



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 01, 2010**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Stearns Bank Upsala National Association  
Charter Number 23458

Main Street  
Upsala, MN 56384

Office of the Comptroller of the Currency

Minneapolis Field Office  
Campbell Mithun Tower 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 Satisfactory.**

Stearns Bank Upsala, National Association's lending performance reflects a satisfactory response to community credit needs. Factors contributing to this rating include the following:

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

**SCOPE OF EXAMINATION**

We evaluated Stearns Bank Upsala, National Association's (Stearns Bank Upsala) Community Reinvestment Act (CRA) performance. We reviewed lending data for commercial and consumer loans, the bank's primary products. Based on originations from January 1, 2008 through December 31, 2009, commercial loans totaled 24.30% of loan originations by number and 75.23% by dollar volume. Consumer loans totaled 54.21% of loan originations by number and 7.42% by dollar volume. We selected a random sample of 20 loans from each of these product types in order to conduct our analysis.

**DESCRIPTION OF INSTITUTION**

Stearns Bank Upsala is a \$64.8 million bank chartered in Upsala, MN. Stearns Bank Upsala has no branch locations and one non-deposit taking Automatic Teller Machine (ATM) located at Lange Oil, Inc.. The bank is wholly owned by Stearns Financial Services Inc. Employee Stock Ownership Plan, a three-bank holding company. The holding company is headquartered in St. Cloud, MN and as of March 31, 2010 had total assets of \$1.4 billion. Affiliate banks are located in St. Cloud and Holdingford, MN.

Stearns Bank Upsala is a full-service bank and offers a variety of banking products designed to meet the needs of the assessment area. Net loans comprise 46.59% of total assets. As of December 31, 2009, the bank's \$26 million loan portfolio consisted of 81% commercial, 17% real estate, 1% agriculture, and 1% consumer loans.

There are no legal, financial, or other factors that impede Stearns Bank Upsala's ability to help meet the credit needs in the assessment area. At the last CRA examination, dated October 28, 2004, the bank received a Satisfactory rating.

## **DESCRIPTION OF ASSESSMENT AREA**

Stearns Bank Upsala's assessment area (AA) consists of seven contiguous middle-income census tracts (CT) located in Morrison and Todd Counties. There are no low-, moderate-, or upper-income tracts. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Unemployment levels in Morrison and Todd Counties are higher than statewide averages. According to the U.S. Bureau of Labor Statistics, the unemployment level in the state of Minnesota as of February 2010 was 8.00% compared to 9.80% in Todd County and 11.90% in Morrison County. Local employers in Upsala consist mainly of the public school system and trucking companies. Many members of the community commute to Little Falls, Long Prairie, and St. Cloud.

Competition amongst financial institutions is moderate. There are 14 financial institutions within Todd and Morrison Counties. According to the June 30, 2009 FDIC market share report, Stearns Bank Upsala ranked 9<sup>th</sup> among the 14 banks with 4.61% of deposit market share.

According to the City of Upsala Community contact, opportunities for local financial institution participation is limited due to location and current economic conditions. See the chart below for information about the bank's AA.

Demographic and Economic Characteristics of Stearns Bank Upsala's AA	
<i>Population</i>	
Number of Families	7,045
Number of Households	9,809
Number of Low-Income Families	1,271
% of Low-Income Families	18.04%
Number of Moderate-Income Families	1,364
% of Moderate-Income Families	19.36%
Number of Middle-Income Families	1,841
% of Middle-Income Families	26.13%
Number of Upper-Income Families	2,569
% of Upper-Income Families	36.47%
<i>Geographies</i>	
Number of Census Tracts	7
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$45,608
2000 HUD-2009 Adjusted MFI	\$58,500
<i>Economic Indicators</i>	
Unemployment Rate Morrison County	11.90%
Unemployment Rate Todd County	9.80%
Median Housing Value	\$85,206
% of Households Below Poverty Level	11.84%

Source: 2000 U.S. Census Data

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, and lending opportunities within its AA. The quarterly LTD ratio averaged 75.95% in the 22 quarters since the previous examination. Similarly situated banks have quarterly average LTD ratios ranging from 70.28% to 97.69% over the same time frame. These banks have a presence in Morrison County with total assets ranging from \$27 million to \$127 million.

Average Loan-to-Deposit Ratio	Assets Size	Average LTD Ratio
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<b>Institution</b>	<b>(as of 12/31/2009)</b>	<b>(4Q04 to 1Q10)</b>
Randall State Bank	\$33.6 million	97.69%
First State Bank of Swanville	\$26.6 million	77.59%
<b>Stearns Bank of Upsala NA</b>	<b>\$67.8 million</b>	<b>75.95%</b>
Pine Country Bank	\$126.8 million	70.28%

Source: OCC Financial Institution Data Retrieval System (FINDRS)

### Lending in Assessment Area

Stearns Bank Upsala originated a majority of commercial and consumer loans inside the AA. Based on our sample of 40 loans, 85% by number were made to businesses and individuals within the bank's AA.

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

Stearns Bank Upsala's borrower distribution reflects reasonable penetration among businesses of different sizes and excellent penetration to borrowers of different income levels.

#### *Distribution of Commercial Loans to Businesses of Different Sizes*

The distribution of loans reflects reasonable penetration among businesses of different sizes. Of the loans included in our sample, 80.00% of loans by number and 67.70% of loans by dollar volume were made to businesses with gross revenues of less than or equal to \$1 million. The following table illustrates this distribution.

Borrower Distribution of Loans to Businesses in Stearns Bank Upsala's AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	81.46%	3.33%	15.22%	100.00%
% of Bank Loans in AA by #	80.00%	20.00%	0.00%	100.00%
% of Bank Loans in AA by \$	67.70%	32.30%	0.00%	100.00%

Source: Loan Sample of 20 loans and 2000 U.S. Census

#### *Distribution of Consumer Loans to Borrowers of Different Incomes*

Stearns Bank Upsala has an excellent penetration of consumer lending to borrowers of different income levels. Overall distribution of lending to low- and moderate-income borrowers is higher than the percentage of low- and moderate-income households in the AA. The following table compares the demographics information of households located within the AA to those made by the bank from our random sample of 20 consumer loans.

Borrower Distribution of Consumer Loans in Stearns Bank Upsala's AA
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Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	23.48%	35.00%	16.39%	25.00%	20.70%	20.00%	39.43%	20.00%

*Source: Loans Sample of 20 loans and 2000 U.S. Census Data*  
 \* 11.84% of households in the AA are below the poverty level.

**Geographic Distribution of Loans**

Geographic distribution is not meaningful as only middle-income CTs are located within the AA.

**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 the community credit needs