



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 25, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Olmsted National Bank
Charter Number 22997

975 34th Avenue NW
Rochester, MN 55901

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street, Suite 800
Minneapolis, MN 55402-3393

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 average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans within its assessment area.
- The bank has reasonable distribution of credit among businesses of different sizes.

SCOPE OF EXAMINATION

We assessed Olmsted National Bank's record of meeting the credit needs of the community, including low- and moderate-income neighborhoods, consistent with the provisions set forth in the Community Reinvestment Act (CRA). We reviewed commercial loans, the bank's primary loan product, for the period of January 1, 2010, through December 31, 2011. During this two-year period, commercial loans comprised 47 percent of loans originated by number and 58 percent by dollar amount.

DESCRIPTION OF INSTITUTION

Olmsted National Bank (ONB) is a \$56 million financial institution located in Rochester, MN. As of December 31, 2012, Tier 1 Capital totaled \$4.3 million. ONB is a full service bank owned by Olmsted Holding Company, a single bank holding company. ONB has two locations in Rochester with the main branch located off Highway 14. Both offices are located in middle-income census tracts. No branches were opened or closed during this CRA evaluation period.

ONB offers a variety of loan and deposit products to meet the banking needs of the community. The bank offers telephone and internet banking services to its customers. These services provide 24-hour access to account information. Both locations offer drive-up deposit facilities.

ONB is a community bank with a focus in commercial lending. The bank offers various commercial loans including equipment financing, construction loans, and SBA guaranteed loans. As of December 31, 2012, ONB's \$36 million loan portfolio consisted of 63 percent commercial loans, 25 percent residential real estate loans, 7 percent consumer loans, and 5 percent agricultural loans. The loan portfolio represents 64 percent of total assets.

There are no legal, financial, or other factors that impede ONB's ability to help meet the credit needs of its assessment area (AA). ONB received a Satisfactory rating at the last CRA examination dated October 9, 2007.

DESCRIPTION OF ASSESSMENT AREA

ONB's AA consists of Olmsted County, which is part of the Rochester Metropolitan Statistical Area. The bank's AA does not arbitrarily exclude any low- or moderate-income CTs. Based on the 2000 Census data, Olmsted County consists of 34 census tracts (CT) that include 10 upper-income CTs, 18 middle-income CTs, five moderate-income CTs, zero low income CTs, and one CT that does not have a designated income level due to the location of the federal prison and juvenile facility.

Per the 2000 U.S. Census Data the population for the AA was 124,277. The 2011 HUD Estimated Median Family Income was \$80,200. Within the AA, 21 percent of households were low-income, 18 percent were moderate-income, 22 percent were middle income, and 40 percent were upper income. Per the 2000 Census data, 6.2 percent of households live below the poverty level. The median housing value in the AA was \$120,378.

According to the Bureau of Labor and Statistics, the 2011 unemployment rate (not-seasonally adjusted) for Olmsted County was 5.3 percent, which compares favorably to 6.5 percent for the state of Minnesota and the national rate of 8.9 percent. The unemployment rate for Olmsted County has consistently been below the state average and has been trending down since 2009. The largest employers in the area include the Mayo Clinic and IBM Corporation.

Competition from other financial institutions in the AA is strong. According to the Federal Deposit Insurance Corporation, there are 16 financial institutions operating in Olmsted County as of June 30, 2012. ONB ranked 10th in deposit market share with 1.36 percent of deposits in the AA. Think Mutual Bank, Wells Fargo Bank N.A., and U.S. Bank N.A. collectively control 67 percent of the deposit market.

A community contact was utilized in conjunction with this evaluation to learn more about the condition of the local economy and perceptions of the community's credit needs. It was the community contact's opinion that the local financial institutions are meeting the needs of the community and that the local economy is improving.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition and local credit needs. From September 30, 2007 to December 31, 2012, ONB's quarterly LTD ratio ranged from 69.4 percent to 120.6 percent and averaged 92.1 percent. ONB's LTD ratio has decreased since last exam when it averaged 112.2 percent during the previous CRA supervisory cycle.

ONB's LTD ratio is comparable to the average LTD ratio for similarly situated financial institutions. Similarly situated financial institutions include other banks with a presence

in Olmsted County and have total assets that range from \$30 million to \$145 million. The average LTD ratio for these similarly situated banks ranged from 82.3 percent to 118.6 percent with an average of 91.0 percent.

| Institutions | Assets (as of 12/31/12) | Average Loan-to-Deposit Ratio 3Q07-4Q12 |
|--|------------------------------------|--|
| Minnesota First Credit and Savings, Inc. | \$30 million | 118.6% |
| Olmsted National Bank | \$56 million | 92.1% |
| First Security Bank | \$51 million | 86.6% |
| F&M Community Bank, National Association | \$99 million | 83.8% |
| First Farmers & Merchants Bank of Grand Meadow | \$45 million | 82.4% |
| Premier Bank | \$145 million | 82.3% |

Source: Call Report Data

Lending in Assessment Area

ONB originates a majority of its loans to borrowers located within its defined AA. Based on a random sample of 20 commercial loans originated between January 1, 2010 and December 31, 2011, ONB originated 80 percent of loans by number and 80 percent of loans by dollar amount inside of their defined AA. The following table reflects loans originated inside and outside the AA by number and dollar volume:

| Lending in Olmsted County AA | | | | | | | | | | |
|-------------------------------------|-----------------|-----|---------|-----|-------|------------------|-----|---------|-----|-----------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Commercial | 16 | 80% | 4 | 20% | 20 | 2,168,364 | 80% | 534,919 | 20% | 2,703,283 |
| Totals | 16 | 80% | 4 | 20% | 20 | 2,168,364 | 80% | 534,919 | 20% | 2,703,283 |

Source: Loan Sample

Lending to Businesses of Different Sizes

ONB's distribution of credit among businesses of different sizes is reasonable compared to area demographics. The bank's lending to businesses with revenues less than or equal to \$1 million by number was near the demographic comparator of AA businesses with revenues less than or equal to \$1 million. In addition, 26 percent of area businesses revenue information is unknown. A random sample of 60 commercial loans indicates the following breakdown of annual revenues compared to area demographics:

| Borrower Distribution of Loans to Businesses in Olmsted County Assessment Area | | | | |
|---|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 71% | 3% | 26% | 100% |
| % of Bank Loans in AA by # | 60% | 40% | 0% | 100% |
| % of Bank Loans in AA by \$ | 40% | 60% | 0% | 100% |

Source: Loan Sample, 2011 Business Geodemographic Data

Geographic Distribution of Loans

ONB’s geographic distribution of loans reflects poor dispersion in the AA. Based on a sample of 60 commercial loans originated between January 1, 2010 and December 31, 2011, ONB’s lending to businesses located in moderate-income CTs was less than the comparable demographics. This is attributed to the fact that the moderate-income CTs are located in the downtown area where ONB does not have a presence as well as strong competition from other financial institutions in the area. The following table reflects the demographics of the area compared to the bank’s actual lending performance, based on a random sample of 60 commercial loans:

| Geographic Distribution of Loans to Businesses in Olmsted County Assessment Area | | | | | | | | |
|---|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Commercial | 0% | 0% | 15% | 7% | 56% | 63% | 29% | 30% |

Source: Loan sample, 2011 Business Geodemographic Data

Responses to Complaints

No CRA related complaints have been reported since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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