

PUBLIC DISCLOSURE

March 11, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Stearns Bank Holdingford National Association
Charter Number 23457**

**580 Main Street
Holdingford, Minnesota 56340**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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 **Stearns Bank Holdingford National Association, Holdingford, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 11, 1999**. 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**.

- C The bank's level of lending is adequate. The average loan-to-deposit ratio of 59% is reasonable compared to other banks of similar size.
- C The bank makes a majority of its loans to customers in the assessment area. Specifically, nearly all residential loans are made to residents of the assessment area.
- C The bank has a good record of lending to low- and moderate-income applicants.

DESCRIPTION OF INSTITUTION

Stearns Bank Holdingford National Association (Stearns Bank) is a \$58 million bank located in central Minnesota. The bank has one automated teller machine located in Holdingford. The bank has no branches.

The bank is located in a rural area but is strongly influenced by its relationship with its parent multi-bank holding company, Stearns Financial Services, Inc. (Stearns Financial), of St. Cloud, Minnesota. Stearns Financial is a \$675 million company that owns five other banks. Those affiliated banks are located in St. Cloud, Evansville, Upsala and Canby, Minnesota, and Scottsdale, Arizona.

In addition to offering full loan and deposit services to the local area, the bank engages in transactional lending and funding activity coordinated through Stearns Financial's lead bank in St. Cloud, Minnesota. Roughly 75% of the bank's loan and lease portfolio is represented by purchases of commercial and commercial real estate loans and commercial leases originated by the lead bank. About one-half of those loans involve borrowers within this bank's assessment area. The bank funds this activity by acquiring brokered deposits and other nonlocal deposits through a national marketing effort. About two-thirds of Stearns Bank's deposits are from out-of-area depositors.

The bank's primary lending focus in its direct lending is residential, agriculture, and consumer lending. Table 1 shows the composition of the loan portfolio:

Table 1

LOANS OUTSTANDING AS OF DECEMBER 31, 1998				
LOAN TYPE	ALL LOANS		NET OF PARTICIPATIONS AND LEASES PURCHASED	
	DOLLAR AMOUNT	PERCENT	DOLLAR AMOUNT	PERCENT
Commercial - Including RE	\$18,491,000	59	\$1,253,000	16
Residential Real Estate	\$2,590,000	8	\$2,590,000	34
Agricultural	\$1,984,000	7	\$1,984,000	26
Consumer	\$1,854,000	6	\$1,853,000	24
Leases	\$6,330,000	20	-	-
Total Loans and Leases	\$31,249,000	100	\$7,680,000	100

There are no legal or financial factors impeding the bank's ability to help meet the credit

needs of the communities it serves. The bank's last CRA performance rating was "Satisfactory" and was issued by the Federal Deposit Insurance Corporation on May 1, 1997.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) consists of 19 census tracts in the St. Cloud, Minnesota Metropolitan Statistical Area (number 6980), and 4 block numbering areas (BNAs) in Morrison County. These areas are contiguous and the bank is located in the central portion of the AA. The AA includes one low-income census tract; one moderate-income BNA; and eighteen middle- and three upper-income BNA's and census tracts. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The population of the AA based on the 1990 census is 90,933. A large portion of the population is centered in St. Cloud, which is about 20 miles southeast of the bank. The adjusted 1998 Department of Housing and Urban Development estimated median family income for the St. Cloud MSA is \$45,300, and for nonmetro areas is \$40,500. The median family income profile of the AA is: 17% low-income; 18% moderate-income; 25% middle-income, and 40% upper-income.

Competition from financial institutions in the AA is strong. There are over 30 banks and other financial institutions competing for loans in or near the AA. The bank's primary competition for loans and deposits comes from 6 similarly sized banks located in the AA.

The economy within the AA is stable. Much of the rural areas of the AA have transitioned from agricultural to residential, with residents driving to St. Cloud for employment. The agricultural sector is currently experiencing some stress because of low prices. Most family farmers in the AA supplement their income by off-farm employment. The St. Cloud area economy is strong, with growth in the employment, housing, retail and industrial sectors.

To determine the credit needs of the community, we reviewed community affairs with bank management and 2 community contacts and reviewed community contacts made by this and other regulatory agencies within the past two years. We also reviewed an **Overall Housing Study for the Non-Metro Regions of Stearns County** prepared for the Housing and Redevelopment Authority of Stearns County. Most of the contacts were with city and county government agency personnel who are involved in economic development, housing, and small business issues. The community contacts identified that two of the major needs are more single-family housing and more small businesses in the rural communities. The contacts indicated that financing is available and the

problems are more related to a lack of entrepreneurs.

Scope of Evaluation:

Our analysis concentrated on the bank's lending activities involving commercial and residential lending. We did this because a majority of the bank's total loans involve commercial and commercial real estate loans, and residential lending comprises the largest segment of this bank's direct lending, as shown in Table 1. These samples also coincide with the community contacts' statements concerning housing and business needs of the community. We reviewed files on 78 commercial and commercial real estate loans totaling \$20,140M originated in 1997 and 1998. This sample represented 90% of the number and dollar amount of those loans originated during that period. We reviewed 21 residential loans totaling \$959M, which represented 44% of the number and 41% of the dollar amount of those loans originated in 1997 and 1998.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan volume reflects an adequate level of lending. Stearns Bank's loan-to-deposit (LTD) ratio is acceptable. The quarterly LTD ratio has averaged 59% since the last CRA examination. This is based on the average of quarter-end ratios for the seven quarters since the bank's prior CRA examination. The ratio has remained stable over that time period. The ratio is lower than the average of the seven banks of similar size within the assessment area but not significantly lower. The other six banks in the assessment area have average loan-to-deposit ratios ranging from 56% to 71%, with an average of 64%. Stearns Bank's ratio is lower than similarly situated banks because of the funding practices utilized by Stearns Financial. Two-thirds (66.09%) of Stearns Bank deposits represent funds of out-of-area depositors.

Secondary market originations:

In addition, Stearns Bank facilitates the availability of residential real estate mortgages by assisting customers in obtaining secondary market mortgages. Stearns Bank lenders assisted 50 such applicants to obtain \$3.6 million in residential mortgage loans in 1998. Much of the application and loan documentation on those loans is performed by Stearns Bank lenders and closed by the affiliated lead bank. If those loans were added to Stearns Bank's total loans, the loan-to-deposit ratio would be 66%.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the Assessment Area

Stearns Bank’s record of lending to applicants of all incomes is good and the record of lending to businesses of different sizes is reasonable. The bank routinely grants residential loans to low- and moderate-income applicants.

Residential Real Estate Loans:

Table 2 illustrates that Stearns Bank grants considerably more residential real estate loans to moderate-income applicants than the demographic make-up of the AA. Combining the low- and moderate-income categories, over 50% of the number and dollar volume of sampled loans were to those applicants. Demographics show that about 35% of the AA families are low- and moderate-income.

Table 2

Income Level	% Families in the AA (1990 census data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family Income	17%	9%	11%
Moderate-Income at least 50% < 80% Median Family Income	18%	45%	39%
Middle-Income at least 80% < 120% Median Family Income	25%	41%	46%
Upper-Income 120% and > Median Family Income	40%	5%	4%

In addition, information reported for the Home Mortgage Disclosure Act for home loans indicates that 67% of the number of loans originated by Stearns Bank in 1997 were to low- or moderate-income applicants.

Commercial and Commercial Real Estate Loans:

Businesses in this bank’s AA are predominantly small. Based on 1990 census data, 76% have revenues of less than \$1 million. Table 3 shows that Stearns Bank has an acceptable record of lending to small businesses. Based on the number of loans to small businesses, the bank’s lending is reasonably close to the demographics of the AA. The dollar amount of loans granted to businesses is skewed by the large participation loans involving commercial real estate.

Table 3

	Demographic Information: Percentage of Businesses	Number of Loans	Percent Based on Number of Loans	Dollars of Loans	Percent Based on Dollars of Loans
Revenues of \$1 Million or Less	76%	52	67%	\$7,770,000	39%
Revenues of Greater than \$1 Million	10%	25	32%	\$12,296,000	61%
Revenues Unknown or Unavailable	14%	1	1%	\$75,000	-
Total	100%	78	100%	\$20,141,000	100%

Lending in the Assessment Area

The bank is extending a majority of loans to businesses and residents located within the assessment area. Table 4 shows that a large proportion of commercial and commercial real estate loans and nearly all of the residential real estate loans are extended within the AA. In addition, of the 50 residential real estate loans referred to the affiliated lead bank for closing, 49 of those were to residents of the AA.

Table 4

Sample: Loans Originated and Purchased	Dollar Volume	Number of Loans
Commercial and Commercial Real Estate	\$12,204,000	57
Percentage In AA	61%	73%
Residential Real Estate	\$959,000	22
Percentage In AA	97%	95%

The results of our sample confirm the aggregate results maintained by the bank. Table 5 reflects all loans originated during 1997 and 1998. We placed more emphasis on the number of loans granted, since many of the business loans are very large and skew the results.

Table 5

Bank Aggregated Distribution	Dollar Volume of Loans Originated	Number of Loans Originated
All loan types - Totals	\$29,695,000	598
Dollar and Number in AA	\$19,638,000	487
Percentage In AA	66%	81%

Geographic Distribution of Loans

The geographic distribution of Stearns Bank loans within the AA is reasonable. The bank’s AA has one low-income census tract, one moderate-income BNA, and three upper-income census tracts. The remaining geographies are middle-income. Based on the bank’s aggregate loan origination data for 1997 and 1998, lending is reasonably disbursed throughout the area. There are three geographies where the bank did not lend. Those were three census tracts in or near the city of St. Cloud, including two middle-income tracts and one upper-income tract.

The low-income tract is located in a commercial area in the eastern portion of the city of St. Cloud, and the moderate-income BNA is located near the city of Little Falls, about 35 miles north of the bank. Stearns Bank originated one large commercial loan in the St. Cloud low-income tract and two consumer loans in the Little Falls BNA. These geographies are sparsely populated; the low-income tract only has 20 families. This extent of lending is reasonable since there are numerous lending institutions in or near those areas and the bank receives very few applications from those areas.

Record of Response to Complaints

The bank did not receive any complaints on Community Reinvestment since the last examination.

Record of Compliance with Anti-discriminatory laws

Based on our review, the bank is complying with anti-discriminatory laws. We found no substantive violations of the fair lending laws.

Other Investments

During 1997 and 1998, Stearns Bank made an equity investment in a housing project located in the city of Holdingford. This bank is a 12.4% partner in a limited liability company that constructed a 12-unit town home project for low- and moderate-income families. The bank's current investment is \$91M. The other partners are affiliated banks. The project was built using federal low-income housing tax credits. The units are predominantly occupied by families with incomes less than 60% of the area median family income.