



## **PUBLIC DISCLOSURE**

September 22, 2014

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

American Heritage National Bank  
Charter Number 15037

24 2nd Street South  
Long Prairie, MN 56347

Office of the Comptroller of the Currency

222 South 9th Street, 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 Satisfactory**

The major factors supporting this rating include:

- The bank originates a majority of its loans within its assessment area.
- The bank’s loan-to-deposit ratio (LTD) is reasonable given the bank’s size, financial condition, and credit needs of the assessment area.
- The distribution of loans reflects reasonable penetration among businesses and farms of different sizes. The distribution of loans reflects excellent penetration among borrowers of different income levels.
- The distribution of loans reflects excellent dispersion among businesses and reasonable dispersion among farms throughout the assessment area.

**SCOPE OF EXAMINATION**

We evaluated American Heritage National Bank’s (AHNB) Community Reinvestment Act (CRA) performance using small bank examination procedures. The evaluation focused on the institution’s lending performance in meeting the credit needs of the assessment area (AA). Specifically, we analyzed primary loan products to determine the amount of lending in the AA, the distribution of lending among businesses and farms of different sizes and borrowers of different income levels, and the distribution of lending throughout the AA.

The evaluation period covered the period from January 23, 2009 through September 22, 2014. We determined the bank’s primary loan products based on loan originations and purchases for the period of January 1, 2012 to December 31, 2013.

AHNB serves the St. Cloud Metropolitan Statistical Area (MSA) consisting of Benton and Stearns Counties as well as Todd County, a Non-MSA. For the purpose of this evaluation, the primary loan type for the St. Cloud MSA AA is commercial loans. Commercial loans account for 90 percent of the dollar volume of loans originated and represent 71 percent of the number of all originations. The following chart depicts loan originations in the MSA AA.

<b>Loan Originations and Purchases in 2012 and 2013 in St. Cloud MSA AA</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial	71%	90%
Consumer	18%	3%
Residential RE	6%	4%
Agricultural	5%	3%

*Source: Bank loan origination report for 2012 and 2013*

The primary loan types for the Non-MSA AA are consumer loans and agricultural loans. Consumer loans account for 59 percent of the dollar volume of loans originated and represent 25 percent of the number of all originations. Agricultural loans account for 25 percent of the dollar volume of loans originated and represent 36 percent of the number of all originations. The following chart depicts loan originations in the Non-MSA AA.

<b>Loan Originations and Purchases in 2012 and 2013 in Non-MSA AA</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	59%	25%
Agricultural	25%	36%
Commercial	14%	30%
Residential RE	2%	9%

*Source: Bank loan origination report for 2012 and 2013*

To conduct our analysis, we selected a sample of 20 loans from each primary product type and expanded our samples as necessary.

## **DESCRIPTION OF INSTITUTION**

AHNB is a \$224 million intrastate financial institution headquartered in Long Prairie, MN, which is located in Todd County in central Minnesota. The bank has a branch office located in Browerville, MN in Todd County and two branches located in St. Cloud, MN in Stearns County. AHNB has not had any branch openings or closures in the past five years. The bank operates cash dispensing, non-deposit taking automatic teller machines (ATMs) at each St. Cloud branch and at the main bank office in Long Prairie. The Browerville branch does not have an ATM, nor does it originate loans. The bank is owned by American Heritage Holding Company, a one-bank holding company located in St. Cloud. There have been no acquisitions or mergers since the previous CRA examination.

As of June 30, 2014, the bank's loan portfolio totaled \$182 million or 82 percent of total assets. The bank offers a variety of loan products for consumers, agricultural businesses and farms, and other small businesses to meet the credit needs of its communities. The composition of the loan portfolio is as follows:

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>(%)</b>
Commercial	\$153,346	84
Residential RE	\$14,564	8
Agricultural	\$9,447	5
Consumer	\$4,929	3
<b>TOTAL</b>	<b>\$182,286</b>	<b>100</b>

*Source: Call Report data as of June 30, 2014.*

The bank's primary product in the St. Cloud MSA AA is commercial loans. Commercial loans include working capital, equipment, commercial real estate, and Small Business Administration loans. The bank's primary products in the Non-MSA AA are consumer and agricultural loans. Consumer loans include automobiles, recreational vehicle, lines of credit, and other personal loans. Agricultural loans include real estate and operating lines.

There are no legal, financial, or other factors impeding AHNB's ability to help meet the credit needs in its AA. AHNB received a "Satisfactory" CRA rating at its prior CRA examination dated January 22, 2009.

## **DESCRIPTION OF ASSESSMENT AREA**

AHNB has two AA including the St. Cloud MSA AA and the Non-MSA AA.

### **St. Cloud MSA AA**

The St. Cloud MSA AA consists of Stearns and Benton Counties and includes two branches located in St. Cloud. Larger cities in the AA include St. Cloud, Sauk Centre, Sauk Rapids, and Sartell. The St. Cloud MSA AA includes six moderate-income census tracts (CT), twenty-nine middle-income CT, and three upper-income CT. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs. The following table shows demographic and economic information for the St. Cloud MSA AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE St. Cloud MSA AA</b>	
<b>Population</b>	
Number of Families	46,838
Number of Households	71,351
% of Low-Income Families	19.07
% of Moderate-Income Families	17.04
% of Middle-Income Families	26.14
% of Upper-Income Families	37.74
<b>Geographies</b>	
Number of Census Tracts	38
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	15.79
% Middle-Income Census Tracts	76.32
% Upper-Income Census Tracts	7.89
<b>Median Family Income (MFI)</b>	
2010 MFI for AA	\$64,993
2013 HUD-Adjusted MFI	\$65,800
<b>Economic Indicators</b>	
2013 Unemployment Rate	5.20%
2010 Median Housing Value	\$176,880
% of Households Below Poverty Level	13.07

*Source: 2010 U.S. Census data with updated information when available*

Economic conditions in the AA are satisfactory. According to the U.S. Bureau of Labor Statistics, the St. Cloud MSA unemployment rate was 5.2 percent in 2013, compared to 5.1 percent statewide. Stearns and Benton Counties are largely urban, with an identified need for business lending. Major employers in the AA include St. Cloud Hospital, the State of Minnesota, Electrolux Home Products, Coborn's, Inc., and the St. Cloud school district.

Competition among financial institutions within the AA is strong. Based upon the June 30, 2013, FDIC Deposit Market Share report, there are 33 deposit taking financial institutions in the AA. AHNB ranks eleventh in deposit market share, with \$96 million in deposits, which equates to 2.3 percent market share. AHNB's larger competitors in the AA include Wells Fargo, U.S. Bank, Stearns Bank, and Bremer Bank, collectively the deposit share for these institutions is 51 percent. AHNB also competes with a host of smaller institutions.

We reviewed a previously documented discussion with a community organization located in the AA to gain a better understanding of the local economy, area credit needs, and involvement of local financial institutions. The representative indicated that the St. Cloud economy is improving and the unemployment rate is declining. The

representative also stated that local financial institutions are adequately meeting the credit needs of the community.

### **Non-MSA AA**

The Non-MSA AA consists of all of Todd County and includes the Long Prairie office and Browerville branch. Larger cities in the AA include Long Prairie, Browerville, Eagle Bend, and Clarissa. The Non-MSA AA has one moderate-income CT and seven middle-income CT. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CT. The following table shows demographic and economic information for the bank's Non-MSA AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE Non-MSA AA</b>	
Population	
Number of Families	7,148
Number of Households	10,065
% of Low-Income Families	22.86
% of Moderate-Income Families	22.36
% of Middle-Income Families	23.25
% of Upper-Income Families	31.53
Geographies	
Number of Census Tracts	8
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	12.50
% Middle-Income Census Tracts	87.50
% Upper-Income Census Tracts	0.00
Median Family Income (MFI)	
2010 MFI for AA	\$58,135
2013 HUD-Adjusted MFI	\$61,700
Economic Indicators	
2013 Unemployment Rate	5.50%
2010 Median Housing Value	\$142,882
% of Households Below Poverty Level	14.18

*Source: 2010 U.S. Census data with updated information when available*

Economic conditions in the AA are satisfactory. According to the U.S. Bureau of Labor Statistics, Todd County had an unemployment rate of 5.5 percent for 2013, slightly higher than the statewide unemployment rate of 5.1 percent. Todd County has an agricultural base economy with a number of small manufacturing companies. Large employers include Hormel, Day Break Foods, 3M, Long Prairie Memorial Hospital, Todd County government, and the local school district.

Competition among financial institutions within the AA is moderate. Based upon the June 30, 2013, FDIC Deposit Market Share report, there are seven deposit taking financial institutions with offices in the AA. AHNB ranks first in deposit market share, with \$96 million in deposits, which equates to 33.1 percent market share. The bank's closest competitor is Minnesota National Bank, with 15.1 percent market share. AHNB's competition in Todd County is primarily comprised of smaller local institutions.

We contacted a community development organization in the AA to gain a better understanding of the local economy, area credit needs, and involvement of local financial institutions. The representative indicated that the Todd County job market is improving due to the areas large agricultural base and many small manufacturers in the area. The representative also stated that local financial institutions are adequately meeting the credit needs of the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's lending performance is satisfactory. The loan-to-deposit ratio is reasonable, and the majority of loans are originated within the bank's AA. Geographic distribution of loans reflects reasonable dispersion throughout the bank's geographies. Distribution of loans reflects excellent penetration among borrowers of different income levels and reasonable penetration among businesses of different sizes.

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

AHNB's LTD ratio is reasonable given the bank's size, financial condition, AA credit needs, and local economic conditions. AHNB's quarterly average LTD ratio is 82 percent for the 22 quarters since the previous CRA evaluation. The ratio ranged from a high of 92 percent in the second quarter 2014 to a low of 77 percent in the fourth quarter 2012.

AHNB's average LTD ratio ranks third among five similarly situated banks. Similarly situated banks are defined as banks located within AHNB's AAs or banks operating in Stearns, Benton, or Todd Counties with similar asset sizes. The following table depicts the average LTD ratios of similarly situated banks.

<b>Loan-to-deposit Ratio Institution (Headquarters)</b>	<b>Assets as of 6/30/14 (\$000s)</b>	<b>Average LTD Ratio (%)</b>
American National Bank of Minnesota (Baxter, MN)	245,384	86.60
Unity Bank (Rush City, MN)	184,302	82.67
<b>American Heritage National Bank (Long Prairie, MN)</b>	<b>223,586</b>	<b>82.25</b>
Star Bank (Maple Lake, MN)	215,915	80.72
Liberty Savings Bank, FSB (St. Cloud, MN)	185,044	70.20
Minnesota National Bank (Sauk Centre, MN)	213,212	64.04

*Source: Call Report data as of June 30, 2014*

### Lending in Assessment Area

AHNB originates a majority of loans inside its AA based on the number of loans originated. Based on the dollar volume of loans originated, the majority was outside of the bank's AA; however, this was due to one very large dollar commercial loan totaling \$3.4 million to a borrower outside of the bank's AA. Overall, AHNB originated 82 percent by number and 37 percent by dollar volume of loans within the AA. The table below shows the volume of loans originated inside and outside of the AA during the evaluation period.

<b>Lending in MSA and Non-MSA AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	20	100	0	0	20	530	100	0	0	530
Consumer	17	85	3	15	20	169	92	15	8	184
Commercial	12	60	8	40	20	2,594	32	5,616	68	8,210
<b>Totals</b>	<b>49</b>	<b>82</b>	<b>11</b>	<b>18</b>	<b>60</b>	<b>3,293</b>	<b>37</b>	<b>5,631</b>	<b>63</b>	<b>8,924</b>

*Source: Agricultural, consumer, and commercial loan samples from 2012-2013.*

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

Overall, AHNB's lending to borrowers of different incomes and to business of different sizes reflects reasonable penetration in the AA.

### St. Cloud MSA AA

#### Commercial Loans

The distribution of commercial loans reflects reasonable penetration among businesses of different sizes. AHNB's lending to businesses with gross revenues of \$1 million or less by both number and dollar amount is near the demographic of 76 percent of businesses in the AA with revenues of \$1 million or less. The demographic data used contains a high level of businesses of unknown size, as they chose not to report this information. Although the unknown 19 percent could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

<b>Borrower Distribution of Loans to Businesses in the St. Cloud MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	75.68	5.28	19.04	100
% of Bank Loans in AA by #	71.67	26.67	1.66	100
% of Bank Loans in AA by \$	80.50	19.42	0.08	100

*Source: Commercial loan sample from 2012-2013, Dunn & Bradstreet Data 2013*

### Non-MSA AA

#### Agricultural Loans

The distribution of agricultural loans reflects reasonable penetration among farms of different sizes. AHNB's lending to farms with gross revenues of \$1 million or less by number is near the AA demographic of 99.6 percent of farms with gross revenues of \$1 million or less. Our analysis also considered that for 10 percent of borrowers, income information was unavailable. Lending to small farms by dollar amount was far less than the comparable demographic, however, we attributed this to two very large dollar loans to farms with revenues over \$1 million. The following table shows the distribution of loans among farms of different sizes in the AA.

<b>Borrower Distribution of Loans to Farms in the Non-MSA AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.61	0.39	0.00	100
% of Bank Loans in AA by #	80.00	10.00	10.00	100
% of Bank Loans in AA by \$	63.42	30.17	6.41	100

*Source: Agriculture loan sample from 2012-2013, 2010 US Census Data*

**Consumer Loans**

The distribution of consumer loans reflects excellent penetration among borrowers of different income levels. AHNB’s lending to low- and moderate-income individuals exceeded the AA demographics of 26 percent and 17 percent of low- and moderate-income households, respectively. The following table shows the distribution of consumer loans among borrowers of various income levels in the AA.

<b>Borrower Distribution of Consumer Loans in Non-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	25.82	36.67	17.18	23.33	21.05	21.67	35.95	18.33

*Source: Consumer loan sample from 2012-2013, 2010 US Census Data*

**Geographic Distribution of Loans**

AHNB’s geographic distribution of loans in the AA reflects reasonable dispersion throughout census tracts of different income levels. There are no low-income census tracts in the AA. Therefore, our geographic distribution analysis focused on AHNB’s performance in the moderate-income census tracts.

**St. Cloud MSA AA**

**Commercial Loans**

The geographic distribution of commercial loans reflects excellent dispersion throughout census tracts of different income levels. AHNB’s commercial lending performance exceeded the AA demographic comparator of 18 percent of businesses located in the moderate-income census tracts. The following table shows the bank’s performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses in St. Cloud MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Farms	% of # of Loans
Commercial	0.00	0.00	18.15	25.00	73.02	60.00	8.83	15.00

*Source: Commercial loan sample from 2012-2013, 2010 US Census Data*

### **Non-MSA AA**

#### **Agricultural Loans**

The geographic distribution of agricultural loans reflects reasonable dispersion throughout the AA. Although, the bank had no agricultural lending activity in the moderate-income census tract, we noted that this census tract is located in the most northwest corner of the AA, approximately 20 miles from the Browerville branch, which does not originate loans. The area is also more competitive with four other financial institutions operating in Staples, MN, the largest town in the area. Further, the AA demographics show that only 5 percent of farms in the AA are located in the moderate-income census tract. The following table shows the bank's performance as compared to the percentage of farms in each census tract income level.

Geographic Distribution of Loans to Farms in Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Farms	% of # of Loans
Agricultural	0.00	0.00	5.21	0.00	94.79	100.00	0.00	0.00

*Source: Agriculture loan sample from 2012-2013, 2010 US Census Data*

#### **Consumer Loans**

The geographic distribution of consumer loans reflects poor dispersion throughout census tracts of different income levels. The bank's AA only has one moderate-income census tract and it is located in the most northwest corner of the AA, approximately 20 miles from the Browerville branch, which does not originate loans. The area is also more competitive as stated previously, with four banks operating in Staples, MN. While lending barriers were considered, the bank's performance was well below the AA demographic comparator of 14 percent of area households located in the moderate-income census tract. The following table shows the bank's performance as compared to the percentage of consumers in each census tract income level.

Geographic Distribution of Consumer Loans in Non-MSA 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	14.07	0.00	85.93	100.00	0.00	0.00

*Source: Consumer loan sample from 2012-2013, 2010 US Census Data*

### Responses to Complaints

AHNB received no CRA related complaints during the evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R.25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA 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.