



PUBLIC DISCLOSURE

November 30, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Stearns Bank Holdingford National Association
Charter Number 23457

580 Main Street
Holdingford, MN 56340

Office of the Comptroller of the Currency

222 South Ninth Street,
Suite 800
Minneapolis, MN 55402-3371

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 Outstanding

Factors contributing to this rating include the following:

- The bank's average loan-to-deposit ratio is reasonable.
- A majority of loans are made in the bank's assessment area.
- The distribution of loans reflects excellent penetration to borrowers of different income levels.

SCOPE OF EXAMINATION

We assessed Stearns Bank Holdingford's (Stearns) record of meeting the credit needs of its community, consistent with the provisions set forth in the Community Reinvestment Act (CRA). We evaluated the bank's CRA performance from June 18, 2010 to November 30, 2015. For the lending test, we analyzed the bank's primary loan products, which were determined based on loan originations and purchases from January 1, 2013 through September 30, 2015 (analysis period). The table below depicts the volume of loans originated and purchased during this time period:

Loan Originations and Purchases January 1, 2013 through September 30, 2015		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	69.00%	50.00%
Agricultural	22.00%	40.00%
Commercial	9.00%	10.00%
Residential Real Estate	0.00%	0.00%

Source: Bank loan origination report for 2013-9/30/2015

For purposes of this evaluation, the bank's primary loan product was determined to be consumer loans. This product represents 69 percent by number of loans, and 50 percent by dollar volume, of loans originated and purchased during the analysis period. We selected a random sample of consumer loans to conduct our analysis.

DESCRIPTION OF INSTITUTION

Stearns is an \$89 million bank chartered in Holdingford, Minnesota (MN), a small, rural community located north of St. Cloud, MN. Stearns has one office location, with one non-deposit taking Automated Teller Machine located within this office. The bank is 100 percent owned by Stearns Financial Services, a three-bank holding company located in St. Cloud, MN. Affiliate banks are located in St. Cloud, MN and Upsala, MN. This evaluation does not include consideration of these affiliate activities in evaluating Stearns' CRA performance.

Stearns offers a variety of traditional deposit and loan banking products. As of September 30, 2015, the bank had gross loans and leases totaling \$68.2 million, or 77 percent of total assets. Loans were comprised primarily of commercial and real estate loans. At September 30, 2015, the bank’s investment portfolio totaled approximately \$20 million or 22 percent of total assets. Tier 1 leverage capital totaled 14.78 percent as of this date.

There are no financial, legal, or other factors that impede Stearns’ ability to meet its CRA obligations. The bank’s last CRA rating, dated June 8, 2010, was “Satisfactory.”

DESCRIPTION OF ASSESSMENT AREA(S)

Stearns’ assessment area (AA) consists of four contiguous census tracts (CT) located in Stearns County, which is part of the St. Cloud Metropolitan Statistical Area (MSA). Based on 2010 census information, all four of the CTs are designated as middle income. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. The table below details the demographic and economic characteristics of the Stearns AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF STEARNS HOLDINGFORD AA	
Population	
Number of Families	4,708
Number of Households	6,039
% of Low-Income Families	15.43%
% of Moderate-Income Families	16.92%
% of Middle-Income Families	26.78%
% of Upper-Income Families	40.87%
Geographies	
Number of Census Tracts	4
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
Median Family Income (MFI)	
2014 MFI for AA	\$68,623
2014 HUD-Adjusted MFI	\$69,600
Economic Indicators	
2014 Unemployment Rate (Stearns County)	4.01%
2014 Median Housing Value	\$159,569
% of Households Below Poverty Level	7.87%

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

According to the Bureau of Labor Statistics, in 2014 the average unemployment rate in Stearns County was 4.01 percent, which is slightly below the state of Minnesota average over the same period of 4.10 percent.

The economy of Holdingford is driven by local small businesses, and is integrated within the larger St. Cloud, MN area economy, which encompasses several large businesses and a state university. Major employers in the St. Cloud MSA include the St. Cloud Hospital System, Coborn’s Grocery Stores, and the State of Minnesota.

Bank competition within the AA is strong, with the bank holding only 1.84 percent of deposits in Stearns County, placing it 18th out of all financial institutions.

We contacted a member of the community to gain an understanding of the local community including area credit needs and involvement of local financial institutions. The community contact indicated the local financial institutions are active in the community, and are meeting the credit needs of the AA. Local financial institutions continually maintain a positive presence in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio (LTD) is reasonable given the bank’s size and financial condition, as well as AA credit needs, and local economic conditions. Over the past 22 quarters, since the last CRA examination, the LTD ratio has ranged from a high of 97.95 percent as of the second quarter of 2015, to a low of 47.77 percent as of the third quarter of 2010. The table below compares Stearns’ LTD ratio with four other similarly situated financial institutions in the area. Similarly situated institutions are banks within Stearns’ AA with total assets ranging from \$65 million to \$125 million. Stearns rates second in average LTD when compared to these similarly situated AA banks.

LOAN-TO-DEPOSIT RATIO		
Institution (Headquarters)	Assets as of 9/30/2015 (\$000s)	Average LTD Ratio (%)
Granite Community Bank (Cold Spring, MN)	\$105,298	89.80%
Stearns Bank NA (Holdingford, MN)	\$ 89,579	75.31%
State Bank of Richmond (Richmond, MN)	\$ 85,977	53.59 %
Avon State Bank (Avon, MN)	\$104,787	52.61%
First State Bank of Sauk Centre (Sauk Centre, MN)	\$ 90,391	52.45%

Source: Call Report data as of September 30, 2015.

Lending in Assessment Area

A majority of Stearns’ loans were originated inside the AA. Stearns originated 85 percent of its loans by number, and 69 percent of its loans by dollar volume within the AA. The following table illustrates lending activity during the analysis period.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	17	85.00%	3	15.00%	20	\$267	69.00%	\$120	31.00%	\$388
Totals	17	85.00%	3	15.00%	20	\$267	69.00%	\$120	31.00%	\$388

Source: Consumer loan sample

Lending to Borrowers of Different Incomes

Stearns’ lending to borrowers of different income levels demonstrates excellent penetration. In lending to both low- and moderate-income borrowers, the bank’s performance was significantly above the demographic comparator. The following table shows the percentage of households by income level as compared to borrowers in our loan sample.

Borrower Distribution of Consumer Loans in AA								
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	15.75%	50.00%	13.15%	25.00%	21.23%	10.00%	49.88%	15.00%

Source: Loan Sample; 2010 US Census Data

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as none of the CTs within the AA are defined as low- or moderate-income CTs.

Responses to Complaints

The bank did not receive any 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 of 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.