



## **PUBLIC DISCLOSURE**

June 22, 2015

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

Minnesota National Bank  
Charter Number 6417

235 Main Street  
Sauk Centre, MN 56378

Office of the Comptroller of the Currency

222 South 9th Street, Suite 800  
Minneapolis, MN 55402

**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.**

The major factors supporting this rating include:

- The bank’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and credit needs of the assessment area.
- The bank originates a majority of its loans within its assessment area.
- The distribution of loans reflects excellent penetration among borrowers of different income levels and businesses of different sizes.
- The distribution of loans reflects excellent dispersion throughout the bank’s assessment area.

**SCOPE OF EXAMINATION**

We evaluated Minnesota National Bank’s (MNB) Community Reinvestment Act (CRA) performance using small bank examination procedures. The evaluation focused on the bank’s lending performance in meeting the credit needs of the assessment areas (AA). Specifically, we analyzed primary loan products to determine the amount of lending in the AA, the distribution of lending among businesses of different sizes and borrowers of different income levels, and the distribution of lending throughout the AA.

The evaluation period covered the period from January 26, 2010 through June 22, 2015. We determined the bank’s primary loan products based on loan originations and purchases for the period of January 1, 2013 through December 31, 2014.

MNB serves the St. Cloud Metropolitan Statistical Area (MSA) consisting of Stearns County as well as Todd and Otter Tail County, a Non-MSA. For purposes of this evaluation, the primary loan type for the St. Cloud MSA AA is commercial loans and consumer loans. Commercial loans account for 60 percent of the dollar volume of loans originated and, represent 19 percent of the number of all originations. Consumer loans account for 10 percent of the dollar volume of loans originated, and represent 57 percent of the number of originations. The following chart depicts loan originations in the St. Cloud MSA AA.

<b>Loan Originations and Purchases in 2013 and 2014</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	57%	10%
Commercial	19%	60%
Residential Real Estate	15%	21%
Agriculture	9%	9%

*Source: Bank loan origination report for 2013 and 2014.*

The primary loan types for the Todd County and Otter Tail County Non-MSA AA are commercial loans and consumer loans. Commercial loans account for 48 percent of the dollar volume of loans originated, and represent 26 percent of the number of loan originations. Consumer loans account for 13 percent of the dollar volume of loans originated, and represent 51 percent of the number of originations. The following chart depicts loan originations in the Non-MSA AA.

<b>Loan Originations and Purchases in 2013 and 2014</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	51%	13%
Commercial	26%	48%
Residential Real Estate	18%	35%
Agriculture	5%	4%

*Source: Bank loan origination report for 2013 and 2014.*

To conduct our analysis, we selected a sample of 120 loans, which consisted of 80 commercial loans and 40 consumer loans from the bank's AA.

## **DESCRIPTION OF INSTITUTION**

MNB is a \$200 million interstate financial institution headquartered in Sauk Centre, MN. The bank has three branches located in the Coborn's grocery stores in Sauk Centre, Long Prairie, and Pelican Rapids, MN. MNB has not had any branch openings or closures since the prior CRA examination. The bank operates eight cash dispensing, non-deposit taking automatic tell machines (ATMs) located at the main bank office, each branch location, Little Dukes in Long Prairie, MN, VFW Post 140 in Long Prairie, MN, Konetzko's Meat Market in Browerville, MN, and Westside Liquor in Sauk Centre, MN. Sauk Centre is located 45 miles northeast of St. Cloud, the largest community in Stearns County. Long Prairie is located in Todd County, approximately 15 miles north of the main office, and Pelican Rapids is located in Otter Tail County and is approximately 50 miles southeast of Fargo, ND. MNB is wholly owned by Sauk Centre Financial Services, Inc., a one-bank holding company headquartered in Sauk Centre.

MNB's primary business focus is consistent with the traditional community bank model. MNB offers a full range of credit products within its AA, including commercial, consumer, residential real estate, and agricultural loans. As of March 31, 2015, the bank's loan portfolio totaled \$134 million, representing 67 percent of total assets. The bank's outstanding loan portfolio is comprised of 53 percent commercial loans, 30 percent residential real estate loans, 10 percent agricultural loans, and 7 percent consumer/other loans.

There are no legal, financial, or other, factors impeding MNB's ability to meet the credit needs of its AA. MNB received a "Satisfactory" CRA rating at the prior CRA examination dated January 25, 2010.

## DESCRIPTION OF ASSESSMENT AREAS

MNB has two AA including the St. Cloud MSA AA and the Non-MSA AA.

### **St. Cloud MSA AA**

The St. Cloud MSA AA is located in Stearns County and includes the main office located in Sauk Centre. The St. Cloud MSA AA consists of three middle-income census tracts (CT) located in the northwest portion of Stearns County. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate income CT. The following table shows demographic and economic information for the St. Cloud MSA AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE ST. CLOUD MSA AA</b>	
Population	
Number of Families	3,839
Number of Households	5,355
% of Low-Income Families	21.96
% of Moderate-Income Families	19.54
% of Middle-Income Families	27.79
% of Upper-Income Families	30.71
Geographies	
Number of Census Tracts	3
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	100
% Upper-Income Census Tracts	0
Median Family Income (MFI)	
2010 MFI for AA	\$57,392
2014 HUD-Adjusted MFI	\$69,600
Economic Indicators	
2014 Unemployment Rate	1.98%
2010 Median Housing Value	\$153,003
% of Households Below Poverty Level	11.04

Economic conditions in the St. Cloud MSA AA are strong. According to the U.S. Bureau of Labor Statistics, the St. Cloud MSA unemployment rate was 1.98 percent in 2014, compared to 4.1 percent statewide. Stearns County is largely urban, and offers good employment opportunities. Major employers in the AA include Sauk Centre Independent School District, CentraCare Health Sauk Centre, and Cabinet Components.

Competition among financial institutions within the AA is strong. Based upon the

June 30, 2014, FDIC Deposit Market Share report, there are 33 deposit taking financial institutions in the MSA. MNB ranks ninth in deposit market share, with \$118 million in deposits within the MSA, which equates to 2.6 percent market share. MNB's larger competitors include Stearns Bank, Wells Fargo, Bremer Bank, and U.S. Bank, collectively the deposit share for these institutions is 54 percent. MNB also competes with a host of smaller banks and credit unions.

### **Non-MSA AA**

The non-MSA AA includes portions of Todd County and Otter Tail County. The AA has one moderate-income and four middle-income CT in Ottertail County and six middle-income CT in Todd County. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CT. The following table shows demographic and economic information for the bank's Non-MSA AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE NON-MSA AA</b>	
<b>Population</b>	
Number of Families	9,651
Number of Households	13,299
% of Low-Income Families	20.47
% of Moderate-Income Families	20.33
% of Middle-Income Families	24.52
% of Upper-Income Families	34.68
<b>Geographies</b>	
Number of Census Tracts	11
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	9.09
% Middle-Income Census Tracts	90.91
% Upper-Income Census Tracts	0.00
<b>Median Family Income (MFI)</b>	
2010 MFI for AA	\$53,248
2014 HUD-Adjusted MFI	\$61,700
<b>Economic Indicators</b>	
2014 Unemployment Rate	3.54%
2010 Median Housing Value	\$173,019
% of Households Below Poverty Level	12.99

Economic conditions in the Non-MSA AA are satisfactory. According to the U.S. Bureau of Labor Statistics, the Non-MSA AA unemployment rate was 3.5 percent in 2014, compared to 4.1 percent statewide. Major employers in the AA include West Central Turkeys, Inc., RR Donnelley, Long Prairie Packing Co., CentraCare Health Long Prairie, and Pelican Rapids School District.

Competition among financial institutions within the AA is moderate. Based upon the June 30, 2014, FDIC Deposit Market Share report, there are 25 deposit taking financial institutions in Todd and Otter Tail Counties. MNB ranks tenth in deposit market share, with \$62 million in deposits within these counties, which equates to 4.2 percent market share. MNB's larger competitors include United Community Bank and Wells Fargo, collectively the deposit share for these institutions is 24 percent. MNB also competes with a host of smaller banks and credit unions.

We contacted a community leader to gain a better understanding of the local economy, area credit needs, and involvement of local financial institutions. The community contact indicated local institutions were doing a good job meeting the credit needs of the community. The contact noted that there are opportunities for small business development within the area.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's lending performance is outstanding. MNB's loan-to-deposit ratio is reasonable, and a majority of loans are originated within the bank's AA. The bank's distribution of loans reflects excellent penetration among borrowers of different income levels and among businesses of different sizes. The geographic distribution of loans reflects excellent dispersion throughout the bank's geographies.

### **Loan-to-Deposit Ratio**

MNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. MNB's average quarterly loan-to-deposit ratio is 65 percent for the 22 quarters since the previous CRA evaluation. The ratio ranged from a high of 77 percent in the first quarter of 2015 to a low of 52 percent in the fourth quarter 2012.

MNB's average loan-to-deposit ratio ranks fourth among similarly situated banks. Similarly situated banks are defined as banks located or operating within MNB's AA with similar asset size. The following table depicts the average loan-to-deposit ratios of similarly situated banks.

<b>Loan-to-deposit Ratio Institution (Headquarters)</b>	<b>Assets as of 3/31/15 (\$000s)</b>	<b>Average LTD Ratio (%)</b>
Security State Bank of Fergus Falls (Fergus Falls, MN)	131,526	87.36
American Heritage National Bank (Long Prairie, MN)	234,435	83.02
The First National Bank of Henning (Ottertail, MN)	103,805	75.30
<b>Minnesota National Bank (Sauk Centre, MN)</b>	<b>199,718</b>	<b>64.96</b>
United Community Bank (Perham, MN)	264,030	63.80

*Source: Call Report Data March 31, 2015.*

### Lending in Assessment Area

MNB originates a majority of loans inside its AA based on the number of loans originated. Based on the dollar volume of loans originated, the majority was outside of the bank's AA; however, this was due to three very large dollar commercial loans totaling \$5.9 million to borrowers outside of the bank's AA. Overall, MNB originated 81 percent by number and 25 percent by dollar volume of loans within the AA. The table below shows the volume of loans originated inside and outside of the AA during the evaluation period.

<b>Lending in MSA and Non-MSA AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	27	68	13	32	40	1,978	22	6,945	78	8,924
Consumer	38	95	2	5	40	335	97	9	3	344
Totals	65	81	15	19	80	2,313	25	6,955	75	9,268

*Source: Commercial and consumer loan samples.*

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

Overall, MNB's lending to borrowers of different incomes and to businesses of different sizes reflects excellent penetration in the AA.

#### **St. Cloud MSA AA**

##### Consumer Loans

The distribution of consumer loans reflects excellent penetration among borrowers of different income levels. MNB's lending to low- and moderate-income individuals

significantly exceeded the AA demographics of 23 percent and 17 percent of low- and moderate-income households, respectively. The following table shows the distribution of consumer loans among borrowers of various income levels in the AA.

<b>Borrower Distribution of Consumer Loans in St. Cloud MSA AA</b>								
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	23.12	25.00	17.24	25.00	22.60	30.00	37.05	20.00

Source: Consumer loan sample from 2013-2014; 2010 US Census Data

### Commercial Loans

The distribution of commercial loans reflects reasonable penetration among businesses of different sizes. MNB’s lending to businesses with gross revenues of \$1 million or less by both number and dollar amount is lower than the demographic of 75 percent of businesses in the AA with revenues of \$1 million or less. The demographic data used contains a high level of businesses of unknown size, as they chose not to report this information. Although the unknown 17 percent could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

<b>Borrower Distribution of Loans to Businesses in the St. Cloud MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74.85	6.68	17.12	100
% of Bank Loans in AA by #	53.33	45.00	1.67	100
% of Bank Loans in AA by \$	62.65	37.35	0.11	100

Source: Commercial loan sample from 2013-2014; Dunn and Bradstreet Data 2014

### Non-MSA AA

#### Consumer Loans

The distribution of consumer loans reflects excellent penetration among borrowers of different income levels. MNB’s lending to low- and moderate-income individuals significantly exceeded the AA demographics of 23 percent and 16 percent of low- and moderate-income households, respectively. The following table shows the distribution of consumer loans among borrowers of various income levels in the AA.

<b>Borrower Distribution of Consumer Loans in Non-MSA AA</b>								
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	22.95	35.00	16.35	35.00	20.81	15.00	39.90	15.00

*Source: Consumer loan sample from 2013-2014; 2010 US Census Data*

### Commercial Loans

The distribution of commercial loans reflects excellent penetration among businesses of different sizes. MNB's lending to businesses with gross revenues of \$1 million or less by both number and dollar amount exceeds the demographic of 80 percent of businesses in the AA with revenues of \$1 million or less. The demographic data used contains a high level of businesses of unknown size, as they chose not to report this information. Although the unknown 18 percent could potentially be additional small businesses, we have no reason to believe that the non-reporters are a disproportionate amount of small businesses. The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

<b>Borrower Distribution of Loans to Businesses in Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	79.86	2.25	17.89	100.00
% of Bank Loans in AA by #	85.00	15.00	0.00	100.00
% of Bank Loans in AA by \$	82.87	17.13	0.00	100.00

*Source: Commercial loan sample from 2013-2014; Dunn and Bradstreet Data 2014*

### Geographic Distribution of Loans

MNB's geographic distribution of loans in the AA reflects excellent dispersion throughout census tracts of different income levels. There are no low-income census tracts in the AA. Therefore, our geographic distribution analysis focused on MNB's performance in the moderate-income census tracts.

#### **St. Cloud MSA AA**

The geographic distribution of loans in the St. Cloud MSA AA does not provide a meaningful analysis as the bank's AA has no low- or moderate-income tracts.

#### **Non-MSA AA**

##### Consumer Loans

The geographic distribution of consumer loans reflects excellent dispersion throughout census tracts of different income levels. MNB's consumer lending performance

significantly exceeded the AA demographic comparator of 10 percent of households located in the one moderate-income census tract. The following table shows the bank’s performance as compared to the percentage of households in each census tract income level.

Geographic Distribution of Consumer Loans in Non-MSA AA								
Tract 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	0.00	0.00	10.02	30.00	89.98	70.00	0.00	0.00

Source: Consumer loan sample from 2013-2014; US Census Data

**Commercial Loans**

The geographic distribution of commercial loans reflects excellent dispersion throughout census tracts of different income levels. MNB’s commercial lending performance exceeds the AA demographic comparator of 11 percent of businesses located in the one moderate-income census tract. The following table shows the bank’s performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses in Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	0.00	0.00	11.25	35.00	88.75	65.00	0.00	0.00

Source: Commercial loan sample from 2013-2014; US Census Data

**Responses to Complaints**

MNB received no 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 by 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.