



PUBLIC DISCLOSURE

May 19, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

MinnStar Bank National Association
Charter Number 13972

202 North Main
Lake Crystal, MN 56055

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 Satisfactory.

The major factors supporting this rating include:

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

SCOPE OF EXAMINATION

We evaluated MinnStar Bank National Association’s (MinnStar) Community Reinvestment Act (CRA) performance using small bank examination procedures. We assessed the bank’s performance covering the period from November 26, 2007, through May 19, 2014. We determined the bank’s primary loan products based on a loan origination report for the period of January 1, 2012, to December 31, 2013. The following table depicts the volume of loans originated and purchased during the evaluation period.

Loan Originations and Purchases in 2012 and 2013		
Loan Type	Volume by #	Volume by \$
Business	37%	48%
Farm	20%	29%
Consumer	27%	4%
Residential Real Estate	16%	19%

Source: Bank loan origination report for 2012 and 2013

Based on this analysis, we determined that business and farm loans are the bank’s primary loan products accounting for 57 percent of loans originations by number and 77 percent by dollar volume. We selected a random sample of 20 loans from each of the primary products to assess the bank’s performance in the assessment area.

DESCRIPTION OF INSTITUTION

MinnStar is a \$115 million commercial bank located in south central Minnesota. The main office is located in Lake Crystal, Minnesota, with a full-service branch in Mankato, Minnesota. Lake Crystal Bancorporation, Inc. owns the bank and is a one-bank holding company located in Lake Crystal, Minnesota. The bank utilizes two ATMs, neither of

which accepts deposits. MinnStar offers a wide range of products designed to meet the credit needs of the community. As of March 31, 2014, the bank’s loan portfolio totaled \$81.4 million or 71 percent of total assets. The portfolio is comprised of approximately \$34 million in commercial and commercial real estate loans (42 percent), \$20 million in agricultural loans (24 percent), \$23 million in residential real estate loans (28 percent), and \$5 million in consumer and other loans (6 percent).

There are no legal, financial, or other factors impeding MinnStar’s ability to help meet the credit needs in its assessment area. MinnStar received an “Outstanding” CRA rating at its prior CRA examination on November 26, 2007.

DESCRIPTION OF ASSESSMENT AREA

MinnStar has one assessment area (AA), which consists of 19 census tracts in Blue Earth and Nicollet Counties, which make up the Mankato-North Mankato Metropolitan Statistical Area (MSA). The AA excludes three middle-income census tracts in Nicollet County that the bank cannot reasonable serve. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. The following table shows demographic information for MinnStar’s AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MANKATO MSA AA	
Population	
Number of Families	17,366
Number of Households	29,302
% of Low-Income Families	17.39
% of Moderate-Income Families	19.30
% of Middle-Income Families	24.86
% of Upper-Income Families	38.45
Geographies	
Number of Census Tracts	19
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	10.53
% Middle-Income Census Tracts	73.68
% Upper-Income Census Tracts	15.79
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$66,038
2013 HUD-Adjusted MFI	\$69,600
Economic Indicators	
2013 Unemployment Rate	4.1%
2010 Median Housing Value	\$165,172
% of Households Below Poverty Level	15.03

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

Economic conditions in the AA are favorable. According to the U.S. Bureau of Labor Statistics, the Mankato-North Mankato MSA unemployment rate was 4.1 percent in 2013, compared to 5.1 percent statewide. Major industries in the area are education, health services, and office services. The largest employers in the area are the Taylor Companies, a group of related publishing and printing companies in North Mankato, Immanuel St. Joseph’s – Mayo Health System, and Minnesota State University-Mankato.

Competition among financial institutions within the AA is strong. Based upon the June 30, 2013, FDIC market share data, there are twenty-one financial institutions with offices and deposits in the AA. MinnStar ranks seventh in deposit market share, which equates to 5.08 percent or \$96 million. MinnStar’s primary banking competitors are Wells Fargo National Association and U.S. Bank, National Association along with a host of smaller banks.

We contacted a community development organization in the AA to gain a better understanding of the local economy, area credit needs, and involvement of local financial institutions. The representative indicated the primary credit need within the community is affordable family housing and rental units. The contact indicated that local financial institutions are adequately meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

MinnStar’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and AA credit needs. The bank’s quarterly average LTD ratio is 81 percent for the 26 quarters since the previous CRA evaluation. The ratio ranged from a high of 101 percent in 3Q08 to a low of 64 percent in 1Q12. Since the first quarter of 2012, the LTD ratio has steadily increased to 78 percent in the first quarter of 2014.

MinnStar’s average LTD ratio ranks first among four similarly situated banks. The following table depicts the average LTD ratios of similarly situated banks defined as banks located within the Mankato-North Mankato MSA with total assets between \$80 million to \$190 million.

Institution (Headquarters)	Assets as of 3/31/14 (\$000s)	Average LTD Ratio (%)
MinnStar Bank (Lake Crystal, MN)	\$115,106	80.71
Saint Clair State Bank (St. Clair, MN)	\$81,190	76.42
First National Bank Minnesota (St. Peter, MN)	\$189,259	71.38
Progrowth Bank (Nicollet, MN)	\$122,012	69.92
Nicollet County Bank of Saint Peter (St. Peter, MN)	\$167,802	56.76

Source: Call Report data as of March 31, 2014.

Lending in Assessment Area

MinnStar originates a substantial majority of its loans inside the AA. Based on our sampling of business and farm loans, MinnStar originated 93 percent of loans by number and 85 percent by dollar volume within their AA. The table below shows loans originated in the AA during the evaluation period.

Lending in Mankato MSA AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	17	85	3	15	20	3,691	82	827	18	4,518
Farm	20	100	0	0	20	1,157	100	0	0	1,157
Totals	37	93	3	7	40	4,848	85	827	15	5,675

Source: Business and farm loan samples from 2012-2013.

Lending to Businesses and Farms of Different Sizes

Borrower Distribution of Business Loans

The distribution of business loans reflects reasonable penetration among businesses of different sizes. MinnStar's lending to businesses with gross revenues of \$1 million or less (small businesses) is comparable to the percentage of small businesses in the AA. The bank's percentage of loans by dollar volume to small businesses at 8 percent is considerably less than the demographic. However, we attribute this to one large dollar loan within our sample to a business with unknown revenues. The following table shows the distribution of business loans among businesses of different sizes in the AA.

Borrower Distribution of Business Loans in the Mankato MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72	5	23	100
% of Bank Loans by #	75	20	5	100
% of Bank Loans by \$	8	8	84	100

Source: Business loan sample and 2013 Business Geodemographic Data

Borrower Distribution of Farm Loans

The distribution of farm loans reflects reasonable penetration among farms of different sizes. The bank’s lending to farms with gross revenues of \$1 million or less by number is reasonable and near the AA demographic of 98 percent. The following table shows the distribution of farm loans among farms of different sizes in the AA.

Borrower Distribution of Farm Loans in the Mankato MSA AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98	1	1	100
% of Bank Loans in AA by #	80	20	0	100
% of Bank Loans in AA by \$	22	78	0	100

Source: Farm loan sample and 2013 Business Geodemographic Data

Geographic Distribution of Loans

There are no low-income census tracts in the AA. Therefore, our analysis focused on MinnStar’s performance in the moderate-income tracts.

Geographic Distribution of Business Loans

The geographic distribution of business loans reflects excellent dispersion throughout census tracts of different income levels. MinnStar’s distribution of business loans in moderate-income census tracts exceeds the demographic comparator of businesses operating in the moderate-income tracts. The following table shows the bank’s performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Business Loans in Mankato MSA AA								
Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	0	0	12	20	79	70	9	10

Source: 2013 Business Geodemographic Data

Geographic Distribution of Farm Loans

The geographic distribution of farm loans reflects reasonable dispersion throughout census tracts of different income levels. The bank had no farm lending activity in the moderate-income census tracts. However, we noted that the two moderate-income census tracts in MinnStar’s AA are located in downtown Mankato where the percentage of farms is minimal as the demographic comparator suggests. Further, all farm lending is done out of the Lake Crystal office, as the bank has no agricultural lenders at the Mankato branch. The following table shows the bank’s performance as compared to the percentage of farms in each census tract income level.

Geographic Distribution of Farm Loans in Mankato MSA AA								
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
Farm	0	0	4	0	83	70	14	30

Source: 2013 Business Geodemographic Data

Responses to Complaints

MinnStar has not received any CRA related complaints during this 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.