



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 21, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Sprague National Bank
Charter Number 15718
115 W. Washington Street
Caledonia, Minnesota 55921**

**Comptroller of the Currency
Minneapolis Duty Station
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

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.

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 Community Reinvestment Act (CRA) performance of **Sprague National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of May 21, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

- o The bank has a favorable loan-to-deposit ratio based on its competitive environment.
- o The bank has a reasonable record of lending in its assessment area. Despite having strong loan originations in the assessment area, the bank has purchased numerous loans and leases located outside the assessment area.

The following table indicates the performance level of Sprague National Bank with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | <u>Sprague National Bank</u> PERFORMANCE LEVELS | | |
|--|--|--|--|
| | Exceeds Standards for Satisfactory Performance | Meets Standards for Satisfactory Performance | Does not meet Standards for Satisfactory Performance |
| Loan to Deposit Ratio | | X | |
| Lending in Assessment Area | | X | |
| Lending to Borrowers of Different Incomes and to Businesses of Different sizes | | X | |
| Geographic Distribution of Loans | X | | |
| Response to Complaints | No complaints were received since the prior examination. | | |

DESCRIPTION OF INSTITUTION

Sprague National Bank is a \$31 million bank located in downtown Caledonia, Minnesota. The bank has an attached drive-up facility and one automated teller machine (ATM). The bank does not have any branches. The bank offers a full range of traditional commercial and personal banking services. Real estate loans comprise 38% of the loan portfolio as of March 31, 1997 and 29% of all loans are secured by one-to-four family residences. Commercial loans equal 20%, agricultural loans equal 19%, lease financing receivables equal 12%, and consumer loans equal 11% of total loans. There are no legal or financial impediments limiting the bank's ability to help meet community credit needs.

Sprague National Bank is a wholly-owned subsidiary of the Merchants Holding Company of Winona, Minnesota. The \$321 million holding company owns three affiliated financial institutions located in La Crecent, Minnesota; Winona, Minnesota; and Melrose, Wisconsin. The holding company also serves the Goodview, Minnesota and St. Charles, Minnesota communities.

Sprague National Bank was rated a "Satisfactory record of meeting community credit needs" at its last CRA examination in March 1994.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is located in the southeast corner of Minnesota approximately 150 miles southeast of the Minneapolis/St. Paul metropolitan area. The assessment area meets all regulatory requirements and consists of all six contiguous census tracts in Houston County, Minnesota. Houston County is located in the La Crosse, Wisconsin-Minnesota Metropolitan Statistical Area (MSA). The census tracts included in the assessment area are numbered 201 through 206. There are three moderate-income census tracts and three middle-income census tracts. There are no low- or upper-income census tracts within the assessment area. Five other banks in the assessment area provide substantial competition for the bank. Those banks range in size from \$20 million to \$44 million. Management stated that a bank in New Albin, Iowa also provides competition for the bank.

Based on 1990 census information, the population of the bank's assessment area is 18,497. The U.S. Department of Housing and Urban Development (HUD) updated median family income for the La Crosse, Wisconsin-Minnesota MSA is \$40,100. Household incomes in the area are 23% low-income, 17% moderate-income, 22% middle-income, and 38%-upper income. Sixteen percent of the population is over 65 years old. The housing stock in the area is older with a median age of 46 years and a median value of \$44,500. The majority of all businesses have annual gross revenues less than \$1 million. Unemployment remains low at 2%.

The bank's trade area and employment for local residents is diverse and includes retail trade, farming, services, government, and manufacturing. Many Houston County residents commute to work in nearby La Crosse, Wisconsin. Farm production capacities are reduced by steep hills and bluffs and frequent flooding in lowlands. The economy is stable.

Local community contacts stated that the credit needs of the community are affordable housing for low- and moderate-income individuals and for first-time home buyers. These contacts also stated that a credit need was for the rehabilitation of real estate property for both residential and commercial properties. These contacts provided favorable comments on how the bank was meeting

community credit needs, but they mentioned the bank could offer more innovative products to meet housing needs of the community. Management plans on offering home equity lines of credit in 1997 to address these credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Analysis

The bank's loan-to-deposit ratio is favorable based on its competitive environment. In the previous ten quarters, the bank's average loan-to-deposit ratio is 77%. This compares favorably with the bank's national peer group (banks of similar size, type and location) average of 65% for the same period. Sprague National Bank is ranked fourth when compared with average loan-to-deposit ratios over the previous ten quarters for all six banks located in the assessment area. Those ratios ranged from 72% to 87%, with an average of 78%.

The bank has purchased numerous residential real estate loans from one of its affiliated banks. These purchased residential real estate loans primarily caused the bank's loan-to-deposit ratio to increase from 70% in 1995 to 77% in 1996.

Comparison of Credit Extended Inside and Outside of the Assessment Area

A majority of all loans are located within the assessment area. We reviewed three samples of loans to determine the location and the pattern of loans originated in the assessment area. Our total loan sample showed 90% by number and 91% by dollar volume of loan originations are located within Houston County. However, the bank purchased numerous loans and leases that are located outside the assessment area. Taking into account these purchases and the bank's current lending activity, we estimate about 60% of the loan portfolio is located within the assessment area.

Management purchased these loans and leases in order to improve the bank's earnings and profitability. As of March 31, 1997, approximately 12% of the loan portfolio was comprised of leases purchased from an affiliated bank. These leases are primarily located outside the assessment area. In addition, throughout 1996, the bank purchased 70 residential real estate loans totaling \$5.1 million from its affiliated bank. These loans are all located outside the bank's assessment area.

Management's origination of real estate loans inside the assessment area is strong. Management originated 22 residential real estate loans totaling \$588 thousand during 1996 and the first three months of 1997 as reported on the Home Mortgage Disclosure Act (HMDA) - Loan Application Register (LAR). All 22 loans are located within the bank's assessment area. For consumer loans, we reviewed all automobile loans originated during the first three months of 1997. Management originated 26 loans totaling \$216 thousand during this time period. Of these loans, 81% by number and 80% by dollar volume are located within the assessment area. For commercial and farm loans, we reviewed a sample of new loans also made during 1996 and year-to-date March 1997. The 20 loans in this sample totaled \$3.4 million. Of these loans, 90% by both number and dollar volume are located within the assessment area.

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

Management has responded favorably to the credit needs of its assessment area by originating loans to low- and moderate-income borrowers as well as to small businesses and small farms. Examiners performed an income analysis on our sample of 68 new loans made during 1996 and year-to-date March 1997. The following tables illustrate the bank's loan penetration to borrowers of different income levels and businesses and farms with different gross income levels.

| Consumer and Real Estate Loans | | |
|---|-------------|-------------|
| INCOME | % BY NUMBER | % BY DOLLAR |
| Low | 21% | 9% |
| Moderate | 25% | 18% |
| Middle | 35% | 47% |
| Upper | 19% | 26% |
| Sample of 48 loans for \$804M made in 1996 and 1997 | | |

| Commercial and Farm Loans | | |
|---|-------------|-------------|
| GROSS REVENUES | % BY NUMBER | % BY DOLLAR |
| < \$100M | 20% | 5% |
| \$101M - \$250M | 20% | 7% |
| \$251M - \$500M | 30% | 26% |
| \$501M - \$750M | 15% | 11% |
| \$751M - \$1MM | 0% | 0% |
| > \$1MM | 15% | 51% |
| Sample of 20 loans for \$3.4MM in 1996 and 1997 | | |

The bank's volume of residential real estate loans equals 19% of the total portfolio as of December 31, 1996. An analysis of real estate loan data for 1996 and year-to-date March 1997 shows that the bank has a reasonable level of penetration to borrowers of all income levels. Management has not investigated reasons for the small volume of residential real estate loans made to low-income borrowers during this time period. In 1996, the bank received four loan applications from low-income borrowers. The bank refinanced one loan and denied the other three applicants. We determined that the loan files supported these credit decisions. During the first three months of 1997, the bank received only one loan application from a low-income borrower and the bank originated the loan. The following table illustrates the bank's residential real estate loan penetration to borrowers with various income levels in 1996 and year-to-date March 1997.

REAL ESTATE LOANS ORIGINATED BY INCOME LEVELS

| 1990 Census Information | | | 1996 | | YTD 1997 | |
|-------------------------|--------------|------------|-------------|-------------|-------------|-------------|
| INCOME | % HOUSEHOLDS | % FAMILIES | % BY NUMBER | % BY DOLLAR | % BY NUMBER | % BY DOLLAR |
| Low | 23% | 18% | 0% | 0% | 14% | 7% |
| Moderate | 17% | 23% | 20% | 10% | 43% | 43% |
| Middle | 22% | 26% | 60% | 60% | 29% | 42% |
| Upper | 38% | 33% | 20% | 30% | 14% | 8% |

The bank has participated in some government sponsored or guaranteed loan programs such as the Minnesota Housing Finance Agency (MHFA) and the Farmers Home Administration (FmHA). Examples of participation in 1995 and 1996 include: one loan for \$8 thousand in 1995 and two loans totaling \$15 thousand in 1996 under the MHFA program. The bank also extended one loan for \$160 thousand in 1997 under the FmHA program.

Geographic Distribution of Loans

The geographic distribution of the bank's credit extensions reflects excellent penetration in the moderate-income portion of the assessment area. Again, the bank's assessment area does not have any low- or upper-income census tracts. The bank's record of originating real estate mortgage loans in its moderate-income areas is commendable. All of the HMDA-reportable loans for 1996 and the first three months of 1997 originated in moderate-income census tracts. Based on our sample of new loans in 1996 and the first three months of 1997, loans originated inside the assessment are distributed accordingly:

| GEOGRAPHIC DISTRIBUTION OF LOANS WITHIN THE BANK'S ASSESSMENT AREA | | | | | |
|---|------------------|------------|-------------|-------------|-------------|
| CENSUS TRACTS | # TRACTS IN AREA | # OF LOANS | % BY NUMBER | \$ OF LOANS | % BY DOLLAR |
| Moderate-income | 3 | 58 | 95% | \$3,750,908 | 98% |
| Middle-income | 3 | 3 | 5% | \$64,582 | 2% |

Compliance with Antidiscrimination Laws and Regulations

Sprague National Bank is in compliance with the applicable antidiscrimination laws and regulations. We found no violations of the fair lending laws at this examination.

Record of Providing Services

The bank has a good record of providing other services to its assessment area. For instance, Sprague National Bank has banking relationships with several nonprofit groups in the assessment area. The bank has waived service fees for checking accounts of these nonprofit organizations.

Bank customers also have access to seven other ATM's located at affiliated locations in Winona, St. Charles, and La Crecent, Minnesota at no charge.