



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 25, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

St. Martin National Bank
Charter Number 15198

136 Maine Street
St. Martin, MN 56376

Office of the Comptroller of the Currency

Minneapolis Field Office
222 South 9th St, 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 Satisfactory.

The major factors supporting this rating include:

- A substantial majority of loans are originated within the assessment area (AA).
- The bank's net loan-to-deposit ratio is reasonable.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and farms of different sizes.

SCOPE OF EXAMINATION

We evaluated St. Martin National Bank's (SMNB) Community Reinvestment Act (CRA) performance using small bank examination procedures. To perform our examination, we determined the bank's primary loan products by reviewing loan originations from January 1, 2010 through December 31, 2011. We determined the bank's primary loan products to be home loans and agricultural loans. To conduct our analysis, we selected a judgmental sample of 20 home loans and 20 agricultural loans originated and purchased during the evaluation period.

We used call report data to determine the bank's quarterly loan-to-deposit ratio and annual deposit information reported to the Federal Deposit Insurance Corporation (FDIC) to find similarly situated banks. The most recent deposit information is as of June 30, 2012.

DESCRIPTION OF INSTITUTION

SMNB is a \$19 million institution located in Stearns County. The bank's ownership is split amongst a group of shareholders. As of December 31, 2012, the bank had net loans of \$10 million, representing 52 percent of total assets and 75 percent of total deposits. The loan portfolio is comprised of residential real estate mortgages (39 percent), agriculture loans (38 percent), commercial loans (16 percent), and consumer (7 percent).

SMNB offers a range of banking products and services to its customers. The bank's business strategy focuses on traditional activities. SMNB operates one branch in St. Martin, MN. No branches have opened or closed since the last CRA examination.

There are no legal, financial, or other factors that impede the bank's ability to help meet the credit needs of its AA. SMNB received a Satisfactory rating on its last CRA evaluation dated January 28, 2008.

DESCRIPTION OF ASSESSMENT AREA

SMNB has one AA area located the Saint Cloud, MN Metropolitan Statistical Area (MSA). The AA consists of 5 contiguous census tracts located in Stearns County. The AA consists of the census tracts where the bank's branch is located and the surrounding census tracts in which the

bank can reasonably service. The AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income census tracts. The AA consists of four middle-income tracts and one moderate-income tract. The following table shows demographic information for the AA:

Demographic and Economic Characteristics of the Assessment Area	
Population	
Number of Families	5,466
Number of Households	7,364
% of Low-Income Families	21.11
% of Moderate-Income Families	20.84
% of Middle-Income Families	28.49
% of Upper-Income Families	29.56
Geographies	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0.00
% Moderate-Income Census Tracts/BNA	20.00
% Middle-Income Census Tracts/BNA	80.00
% Upper-Income Census Tracts/BNA	0.00
Median Family Income (MFI)	
2000 MFI for AA	\$51,474
2011 HUD-Adjusted MFI	\$68,400
Economic Indicators	
2011 Annual Unemployment Rate	Stearns County: 6.3% State of Minnesota: 6.5%
2000 Median Housing Value	\$92,750
% of Households Below Poverty Level	9.66

Source: 2000 U.S. Census information with updated information when available.

Agriculture production plays an important role in the local economy, with a number of self-employed farmers in dairy, cattle, and crop production. This particular sector has benefitted from the effect of rising demand from overseas, which has increased commodity prices and agricultural real estate values. Employment in the AA is centered in agriculture and services.

Competition from other financial institutions consists of nine geographically dispersed financial institutions. SMNB ranks 9th in deposit market share among the nine financial institutions. SMNB has a deposit market share of 3.65 percent.

During our examination, we contacted a located organization to better understand the credit needs of the community. Conventional residential real estate mortgages and agriculture loans are the primary credit needs of the AA. Business opportunities for further development in the commercial sector are readily available. According to the contact, financial institutions are meeting the credit needs of the community. The contact specifically named SMNB as a very community oriented bank that has shown leadership within the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

SMNB's net loan-to-deposit (LTD) ratio is reasonable given the bank's size and the credit needs of the AA. The bank's LTD ratio averaged 73.42 percent over the 22 quarters since the last CRA examination. The LTD ratio ranged from a quarterly low of 57.00 percent (1Q12) to a quarterly high of 89.58 percent (3Q08). The following table summarizes the average LTD ratios of similarly situated institutions within the same reporting period:

Institution (As of 12/31/12)	Assets in thousands (\$000)	Average LTD Ratio (3Q07 – 4Q12)
Bonanza Valley State Bank	52,601	94.31
Integrity Bank Plus	60,067	88.42
State Bank of Cold Spring	53,315	79.16
St. Martin National Bank	19,410	73.42
Farmers and Merchants State Bank	26,842	34.31

Source: Call Report Data

Lending in Assessment Area

SMNB originates a substantial majority of its loans to borrowers within the AA. Loans originated to individuals within the bank's AA totaled 87.50 percent by number and 89.43 percent by dollar volume. The following table shows the bank's lending activity inside and outside of its AA:

Lending in SMNB's AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	18	90.00	2	10.00	20	1,605,302	95.23	80,412	4.77	1,685,714
Agricultural Loans	17	85.00	3	15.00	20	1,305,311	83.21	263,477	16.79	1,568,788
Totals	35	87.50	5	12.50	40	2,910,613	89.43	343,889	10.57	3,254,502

Source: OCC Loan Sample

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

Residential Real Estate Loans

The distribution of home loans reflects reasonable penetration among borrowers of different income levels. SMNB's distribution of home loans to moderate-income individuals is excellent and exceeds the demographic comparative. While the distribution of home loans to low-income borrowers is significantly below the demographic comparative, we considered the level of families living below the poverty rate in the AA as these borrowers would likely not qualify for

home loans. Families living below the poverty level total 5.73 percent. The following table shows the distribution of home loans among borrowers of different income levels:

Borrower Distribution of Residential Real Estate Loans in SMNB's 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
Home Loans	21.11	5.00	20.84	25.00	28.49	50.00	29.56	20.00

Source: OCC Loan Sample & 2000 U.S. Census Data.

Agricultural Loans

The borrower distribution of agricultural loans reflects reasonable penetration among farms of different sizes. SMNB's lending to small farms is near the demographic comparative. The following table shows the distribution of loans among farms of different sizes:

Borrower Distribution of Loans to Farms in SMNB's AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.36	0.49	1.15	100.00
% of Bank Loans in AA by #	95.00	5.00	0.00	100.00
% of Bank Loans in AA by \$	97.02	2.98	0.00	100.00

Source: OCC Loan Sample & 2011 Business Geodemographic Data

Geographic Distribution of Loans

The geographic distribution of home and agricultural loans reflects poor dispersion throughout SMNB's AA. The poor penetration is due to the bank's lack of a presence in the moderate-income census tract and competition from other financial institutions in this tract. The bank is located in a middle-income census tract and there are three banks located in the moderate-income census tract.

Residential Real Estate Loans

The geographic distribution of home loans reflects poor dispersion throughout census tracts of different income levels. Penetration in the moderate-income census tract is significantly below the demographic comparative. The following table shows the distribution of home loans among census tracts of different income levels:

Geographic Distribution of Residential Real Estate Loans in SMNB's AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Loans	0.00	0.00	19.07	5.00	80.93	95.00	0.00	0.00

Source: OCC Loan Sample & 2000 U.S. Census Data

Agricultural Loans

The geographic distribution of agricultural loans reflects poor dispersion throughout census tracts of different income levels. Lending in the moderate-income census tract is significantly below the demographic comparative. The following table shows the distribution of farm loans among census tracts of different income levels:

Geographic Distribution of Loans to Farms in SMNB's AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agricultural	0.00	0.00	30.66	10.00	69.34	90.00	0.00	0.00

Source: OCC Loan Sample & 2011 Business Geodemographic Data

Responses to Complaints

SMNB has not received 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), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.