



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

October 28, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Stearns Bank Evansville National Association
Charter Number 23459**

**Kron & Main Street
Evansville, MN 56326**

**Comptroller of the Currency
North Dakota & NW Minnesota
3211 Fiechtner Drive, SW
Fargo, ND 58103**

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.

Stearns Bank Evansville National Association's lending performance reflects a satisfactory response to community credit needs. This conclusion is based on the following results.

- The loan to deposit ratio is reasonable given the bank's size, financial condition, and assessment area needs.
- The geographic distribution of loans reflects reasonable dispersion throughout the bank's assessment area.
- The bank originated a majority of its loans inside its assessment area.
- Lending activities represent excellent penetration to businesses and farms of different sizes.

Description of Institution

Stearns Bank Evansville National Association (Stearns Bank) is a \$37.9 million institution located in Evansville, Minnesota. Stearns Bank is a subsidiary of Stearns Financial Services Inc. in St. Cloud, Minnesota. Stearns Financial Services Inc. is a multi-bank holding company with total assets of \$1.1 billion as of June 30, 2004. The affiliated banks are located in St. Cloud, Holdingford, and Upsala, Minnesota and in Scottsdale, Arizona. The bank has no branches or automated teller machines.

The bank has experienced a decline in assets since December 31, 2001 when total assets were \$45.8 million. This decline in assets is attributed to a significant decrease in the bank's investment portfolio. However, the bank's loan portfolio has grown over this same time period. The bank purchases a significant amount of its loans from Stearns Bank National Association, St. Cloud, Minnesota and a small amount of its loans from Stearns Bank Arizona National Association. As of September 30, 2004, total loans and leases were \$34.5 million with participations purchased of \$27.8 million. The bank also relies on holding company management to obtain funding. Roughly 60% of bank deposits are from sources outside of its assessment area.

Stearns bank offers traditional banking products and services. The bank's lending focus is on commercial and agricultural loans. Net loans represent 86.6% of total assets. As of June 30, 2004, the composition of the portfolio is as follows:

Loan Portfolio Composition 6/30/04	\$ (000)	%
Business (including RE)	22,809	67.9%
Farm (including RE)	3,488	10.4%
Residential Real Estate	810	2.4%
Consumer Loans	477	1.4%
Leases	6,018	17.9%
Total	33,602	100%

There are no legal or financial impediments that restrict the bank's ability to meet the credit needs of the community. Stearns Bank was rated Satisfactory at the last CRA examination dated February 25, 1999.

Description of Stearns Bank's Assessment Area

The assessment area (AA) of Stearns Bank consists of 11 contiguous census tracts (CTs) in west central Minnesota. The AA includes all of Douglas County and parts of Grant and Otter Tail Counties. Based on the 2000 Census, all of the CTs in the AA are middle-income. There are no low-, moderate, or upper-income CTs in the AA. The AA meets the requirements of the regulation and does not exclude any low- or moderate-income geographies. Cities in the AA include Alexandria, Brandon, Evansville, Garfield, Osakis, and Parkers Prairie. The total population of the AA is 41,738.

The bank is located in a small rural community. The local economy is dependent on agriculture and small businesses. Major employers include Crestview Manor Health Care and Evansville Public Schools. Information from the Bureau of Labor Statistics lists the 2003 unemployment rate for Douglas County at 3.6%. The unemployment rate for Grant and Otter Tail Counties are 7.5% and 5.8%, respectively. The average unemployment rate for Minnesota is 5.0% and 6.0% nationwide.

Stearns Bank's competition consists of 16 financial institutions located within its AA. These include a number of similarly sized financial institutions located in communities throughout the AA and a few larger banks in Alexandria.

Community contacts were made with various city and county organizations and non-profit community services organizations. These contacts were performed by the OCC and various other banking agencies. The contacts indicated a need for affordable housing in the rural areas, including both rental units and homes for purchase. The contacts felt that local banks do a good job serving their respective communities.

The demographics of the AA are illustrated below. The information is based on the 2000 census data information unless otherwise noted.

TABLE 2: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	11,576
Number of Households	16,779
Number of Low-Income Families	2,187
% of Low-Income Families	18.9%
Number of Moderate-Income Families	2,300
% of Moderate-Income Families	19.9%
Number of Middle-Income Families	2,386
% of Middle-Income Families	24.5%
Number of Upper-Income Families	4,253
% of Upper-Income Families	36.7%
<i>Geographies</i>	
Number of Census Tracts/BNA	11
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	0
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$45,925
<i>Economic Indicators</i>	
Unemployment Rate	4.2%
2004 Median Housing Value	\$96,589
% of Households Below Poverty Level	10.3%

Loan Sampling

The bank's primary loan types were determined by taking all loans originated/purchased for the time period from January 1, 2002 to June 30, 2004. Table 3 depicts the number and volume of loans originated and purchased.

Table 3: Loan Products	#	%	\$ (000)	%
Farm Loans	152	28%	\$4,565	12%
Business Loans	185	35%	\$32,358	83%
Consumer Loans	178	33%	\$1,178	3%
Residential Real Estate Loans	22	4%	\$961	2%
Total	537	100%	\$39,062	100%

Loans originated during the evaluation period from January 1, 2002 to June 30, 2004.

For the purpose of this evaluation, the primary loan types are agriculture loans and business

loans. These two products combine for 63% of the number of loans and 95% of the dollar amount of loans originated/purchased during this timeframe. Due to the large volume of business loans, greater emphasis will be placed on the bank's business lending performance in determining the bank's overall rating.

Due to changes in the composition of the bank's AA from the 1990 and 2000 census we conducted two loan samples of each primary product in order to evaluate the geographic distribution of loans. Loans made in 2002 are compared to 1990 geographic boundaries and loans made in 2003 are compared to 2000 geographic boundaries. A total of 40 business loans and 40 agriculture loans were sampled.

The bank accurately reports the location of each of its loans on its internal loan system. After checking the location accuracy of some loans, we relied on this data to determine the bank's lending in the assessment area.

Conclusions about Performance Criteria

Loan-to-Deposit Ratio

Stearns Bank's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance given the bank's size, financial condition, assessment area needs, and local economic conditions. The bank's quarterly LTD ratio averaged 78.9% over the past 22 quarters since the bank's last CRA examination. The LTD has ranged from 62.66% in the 3rd quarter of 1999 to 99.85% in the 2nd quarter of 2004.

The bank's quarterly LTD ratio is second out of six similarly situated banks. These banks all operate in the bank's AA and have total assets between \$30 million and \$50 million. The LTD ratios of these banks range from 52.4% to 91.62%.

Lending in Assessment Area

Stearns Bank's lending within its AA meets the standard for satisfactory performance. A majority of the number of loans originated/purchased during the evaluation period is from the bank's AA. Overall, 87% of the number of loans and 23% of the dollar amount of loans are made in the bank's AA. The bank purchases some large business loans from its affiliate banks. Many of these loans are out of the bank's AA and, due to their size, account for a large percentage of the dollar amount of loans being made outside the AA. Other types of loans such as agricultural, consumer, and residential real estate are made almost exclusively in the AA. The following table illustrates the bank's lending in its AA.

TABLE 4: LENDING IN THE ASSESSMENT AREA								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Small Business	120	65%	\$2,180	7%	65	35%	\$30,178	93%
Farm	149	98%	\$4,514	99%	3	2%	\$50	1%
Consumer	174	98%	\$1,147	99%	4	2%	\$31	1%
Residential Real Estate	22	100%	\$961	100%	0	0%	0	0%
Total	465	87%	\$8,802	23%	72	13%	\$30,259	77%

Source: All loans originated or purchased from January 1, 2002 to June 30, 2004.

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

The bank’s lending to small businesses and small farms exceeds the standard for satisfactory performance.

Borrower Distribution of Business Loans

Stearns Bank’s lending to small businesses is more than reasonable. Over 97% by number and dollar volume are made to businesses with revenues less than \$1 million. This compares favorably with AA demographics. The following table depicts the bank’s lending to small businesses compared to demographic data.

TABLE 5 – BORROWER DISTRIBUTION OF BUSINESS LOANS				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.5%	4.9%	24.6%	100%
% of Bank Loans in AA by #	97.5%	2.5%	0	100%
% of Bank Loans in AA by \$	97.4%	2.6%	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Borrower Distribution of Farm Loans

Stearns Bank’s lending to small farms is more than reasonable. All sampled farm loans were to farms with under \$1 million in revenue. This compares very favorably with AA demographics. The following table depicts the bank’s lending to small farms compared to demographic data.

TABLE 6 – BORROWER DISTRIBUTION OF FARM LOANS

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	96.2%	2.3%	1.5%	100%
% of Bank Loans in AA by #	100%	0	0	100%
% of Bank Loans in AA by \$	100%	0	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

Stearns Bank's geographic distribution of loans meets the standard for satisfactory performance.

The 2000 census for the bank's AA did not identify any low- or moderate-income CTs. In the 1990 census there was one identified moderate-income CT. Therefore our analysis of the bank's geographic distribution of lending was limited to a review of loans from our 2002 sample.

Geographic Distribution of Business Loans

The bank's geographic distribution of business loans is reasonable. All loans originated/purchased were in middle-income tracts. Based on the 1990 census, over 94% of the AA businesses are located in middle-income CTs. The only moderate-income tract in the AA was located in the far Northeastern CT of the AA. This tract is in a rural setting, is many miles from the bank, and is served by several other financial institutions. In the 2000 census this tract was listed as being middle-income. Table 7 illustrates the bank's performance.

TABLE 7: 2002 GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	NA		5.7%		94.3%		NA	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	NA	NA	0	0	100%	100%	NA	NA

Source: Sample of 20 business loans made in the AA.

Geographic Distribution of Farm Loans

The bank's geographic distribution of farm loans is reasonable. Five percent of the number of loans and 1% of the dollar volume of loans were made in AA's one moderate-income tract. Based on the 1990 census, 12.8% of the AA farms are located in the moderate-income CT. While the bank's lending in this tract does not meet the demographics, the location of the CT makes it difficult for the bank to serve this tract. The tract is located in the far Northeastern corner of the bank's AA and is served by several other financial institutions. In the 2000 census this tract was listed as being middle-income. Table 8 illustrates the bank's performance.

TABLE 8: 2002 GEOGRAPHIC DISTRIBUTION OF LOANS TO FARMS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	NA		12.8%		87.2%		NA	
LOANS BY YEAR	% of Number	% of Amount						
2002	NA	NA	5%	1%	95%	99%	NA	NA

Source: Sample of 20 farm loans made in the AA.

Responses to Complaints

Stearns Bank has not received any complaints relating to the bank's CRA performance since the previous examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.