with governmental agency programs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

KNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 75.3 percent over the 20 quarters from June 30, 1997 through March 31, 2002. KNB's net loan-to-deposit ratio trend has remained stable and totals 72 percent as of March 31, 2002.

KNB's net loan-to-deposit ratio compares favorably with other community banks of similar size (total assets between \$30 and \$80 million). KNB ranks third among a total of six similarly situated banks chartered in the assessment area. The other five banks had quarterly average net loan-to-deposit ratios averaging 75 percent and ranging from 63 percent to 92 percent over the 20 quarters from June 30, 1997 through March 31, 2002.

Lending in Assessment Area

KNB originates a majority of its loans to borrowers located within its defined assessment area. Of loans originated from July 1, 1997 to March 31, 2002, approximately 87 percent by number and 68 percent by dollar volume were made to farms, businesses, and individuals located within the bank's assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

LENDING WITHIN THE ASSESSMENT AREA BY NUMBER AND DOLLAR OF LOANS				
Type of Loan	Number of Loans	Percent by Number	Dollar of Loans (000s)	Percent by Dollars
Agricultural	19	95%	\$1,158	96%
Commercial	17	85%	\$1,264	54%
Consumer	16	80%	\$77	75%
Total	52	87%	\$2,499	68%

Source: Bank Records (verified by examiners)

The bank purchases a significant volume of commercial loan participations to hold in its own portfolio. As of August 1, 2002, the bank holds 19 participations totaling over \$4.9 million. These participations significantly reduce the percentage of commercial loans by dollar volume originated inside the assessment area.

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

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. Lending to businesses and farms meets community demographics. Lending to low- income individuals meets demographics while lending to moderate- income individuals exceeds demographics.

Agriculture lending activity meets community demographics. Ninety-seven percent of agricultural loans by number was originated to borrowers with annual gross revenues of less than \$500,000. From July 1, 1997 to March 31, 2002, KNB originated 461 agricultural loans. As of March 31, 2002, \$20.5 million of the \$37.3 million loan portfolio is comprised of agricultural loans. Examiners sampled 60 agricultural and agricultural real estate loans totaling \$2.5 million originated in the assessment area. The agricultural trend in recent years has seen larger farm operations absorbing smaller farm operations due adverse local economic conditions, many of which were caused by severe flooding. The following table compares the bank’s agricultural lending activity by revenue size to demographic data.

DISTRIBUTION OF AGRICULTURAL LOANS BY ANNUAL REVENUES OF BORROWER			
Annual Gross Revenues	Number of Loans	Percent of Loans by Number	Agriculture Census Demographics (1997)
< \$50,000	12	20%	41%
\$50,000 - \$100,000	11	19%	17%
\$100,000 - \$250,000	21	35%	28%
\$250,000 - \$500,000	14	23%	11%
> \$500,000	2	3%	3%
Totals	60	100%	100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)

Commercial loan originations to businesses with annual gross revenues of less than \$1 million at 90 percent by number of loans equal demographic data. Seventy-five percent of the loans originated were to small businesses with less than \$250,000 in annual revenues. From July 1, 1997 to March 31, 2002, KNB originated 204 commercial loans. As of March 31, 2002, \$11 million of the \$37.3 million loan portfolio is commercial loans. Examiners sampled 20 commercial and commercial real estate loans originated in the assessment area totaling \$1.2 million. The following table compares the bank’s commercial lending activity by revenue size to community demographic data.

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUES OF BORROWER			
Annual Gross Revenue	Number of Loans	Percent of Loans by Number	Business Demographic Data
< \$50,000	4	20%	90%
\$50,000 - \$100,000	3	15%	
\$100,000 - \$250,000	8	40%	
\$250,000 - \$500,000	2	10%	
\$500,000 - \$1,000,000	1	5%	
> \$1,000,000	2	10%	10%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Consumer lending activity in the assessment area meets the community demographics for low-income borrowers and substantially exceeds the community demographics for moderate-income borrowers. From July 1, 1997 to March 31, 2002, KNB originated 709 consumer loans. As of March 31, 2002, \$2.7 million of the \$37.3 million loan portfolio is comprised of consumer loans. Examiners sampled 20 consumer loans originated in the assessment area totaling \$114,453. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL OF BORROWER			
Borrower Income Level	Number of Loans	Percent of Loans by Number	Percent of Households
Low	4	20%	28%
Moderate	13	65%	16%
Middle	3	15%	21%
Upper	0	0%	35%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle-income BNAs.

Qualified Investments and Community Development Services

KNB carries one qualified investment for the community's economic development. The bank purchased the \$100,000 municipal investment on August 17, 1999. The investment was issued to finance costs associated with the acquisition and construction of an 8-unit low- and moderate-income residential rental housing facility located in the city of Madison, Minnesota.

Responses to Complaints

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

Fair Lending Review

An analysis of 1998, 1999, 2000, and 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.