



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

## **PUBLIC DISCLOSURE**

November 26, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Minnstar Bank National Association  
Charter Number: 13972

202 North Main  
Lake Crystal, MN 56055

Office of the Comptroller of the Currency

Minneapolis North  
920 Second Avenue South Suite 800  
Minneapolis, MN 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.

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

The major factors that support this rating include:

- The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and local economic conditions.
- The bank originates a substantial majority of its loans by number and by dollar within its assessment area.
- The bank has excellent penetration among businesses and reasonable penetration among farms of different sizes.

## **SCOPE OF EXAMINATION**

We completed a Community Reinvestment Act (CRA) examination and assessed Minnstar National Bank's record of meeting the credit needs of their community for the period beginning March 23, 2003 and ending September 30, 2007. We assessed the bank's lending performance in the assessment area and identified the bank's primary products as commercial and agriculture loans. We selected a random sample of 20 loans from each of the primary products to use in evaluating lending within the assessment area and the borrower income distribution. We used 2006 Business Geodemographic Data for demographic comparison purposes.

## **DESCRIPTION OF INSTITUTION**

Minnstar Bank, N.A. (MNB) is a \$94 million commercial bank. MNB operates three full service branches in Lake Crystal, Mankato, and Good Thunder, Minnesota. MNB has two automated teller machines (ATM), one at the Mankato office and another at a convenience store in Lake Crystal. Neither ATM accepts deposits.

MNB offers a wide range of products. Their most recent Call Report dated September 30, 2007 indicated the loan portfolio consisted of commercial (43%), agriculture (28%), residential real estate (16%), and consumer loans (13%). The bank's total loans and leases represent 75% of total assets.

The bank is 100% owned by Lake Crystal Bancorporation, Inc. There are no affiliated banks or non-bank companies.

MNB received a "Satisfactory" rating at its March 25, 2003 CRA examination. 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

MNB’s assessment area (AA) is comprised of 18 census tracts (CTs), including all of Blue Earth County and two CTs in Nicollet County. The city of Lake Crystal is near the center of the AA and is located approximately 75 miles south of the Minneapolis/St. Paul Metropolitan Statistical Area (MSA). The AA does not arbitrarily exclude any low- or moderate-income CTs.

The total population of the AA is 67,821 individuals based on 2000 census data. The majority of the AA is comprised of middle income CTs. Thirteen of the 18 CTs (72%) are middle income. The remaining five CTs (28%) are upper income. The table below shows distribution of family income level for the AA.

<b>Family Income Level</b>	<b>Percentage of Families in AA</b>
Low-Income	14.19%
Moderate-Income	16.03%
Middle-Income	24.64%
Upper-Income	45.14%

The AA is experiencing slight economic growth. The area is not dependent on a particular sector but diverse industries are represented. Prominent industries include construction, manufacturing, retail trade, services, and agriculture. Major employers are located in Mankato/North Mankato and include Taylor Corporation (4,100 employees), Immanuel-St. Joseph’s-Mayo Health System (1,492), and Minnesota State University (1,300). The Mankato area is experiencing economic expansion due to the population growth and due to the close proximity to the Minneapolis/St. Paul area.

There has been modest population growth in the AA. The most recent census data shows the population has increased from 58,900 in 1990 to 67,821 persons in 2000. Unemployment has improved over the years. According to Department of Employment and Economic Development, the October 2007 unemployment rate for Blue Earth County and Nicollet County were 3.4% and 3.2%, respectively. The AA compares favorably to the State of Minnesota and nationally with unemployment rates of 4.1% and 4.4%, respectively.

Competition among financial institutions in the AA is strong. There are 21 financial institutions with a presence in the AA. MNB had 5% of the deposit market share as of June 30, 2007. Three institutions had 44% of the deposit market share in the AA as of June 30, 2007.

We contacted a community development organization in the AA. The representative indicated primary credit needs are affordable residential real estate, retail, and small business loans. The contact indicated the local financial institutions are adequately meeting the credit needs of the community. The AA area remains competitive in the lending market due to the multiple financial institutions.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

MNB's net loan-to-deposit ratio (LTD) is reasonable. The bank's quarterly net LTD ratio averaged 87% over 18 quarters from March 31, 2003 to September 30, 2007. The LTD ratio is comparable to other similarly situated banks with similar asset size (\$48 million to \$123 million), business operations, and bank locations. MNB's net LTD ratio ranked third among six similarly situated banks. The other five banks had quarterly net LTD ratios ranging from 61% to 99% over the same 18 quarters.

### Lending in Assessment Area

MNB originates a substantial majority of its loans in the AA. As indicated in the following table, 93% of loans by number and 87% by dollar volume were originated in the AA. The loan ratios were calculated from 20 randomly selected loans for each primary loan product. Sample loans were originated by the bank from January 1, 2005 to September 30, 2007.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	18	90%	2	10%	20	1,370,627	95%	80,000	5%	1,450,627
Agriculture	19	95%	1	5%	20	1,618,704	81%	385,000	19%	2,003,704
Total	37	93%	3	7%	40	2,989,331	87%	465,000	13%	3,454,331

Source: Loan Sample.

### Lending to Businesses and Farms of Different Sizes.

MNB has excellent penetration among businesses and reasonable penetration of farms of different sizes. In our sample of 20 commercial loans and 20 farm loans, the majority of the loans were made to small businesses and small farms with gross annual income of less than a \$1 million.

MNB's record of lending to businesses of different sizes is excellent. As represented in the following table, lending to small businesses exceeds AA demographics.

Borrower Distribution of Loans to Businesses in AA				
Business Gross Annual Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	60.80%	5.52%	33.68%	100%
% of Bank Loans in AA by #	95.00%	5.00%	0.00%	100%
% of Bank Loans in AA by \$	83.06%	16.94%	0.00%	100%

Source: Loan Sample; 2006 Business Geodemographic Data

MNB's lending to small farms is less than AA demographics but is still considered reasonable.

<b>Borrower Distribution of Loans to Farms in AA</b>				
Farm Gross Annual Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farm Business	95.57%	2.70%	1.73%	100%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$	83.21%	16.79%	0.00%	100%

*Source: Loan Sample; 2006 Business Geodemographic Data*

### **Geographic Distribution of Loans**

The geographic distribution of loans did not provide meaningful analysis as the bank's AA consists entirely of middle and upper-income CTs.

### **Responses to Complaints**

There have been no CRA-related complaints during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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