



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 15, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

HomeTown Bank
Charter Number 706278

1000 East Cook Street
Redwood Falls, MN 56283-0000

Office of the Comptroller of the Currency

ADC-MINNEAPOLIS (8324) Field Office
Campbell Mithun Tower 222 South Ninth Street
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 loan-to-deposit ratio is reasonable.
- A substantial majority of loan originations are made in the assessment areas (AA).
- Overall distribution of loans reflects reasonable penetration among borrowers of different income levels.

SCOPE OF EXAMINATION

We evaluated HomeTown Bank's Community Reinvestment Act (CRA) performance for the period of March 31, 2006 through December 31, 2011 to determine how the bank is meeting the credit needs of the community. Our scope focused on the institution's primary product of residential real estate loans, which are 35 percent of total loans. Non-residential mortgages also represent 35 percent of total loans; however, we selected residential real estate loans due to the high volume of mortgages sold on the secondary market. To gather loan data, we selected at least 20 residential mortgages from each of the three AAs from the period of January 1, 2009 through December 31, 2011.

We used the Thrift Financial Report data to determine the bank's quarterly loan-to-deposit ratio and loan volume information. To find similarly situated financial institutions to compare the loan-to-deposit ratios, we used the FDIC Deposit Market Share Report as of June 30, 2011. The most recent financial information is as of December 31, 2011.

The non-Metropolitan Statistical Area (MSA) AA carried the most weight in assigning the overall CRA rating of the institution. The non-MSA AA contains five of the seven branches and has the majority of lending and deposit activity. We gave the second most weight to the Nicollet County AA, as it had the second highest level of lending activity in the loan sample.

DESCRIPTION OF INSTITUTION

HomeTown Bank of Redwood Falls is a \$199 million bank, wholly owned by Redwood Financial Inc. Since the last CRA exam, the institution has purchased five additional branches, giving it a total of seven branches. The Jordan branch was purchased in 2009 and the Cleveland, St. Peter, Henderson, and Le Sueur branches were purchased in 2007. The institution has no deposit capturing ATMs.

HomeTown Bank is a full-service bank that offers a variety of products designed to meet the financial needs of the community. As of December 30, 2011, net loans and leases were 65 percent of total assets. Due to the current low interest rates, the institution has

had an increased volume of refinance home loans. There are no known legal or financial impediments that would hinder the institution's ability to serve the credit needs of its communities. HomeTown's last CRA rating, dated July 26, 2006, was "Satisfactory".

DESCRIPTION OF ASSESSMENT AREAS

The institution has three assessment areas: (1) the non-MSA AA counties of Redwood, Renville, Sibley, and Le Sueur (2) Nicollet County in the Mankato-North Mankato MSA, and (3) three contiguous census tracts in Scott County which is part of the Minneapolis-St. Paul-Bloomington, MN-WI MSA.

Non-MSA AA

The non-MSA AA consists of four contiguous counties; Redwood, Renville, Sibley, and Le Sueur. There are 19 middle income census tracts and three upper income tracts in the AA. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate- income geographies.

As of December 2011, unemployment levels in Redwood County were slightly lower than statewide average of 5.7 percent and levels in Le Sueur, Renville, and Sibley were slightly higher. There are a total of 20,257 families in the AA with 15 percent low income, 18 percent moderate income, 26 percent middle income, and 41 percent upper income. Based on the 2000 Census data for the entire non-MSA AA, the weighted average of median family income is \$49,193. The 2000 U.S. Census data identified 8 percent of households below the poverty level.

Of the banks in the non-MSA AA, HomeTown has 7.30 percent of the deposit market share according to the June 30, 2011 FDIC Deposits Market Share Report. Farming and agriculture related business represent a large sector of the economy with 19 percent of jobs coming from the agriculture sector for the AA. Improved commodity prices have been a boost to the agriculture sector. The largest sector of the AA is the services sector which provides 37 percent of the jobs. The community contact indicated that local financial institutions are active in the community.

Nicollet County AA (part of Mankato-North Mankato MSA)

The Nicollet County AA consists of six middle income census tracts. The institution added this AA when they purchased the St. Peter branch in 2007. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate- income geographies. Nicollet County's unemployment rate of 4.4 percent as of December 2011 is below the state average of 5.7 percent. The weighted average of median income is \$55,983. Families below poverty are 7.6 percent of the population. Owner occupied housing represents 72 percent of the housing stock and rental occupied units total 23 percent.

Scott County AA (part of Minneapolis-St. Paul-Bloomington, MN-WI MSA)

The Scott County AA consists of three contiguous census tracts that make up the west area of Scott County, which is part of the Minneapolis-St. Paul-Bloomington, MN-WI MSA. The AA was added in 2009 with the purchase of the Jordan branch. All three tracts are middle income. Based on the 2000 Census data, the weighted average median family income is \$59,656 for the AA. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. Scott County's unemployment rate of 5.4 percent as of December 2011 is slightly lower than the state average. The service industry represents the largest sector of the AA economy with 41 percent of jobs followed by agriculture and construction both at 10 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The Loan-to-Deposit Ratio (LTD) is reasonable given the institution's size, financial condition, and AAs credit needs. Compared to similarly situated lenders in the AAs, the LTD is favorable. The LTD averaged 85.95 percent in the 23 quarters since the last CRA exam. The ratio ranged from 77.27 percent to 98.47 percent over the period. We determined similarly situated banks based on total deposits in the AAs, branches, and total assets as of June 30, 2011.

Bank Loan-to-Deposit Ratios		
Institution	Assets (as of 12/31/11)	Average Loan-to-Deposit Ratio; 2Q06-4Q11
First National Bank Minnesota – St. Peter	\$190 million	74.09%
First Security Bank – Sleepy Eye	\$184 million	76.74%
Prior Lake State Bank	\$191 million	78.45%
Cornerstone State Bank - Montgomery	\$117 million	86.50%
HomeTown Bank	\$199 million	85.95%

Source: FDIC Deposit Market Share Report

Lending in Assessment Area

Our review of loans originated between January 1, 2009 and December 31, 2011 found that the substantial majority of lending is in the bank's AAs. We found that 85.5 percent of loans by number and 88.4 percent by dollar volume were originated within the bank's AAs. The following tables illustrate the institution's performance.

Lending in HomeTown Bank's Three Assessment Areas										
Loan Type	Number of Loans				Dollars of Loans				Total \$(000s)	
	Inside		Outside		Total	Inside		Outside		
	#	%	#	%		\$(000s)	%	\$(000s)		
Residential Loans	47	85.5%	8	14.5%	55	\$5,450	88.4%	\$715	11.6%	\$6,615

Source: Loan sample from HMDA review.

Lending to Borrowers of Different Incomes

The overall distribution of borrowers reflects reasonable penetration among individuals of different income levels in the bank's three AAs. For each AA we compared the bank's lending to demographic data as well as to aggregate HMDA lending data.

Performance in the Non-MSA AA

The distribution of borrowers reflects reasonable penetration among individuals of different income levels (including low- and moderate- income), given the demographics of the AA. Lending to low income borrowers is below the demographic comparator, however, given that the area poverty rate is at 8 percent, this is considered reasonable. Our analysis is based on the loan sample and available census data.

Borrower Distribution of Residential Real Estate Loans in the Non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	14.7%	7.3%	17.6%	22.0%	26.5%	14.6%	41.2%	56.1%

Source: Loan sample and 2000 US census data

Compared to HMDA reportable banks in the AA, lending to low- and moderate- income borrowers reflects excellent penetration. The following table is based on our loan sample and available HMDA data.

Borrower Distribution of Residential Real Estate Loans in non-MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans
Residential Real Estate Loans	7.6%	7.3%	19.5%	22.0%	23.8%	14.6%	38.5%	56.1%

Note: 10.6% of HMDA reportable loans did not contain income information.

Source: Loan sample and 2010 HMDA peer data

Performance in the Nicollet County AA (Mankato-North Mankato MSA)

The distribution of borrowers reflects excellent penetration among individuals of different income levels (including low- and moderate-income), given the demographics of the Nicollet County AA. Lending to low- and moderate-income individuals exceeds the demographics of the AA.

Borrower Distribution of Residential Real Estate Loans in the Nicollet County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	11.1%	15.0%	13.9%	15.0%	23.9%	35.0%	51.1%	35.0%

Source: *loan sample and 2000 US census data*

The distribution of borrowers reflects reasonable penetration among individuals of different income levels when compared to the aggregate HMDA lenders. Lending to low-income borrowers exceeds the HMDA aggregate while lending to moderate-income families is below the HMDA aggregate. Combined lending to low- and moderate-income individuals is on par with HMDA reportable banks in the AA.

Borrower Distribution of Residential Real Estate Loans in the Nicollet County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans
Residential Real Estate Loans	8.2%	15.0%	24.0%	15.0%	24.9%	35.0%	33.3%	35.0%

Note: 9.6% of HMDA report loans did not contain income information.

Source: *Loan sample and 2010 HMDA peer data*

Performance in the Scott County AA (Minneapolis/St. Paul/Bloomington MSA)

The distribution of borrowers reflects, given the demographics of the Scott County AA, reasonable penetration among individuals of different income levels (including low- and moderate- income). Lending to low-income borrowers exceeds the demographic comparator while lending to moderate income families falls below the comparator.

Borrower Distribution of Residential Real Estate Loans in the Scott County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	17.6%	30.0%	23.0%	15.0%	32.5%	50.0%	26.9%	5.0%

Source: *loan sample and 2000 US census data*

The distribution of borrowers also reflects reasonable penetration among individuals of

different income levels when compared to aggregate HMDA reportable banks in the AA. Lending to low-income families far exceeds the HMDA aggregate while lending to moderate-income families falls below the HMDA aggregate.

Borrower Distribution of Residential Real Estate Loans in the Scott County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans	% of HMDA reporting Banks	% of Number of Loans
Residential Real Estate Loans	12.2%	30.0%	24.3%	15.0%	24.7%	50.0%	25.2%	5.0%

Note: 13.6% of HMDA report loans did not contain income information.

Source: loan sample and HMDA mortgage data

Geographic Distribution of Loans

We did not complete an analysis of the geographic distribution of lending as all the census tracts in the bank's AAs are middle- or upper-income tracts. Loan data shows that HomeTown is servicing their AAs.

Responses to Complaints

The bank has not had any CRA related complaints since the last evaluation.

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.