



**LARGE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **Public Disclosure**

**April 29, 2002**

# **Community Reinvestment Act Performance Evaluation**

**Merchants Bank, National Association  
Charter Number: 14488**

**102 East Third Street  
Winona, Minnesota 55987**

**Office of the Comptroller of the Currency**

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1310 West Clairemont Avenue Suite 100  
Eau Claire, WI 54702**

**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, and should not 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.**

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## Overall CRA Rating

**Institution’s CRA Rating:** This institution is rated **Satisfactory**.

The following table indicates the performance level of **Merchants Bank, National Association** (Merchants) with respect to the Lending, Investment, and Service Tests:

Performance Levels	Merchants Bank, National Association Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- Lending levels reflect good responsiveness to home mortgage and small business credit needs in relation to the bank’s deposit base.
- The overall borrower distribution of the bank’s loans is good. Performance for home purchase and home improvement loans is excellent, home mortgage refinance and small loans to farms is good, and small loans to businesses is adequate.
- Merchants made a Community Development loan on flexible terms to help meet a key community credit need. The loan had a positive impact on the bank’s Lending Test rating.
- Merchants made an adequate level of investments within its Winona Assessment Area.
- The bank’s delivery systems are reasonably accessible to geographies and individuals of different income levels in its Winona Assessment Area.
- The bank provides a relatively high level of Community Development services.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Block Numbering Area (BNA):** A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also

include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male household and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home Mortgage Loans:** such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose Community Development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

Merchants Bank, National Association (Merchants) is an intrastate bank headquartered in Winona, Minnesota. As of December 31, 2001, the bank had assets of \$415 million and Tier I Capital of \$35.9 million. In addition to its main office, Merchants operates three other branches in Winona or its suburbs, one branch in St. Charles and three branches in Rochester.

Merchants is a subsidiary of Merchants Financial Group, Inc., a \$581 million multi-bank holding company that is also headquartered in Winona. Merchants has two subsidiaries, neither of which has a significant impact on the bank's capacity to lend or invest in its assessment areas. Activities of the subsidiaries were not considered in this evaluation.

During October 1999, Merchants entered the Rochester market through the purchase of three branches of another bank. The bank's deposits in the Rochester market represent approximately 12% of the bank's total deposits.

Merchants is a full-service financial institution, offering a wide variety of retail and commercial banking products and services. It focuses on home mortgage lending, commercial lending, and industrial leasing. As of December 31, 2001, Merchant's net loans and leases totaled \$277 million. Those loans and leases represented 67% of the bank's assets, a percentage which is comparable to that of other banks. The loan portfolio was comprised of residential real estate loans (21%), commercial and commercial real estate loans (32%), agricultural and farmland loans (4%), leases (23%), loans to individuals (15%), and all other loans (5%).

Merchants plays a somewhat unique role in the region by serving as a correspondent bank through which it helps smaller financial institutions originate home mortgage loans. Both the volume of HMDA loans Merchants originates under this program and the trade area it serves is significant. Through the program, customers of Merchant's correspondent banks in the states of Wisconsin, Minnesota, South Dakota, North Dakota, and Iowa can go to their local financial institutions and obtain home mortgage loans. The financial institutions forward loan applications to Merchants. Merchants performs the underwriting of the loans and therefore reports the loans with its HMDA data. Merchants does not provide the permanent financing for the loans, instead the loans are sold to Fannie Mae and Freddie Mac. Through these correspondent relationships, Merchants helps smaller financial institutions originate mortgage loans to their local customers at terms and prices they might not otherwise be able to offer.

There are no legal, financial, or other factors that impede Merchant's ability to help meet the credit needs in its assessment areas.

The bank's most recent CRA performance evaluation was dated April 26, 1999 and a rating of "Satisfactory" was assigned.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

For the Lending Test, we evaluated the bank's HMDA, small business, small farm, and Community Development loans. The evaluation period for the prior CRA examination had covered originations and purchases of home mortgage, small business, and small farm loans through December 31, 1998. For this examination, the evaluation period for those loans was generally January 1, 1999 through December 31, 2001. The one exception to the three-year evaluation period was for HMDA loans, for which we used an evaluation period of January 1, 2000 through December 31, 2001. The reason for this shorter evaluation period is the bank had not been required to report HMDA data prior to January 1, 2000, so data for its 1999 home mortgage lending is not readily available. For Community Development loans, the evaluation period for the prior CRA examination had covered originations through December 31, 1998. For this examination, the evaluation period for Community Development loans was January 1, 1999 through April 29, 2002. Market comparisons for HMDA, small business, and small farm lending are based on 2000 peer data because this was the most recent peer data available at the time of the evaluation.

At the request of bank management, we excluded some of the HMDA loans Merchants originated from this evaluation. The bank chose to do this so that its affiliated banks could have the benefit of those loans in their CRA evaluations. The loans in question are those Merchants underwrote through its correspondent program, which is discussed in greater detail in the "Description of Institution" section of this evaluation. Among the financial institutions for which Merchants serves as correspondent are banks that are affiliated with Merchants through common ownership by Merchants Financial Group, Inc. Merchants elected to attribute the loans it originated for customers of its affiliates to those affiliates for the purposes of those banks' CRA examinations. Most of the loans attributed to the affiliates are outside of Merchant's assessment areas, so this attribution had a very small impact on Merchant's CRA evaluation.

For the Investment Test, we evaluated both the bank's equity investments and donations. For the Service Test, we evaluated retail services and Community Development services. Because the prior evaluation period had covered these investment and service activities through December 31, 1998, the current evaluation period for the Investment and Service Tests was January 1, 1999 through April 29, 2002.

### Data Integrity

We identified reporting errors in the bank's HMDA Loan Application Registers and CRA (small business and farm loan) Disclosure Statements. The bank subsequently revised the data. We determined the revised data was sufficiently accurate for use in this evaluation. Due to the original reporting errors, the bank's publicly reported data is not accurate. We reviewed information on all of the loans, investments, and services management considered to have a primary purpose of Community Development. Only those activities that qualified were incorporated into this evaluation.

## **Selection of Areas for Full-Scope Review**

We performed a full-scope review of Merchant's Winona Assessment Area because that area is where the bank derives the majority of its deposits and loans. We performed a limited-scope review of Merchant's Rochester Assessment Area. Refer to the table in Appendix A for more information about the scope of the evaluation.

## **Ratings**

A bank's overall rating is based primarily on those areas that receive full-scope reviews. As such, we based Merchant's rating primarily on its performance in the Winona Assessment Area. The weighting we gave to each loan product is reflective of the relative volume of originations of that loan product over the evaluation period. Accordingly, we placed the most weight on home mortgage refinance and small business loans and the least weight on home improvement loans.

## **Other**

During the examination, we contacted representatives of two organizations that serve the Winona Assessment Area. We also reviewed information from five contacts the OCC and other bank regulatory agencies had made within the area during the past year. The contacts were with governmental and nonprofit organizations, as well as a local Realtor. The organizations serve a wide range of housing, small business, and small farm needs. The contacts said there is a need for rehabilitation of existing housing stock and the need for additional housing stock. The shortage of housing stock exists at all price levels, including housing that would be affordable for low- and moderate-income families. The contacts mentioned the need for financing of start-up businesses and new farm operators. They also mentioned the need for financing the working capital needs of small businesses and the ongoing operating needs of farmers. The contacts said there is healthy competition among local financial institutions, and they are not aware of any credit needs that are not being met.

## **Fair Lending Review**

An analysis of the most recent public comments, consumer complaint information, and HMDA, small business, and small farm lending data was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1999.

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Lending Test is rated "High Satisfactory." Based on a full-scope review, the bank's performance in the Winona Assessment Area is good.

#### Lending Activity

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's lending activity.

Lending levels reflect good responsiveness to credit needs in relation to the bank's deposit base. To arrive at this conclusion, we considered the bank's loan market shares compared to its deposit market share. Based on publicly available deposit information, Merchants held one-third of all the deposits in its Winona Assessment Area, which made it the financial institution with the highest level of deposits.

Merchant's lending levels reflect excellent responsiveness to home mortgage credit needs. Merchants originated 1,206 HMDA loans totaling \$108 million during 2000 and 2001. During 2000, the most recent year for which aggregate market data is available, Merchants originated the most home mortgage loans of the 103 financial institutions that reported HMDA loans within the assessment area. The bank had a HMDA market share of 26%, which is near to its overall deposit market share of 33%. Because most of the HMDA reporters do not have branch offices in the Winona Assessment Area, we also calculated the bank's market share among just those HMDA reporters with branch offices in the Winona Assessment Area. Among those six financial institutions, Merchants ranked first in deposits with a 58% market share. For HMDA loans, Merchants ranked first with a 50% market share.

Lending levels reflect good responsiveness to small business credit needs. Merchants originated and purchased 637 small loans to businesses totaling \$61 million during the three-year evaluation period. During 2000, the most recent year for which aggregate market data is available, Merchants originated and purchased the most small loans to businesses of the 33 financial institutions that reported such loans within the assessment area. The bank had a small business loan market share of 20%. Because most of the small business loan reporters do not have branch offices in the Winona Assessment Area, we also calculated the bank's market share among just those small business loan reporters with branch offices in the Winona Assessment Area. Among those five financial institutions, Merchants ranked first in deposits with a 60% market share. For small business loans, Merchants ranked first with a 38% market share.

Lending levels reflect adequate responsiveness to small farm credit needs. Merchants originated and purchased 367 small loans to farms totaling \$15 million during the three-year evaluation period. During 2000, the most recent year for which aggregate market data is available, Merchants had a 21% market share and ranked third among all reporting banks in

terms of originations and purchases of small loans to farms. Because most of the small farm loan reporters do not have branch offices in the Winona Assessment Area, we also calculated the bank's market share among just those small farm loan reporters with branch offices in the Winona Assessment Area. Among those four financial institutions, Merchants ranked first in deposits with a 63% market share. For small farm loans, Merchants ranked third with a 22% market share.

## **Distribution of Loans by Income Level of the Geography**

### ***Home Mortgage Loans***

Refer to Tables 2, 3, 4 and 5 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

Geographic distribution of the bank's loans within the Winona Assessment Area is not meaningful because the area does not include any low- or moderate-income geographies.

### ***Small Loans to Businesses***

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

Geographic distribution of the bank's loans within the Winona Assessment Area is not meaningful because the area does not include any low- or moderate-income geographies.

### ***Small Loans to Farms***

Refer to Table 7 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to farms.

Geographic distribution of the bank's loans within the Winona Assessment Area is not meaningful because the area does not include any low- or moderate-income geographies.

## ***Lending Gap Analysis***

We reviewed the distribution of the bank's loans throughout its Winona Assessment Area and found no conspicuous gaps in the bank's lending patterns.

### ***Inside/Outside Ratio***

Merchant's level of loan originations and purchases within its assessment areas is good. During the evaluation period, Merchants originated or purchased 67% of its small business loans and 89% of its small farm loans within its two assessment areas. For HMDA loans, Merchants originated or purchased only 26% of its loans within its assessment areas. The reason for this low percentage is the correspondent lending activity explained under the Description of Institution section of this evaluation. Excluding the loans generated through its correspondents, Merchants originates a reasonable majority of its home mortgage loans within

its assessment areas. Once the bank originates the home mortgage loans that are referred to it through its correspondents, it promptly sells the loans into the secondary market.

## **Distribution of Loans by Income Level of the Borrower**

### ***Home Mortgage Loans***

Refer to Tables 8, 9, and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The overall borrower distribution of Merchant's home mortgage lending in its Winona Assessment Area is good.

The borrower distribution of home purchase loans is excellent. The percentage of loans made to low-income borrowers is somewhat lower than the percentage of families in the assessment area that have low incomes. This same percentage of loans is above the demographic if the percentage of families living below the poverty level is taken into consideration. In addition, the bank's market share of home purchase loans to low-income borrowers exceeds its overall market share of home purchase loans to borrowers regardless of their incomes. Performance for moderate-income borrowers is much stronger, as the percentage of loans made to those borrowers exceeds the percentage of families that have moderate incomes. The bank's market share of home purchase loans to moderate-income borrowers is near to its overall market share of home purchase loans.

The borrower distribution of home improvement loans is excellent. The percentage of loans made to low-income borrowers is lower than the percentage of families in the assessment area that have low incomes. This same percentage of loans meets the demographic if the percentage of families living below the poverty level is taken into consideration. The bank's market share of home improvement loans to low-income borrowers is lower than its overall market share of home improvement loans to borrowers regardless of their incomes. The percentage of loans made to moderate-income borrowers significantly exceeds the percentage of families that have moderate incomes. The bank's market share of home improvement loans to moderate-income borrowers exceeds its overall market share of home improvement loans.

The borrower distribution of home mortgage refinance loans, Merchant's most significant home mortgage product, is good. The percentage of loans made to low-income borrowers is significantly lower than the percentage of families in the assessment area that have low incomes. This same percentage is near to the demographic if the percentage of families living below the poverty level is taken into consideration. The percentage of loans made to moderate-income borrowers is near to the percentage of families that have moderate incomes. The bank's market shares of home mortgage refinance loans to both low- and moderate-income borrowers exceed its overall market share of home mortgage refinance loans.

### ***Small Loans to Businesses***

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

Merchant's borrower distribution of small loans to businesses is adequate. The percentage of Merchant's small loans to small businesses (those with revenues of \$1 million or less) is somewhat lower than the percentage of businesses in the assessment area that report those smaller revenues. The bank's market share of loans to businesses with those smaller revenues is favorable, as it exceeds the bank's overall market share of loans to businesses of all sizes.

### ***Small Loans to Farms***

Refer to Table 12 in the appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

Merchant's borrower distribution of small loans to farms is good. The percentage of Merchant's small loans to small farms (those with revenues of \$1 million or less) is near to the percentage of farms in the assessment area that report those smaller revenues. A market share analysis shows stronger performance, as the bank's market share of loans to farms with smaller revenues substantially meets its overall market share of loans to farms of all sizes.

### **Community Development Lending**

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of Community Development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans. In addition, Table 5 includes geographic lending data on all multi-family loans, including those that also qualify as CD loans. Table 5 does not separately list CD loans, however.

Merchants made one Community Development loan of \$40 thousand during the evaluation period. While the bank's Community Development lending levels are modest in size, the loan had a positive impact on the bank's Lending Test rating. The loan was responsive to a key community credit need, that of affordable housing for lower income people. In addition, it was structured in a flexible way to provide the most benefit to the local chapter of Habitat for Humanity, the beneficiary of the loan. Merchant's loan is interest-free and is being used to help the organization raise funds to support its affordable housing efforts.

### **Product Innovation and Flexibility**

Product innovation and flexibility had a neutral impact on the Lending Test conclusions. Merchant's originates mortgage loans under programs that have flexible features, some of which are targeted to low- and moderate-income borrowers. The flexible features include below-market interest rates and broad qualifying criteria. None of the programs is considered innovative.

## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the Lending Test in the Rochester Assessment Area is stronger than the bank's overall "High Satisfactory" performance under the Lending Test.

Refer to Tables 1 through 13 in appendix C for the facts and data that support these conclusions.

Merchant's geographic and borrower distributions for all categories of home mortgage loans in the Rochester Assessment Area is excellent. Based on origination volumes, home mortgage loans are Merchant's primary focus in this assessment area. We gave relatively little weight to the bank's performance in this assessment area because the bank derives relatively few of its deposits from the area.

## **INVESTMENT TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Investment Test is rated "Low Satisfactory." Based on a full-scope review, the bank's performance in the Winona Assessment Area is adequate.

Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

Merchants had an adequate level of investments in light of the moderate level of opportunities for Community Development that exist within the Winona Assessment Area. For the evaluation period, Merchant's Community Development investments totaled \$260 thousand.

A significant portion of the bank's investments is in a Community Development Corporation (CDC). Merchants established the CDC early in the evaluation period with an investment of \$100 thousand. Half of the funds in the CDC are committed to a program that provides loans to Welfare recipients and other low- and moderate-income individuals for transportation or housing needs in order to help them join the workforce. Merchant's establishment of the CDC has provided a flexible means for the bank to meet the credit needs of people who would not qualify for loans under typical underwriting standards. The CDC is also innovative in that, through the CDC, Merchants created a new means in the assessment area through which it can help meet community needs. On March 31, 2002, the CDC had loans outstanding of approximately \$20 thousand.

The remaining Community Development investments are various grants and donations totaling \$160 thousand. Approximately 22 different Community Development organizations that serve the Winona Assessment Area were the beneficiaries of the bank's grants and donations. Three of the organizations work on affordable housing issues for low- and moderate-income families and individuals, which is a key need in the assessment area.

## **Conclusions for Area Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the Investment Test in the Rochester Assessment Area is weaker than the bank's overall "Low Satisfactory" performance under the Investment Test.

Refer to Table 14 in appendix C for the facts and data that support these conclusions.

Merchant's performance in the Rochester Assessment Area is considered weaker based on the lower level of investments relative to its presence in there. We gave relatively little weight to the bank's performance in this assessment area because the bank derives relatively few of its deposits from the area.

## **SERVICE TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Service Test is rated "High Satisfactory." Based on a full-scope review, the bank's performance in the Winona Assessment Area is good.

#### **Retail Banking Services**

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

Merchant's retail delivery systems are reasonably accessible to geographies and individuals of different income levels in the Winona Assessment Area. The bank has five branch offices and seven Automated Teller Machines (ATMs) in its Winona Assessment Area. Because there are no low- or moderate-income geographies within the assessment area, a geographic distribution analysis of the branches and ATMs is not meaningful.

The accessibility of the bank to all segments of the Winona Assessment Area increased during June 1999 when Merchants opened its Lakeside office. Since there are no low- or moderate-income geographies within the Winona Assessment Area, the branch opening did not have an impact on low- or moderate-income geographies and had minimal impact on accessibility to low- or moderate-income individuals.

There are slight variations in the banking hours and services that are available at the different branch offices. The variations do not inconvenience any specific portions of the assessment area or low- or moderate-income individuals. The bank offers extended hours through its walk-up and drive-up areas at each of its branch offices and at the lobby of one of those offices. The bank's extended hours are generally until 6:00 pm on Fridays and noon on Saturdays. In addition to its traditional branch offices, the bank also operates one limited-service branch at an assisted living home for senior citizens in Winona. The bank provides depository services from this branch during one hour per month as a convenience for the home's residents. The bank offers all of its loan products including mortgage, consumer, and commercial loans at its

Main and St. Charles offices. It offers consumer loans only at its Goodview and Lakeside offices, both of which are within close proximity to the Main office. The bank does not offer loans at its limited-service branch.

The bank's alternative systems for delivering retail banking services include 24-hour telephone banking, 24-hour Internet banking, and ATM access. Of the seven ATMs in the Winona AA, five are full-service with cash-in and cash-out capabilities. Because the bank does not gather information on the income levels of the users of these alternative systems, we could not place much weight on the systems in this evaluation.

## **Community Development Services**

The bank provides a relatively high level of Community Development services. During the evaluation period, Merchant's employees responded to area Community Development needs by providing technical assistance and financial expertise to 17 organizations that work on Community Development issues within the Winona Assessment Area. Bank personnel serve as officers or board members for organizations that promote small businesses and that provide affordable housing and community services to low- and moderate-income individuals. The bank has served as a leader with one of the organizations, the local food shelf. For a number of years, the bank has sponsored an annual fund-raising event for the food shelf. In 2001, the bank helped collect more than half of the food shelf's annual needs. In addition to the significant time the bank has devoted to the organization, it has also provided financial support which was considered under the Investment Test.

## **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on a limited-scope review, the bank's performance under the Service Test in the Rochester Assessment Area is stronger than the bank's overall "High Satisfactory" performance under the Service Test.

Refer to Table 15 in appendix C for the facts and data that support these conclusions.

Early in the evaluation period, the bank established a presence in Rochester and operates three branch offices there. One of those offices is located in a moderate-income geography. As such, the percentage of the bank's offices in moderate-income geographies exceeds the percentage of the population in the assessment area that lives in moderate-income geographies. We gave relatively little weight to the bank's performance in this assessment area because the bank derives relatively few of its deposits from the area.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): HMDA Loans: January 1, 2000 to December 31, 2001 Small Business and Small Farm Loans: January 1, 1999 to December 31, 2001 Investment and Service Tests and CD Loans: January 1, 1999 to April 29, 2002	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Merchants Bank, National Association (Merchants) Winona, Minnesota	Residential real estate, small business, small farm, and Community Development	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Winona Assessment Area (non-metropolitan area)	Full-Scope	All of Winona County and block numbering areas 9601, 9604, and 9606 in Fillmore County
Rochester Assessment Area (MSA #6820)	Limited-Scope	All of Olmsted County

## Appendix B: Market Profiles for Full-Scope Areas

### Winona Assessment Area

Demographic Information for Full-Scope Area: Winona Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	13	0.00	0.00	84.62	15.38	0.00
Population by Geography	57,562	0.00	0.00	84.09	15.91	0.00
Owner-Occupied Housing by Geography	15,041	0.00	0.00	81.76	18.24	0.00
Businesses by Geography	2,683	0.00	0.00	91.46	8.54	0.00
Farms by Geography	759	0.00	0.00	90.91	9.09	0.00
Family Distribution by Income Level	14,010	14.54	17.28	24.50	43.68	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	4,458	0.00	0.00	86.59	13.41	0.00
Median Family Income	\$28,933			Median Housing Value		87,475
HUD Adjusted Median Family Income for 2002	\$48,500			Unemployment Rate		3.2
Percent of Households Below the Poverty Level	13.86					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 1990 U.S. Census, 2002 HUD updated MFI, and MN Department of Trade and Economic Development

The Winona Assessment Area consists of all of Winona County and approximately half of Fillmore County. The counties are contiguous and are both located in southeastern Minnesota. The bank excluded a portion of Fillmore County from the assessment area due to the distance from its branch offices. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Of the bank's two assessment areas, the Winona Assessment Area is the most predominant. Eighty-eight percent of the bank's deposits are derived from the assessment area as well as 75% of its loan originations and purchases. The bank operates four full-service offices within the assessment area. Three of these offices are located in Winona and one is located in the City of St. Charles. The bank also operates a fifth office, at which it provides banking services to residents of a nursing home in Winona during limited hours. The bank operates seven ATMs in the assessment area. It provides a full range of financial products and services and is an active home mortgage and small business lender. Merchant's St. Charles branch office is an active small farm lender, although many of its small farm borrowers are located in the bank's nearby Rochester Assessment Area.

There are numerous financial institutions within the assessment area that contribute to a good level competition. There are 15 banks or credit unions with offices in the assessment area. Merchants has the highest level of deposits in the assessment area of all of these financial institutions. It also has the highest level of home mortgage and small business loans in the

assessment area. Major competitors in the assessment area include Wells Fargo Bank, Home Federal Savings Bank, and Signal Bank South.

The City of Winona has a population of approximately 27,000. The local economy is healthy and diverse. Manufacturing is the predominant industry and there more than 100 diverse manufacturers in the area. The largest employers are TRW Automotive Electronics and Fastenal Company, both of which are industrial manufacturers. The unemployment rate in both Winona and Fillmore Counties is between 3% and 4%. The City of St. Charles is 30 miles west of Winona and has a population of approximately 3,000. St. Charles is located in a more rural area and the economy is more agriculturally based.

During the examination, we contacted representatives of two organizations that serve the Winona Assessment Area. We also reviewed information from five contacts the OCC and other bank regulatory agencies had made within the area during the past year. The contacts were with governmental and nonprofit organizations, as well as a local Realtor. The organizations serve a wide range of housing, small business, and small farm needs. The contacts said there is a need for rehabilitation of existing housing stock and the need for additional housing stock. The shortage of housing stock exists at all price levels, including housing that would be affordable for low- and moderate-income families. The contacts mentioned the need for financing of start-up businesses and new farm operators. They also mentioned the need for financing the working capital needs of small businesses and the ongoing operating needs of farmers. The contacts said there is healthy competition among local financial institutions, and they are not aware of any credit needs that are not being met.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community Development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table

also presents market share information based on the most recent aggregate market data available.

- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm.

Market share information is presented based on the most recent aggregate market data available.

**Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

**Table 1. Lending Volume**

LENDING VOLUME		Geography: MINNESOTA						Evaluation Period: January 1, 1999 TO DECEMBER 31, 2001				
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans **		Total Reported Loans		% of Rated Area Deposits in MA/AA ***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
<b>Full Review:</b>												
Winona AA	74.82	1,206	107,905	637	61,261	367	15,396	1	40	2,211	184,602	88.22
<b>Limited Review:</b>												
Rochester AA	25.18	429	47,484	159	9,725	156	6,002	0	0	744	63,211	11.78

\* Loan Data as of December 31, 2001. Rated area refers to either the state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is January 1, 1999 to April 29, 2002.

\*\*\* Deposit Data as of June 30, 2001. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE			Geography: MINNESOTA				Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2001					Market Share (%) by Geography*				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ Units***	% Bank's Loans	% Owner Occ Units***	% Bank's Loans	% Owner Occ Units***	% Bank's Loans	% Owner Occ Units***	% Bank's Loans						
<b>Full Review:</b>																
Winona AA	371	70.13	0.00	0.00	0.00	0.00	81.76	83.02	18.24	16.98	27.05	0.00	0.00	25.24	37.93	
<b>Limited Review:</b>																
Rochester AA	158	29.87	0.00	0.00	14.39	17.09	66.29	67.72	19.32	15.19	1.64	0.00	2.57	1.63	1.15	

\* Based on 2000 Peer Mortgage Data: Midwestern Region.

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 Census information.

**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT			Geography: MINNESOTA				Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2001					Market Share (%) by Geography				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ***	% Bank's Loans	% Owner Occ***	% Bank's Loans	% Owner Occ***	% Bank's Loans	% Owner Occ***	% Bank's Loans						
<b>Full Review:</b>																
Winona AA	153	86.93	0.00	0.00	0.00	0.00	81.76	83.66	18.24	16.34	42.19	0.00	0.00	40.24	56.52	
<b>Limited Review:</b>																
Rochester AA	23	13.07	0.00	0.00	14.39	21.74	66.29	60.87	19.32	17.39	1.67	0.00	2.90	1.88	0.00	

\* Based on 2000 Peer Mortgage Data: Midwestern Region.

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE												Geography: MINNESOTA Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2001				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*					
	#	% of Total**	% Owner Occ Units***	% Bank's Loans	% Owner Occ Units***	% Bank's Loans	% Owner Occ Units***	% Bank's Loans	% Owner Occ Units***	% Bank's Loans	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Winona AA	676	73.16	0.00	0.00	0.00	0.00	81.76	80.33	18.24	19.67	17.22	0.00	0.00	15.80	24.68	
<b>Limited Review:</b>																
Rochester AA	248	26.84	0.00	0.00	14.39	21.77	66.29	63.31	19.32	14.92	1.82	0.00	3.45	1.70	1.07	

\* Based on 2000 Peer Mortgage Data: Midwestern Region.

\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 Census information.

**Table 5. Geographic Distribution of Multifamily Loans**

Geographic Distribution: MULTIFAMILY		Geography: MINNESOTA					Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2001					Market Share (%) by Geography*				
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% of MF Units***	% Bank's Loans	% MF Units***	% Bank's Loans	% MF Units***	% Bank's Loans	% MF Units***	% Bank's Loans						
<b>Full Review:</b>																
Winona AA	6	100.00	0.00	0.00	0.00	0.00	89.43	83.33	10.57	16.67	0.00	0.00	0.00	0.00	0.00	
<b>Limited Review:</b>																
Rochester AA	0	0.00	0.00	0.00	21.11	0.00	61.13	0.00	17.76	0.00	0.00	0.00	0.00	0.00	0.00	

\* Based on 2000 Peer Mortgage Data: Midwestern Region.

\*\* Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

\*\*\* Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 1990 Census information.

**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES			Geography: MINNESOTA						Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2001						
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% of Businesses***	% Bank's Loans	% of Businesses***	% Bank's Loans	% of Businesses***	% Bank's Loans	% of Businesses***	% BA Bank's Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Winona AA	637	80.03	0.00	0.00	0.00	0.00	91.46	81.95	8.54	18.05	19.83	0.00	0.00	19.79	33.87
<b>Limited Review:</b>															
Rochester AA	159	19.97	0.00	0.00	13.47	23.27	70.41	67.30	15.86	9.43	2.50	0.00	7.22	2.27	.98

\* Based on 2000 Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2001).

**Table 7. Geographic Distribution of Small Loans to Farms**

Geographic Distribution: SMALL LOANS TO FARMS															Geography: MINNESOTA					Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2001				
MA/Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*													
	#	% of Total**	% of Farms***	% Bank's Loans	% of Farms***	% Bank's Loans	% of Farms***	% Bank's Loans	% of Farms***	% Bank's Loans	Overall	Low	Mod	Mid	Upp									
<b>Full Review:</b>																								
Winona AA	367	70.17	0.00	0.00	0.00	0.00	90.91	87.19	9.09	12.81	21.24	0.00	0.00	20.52	83.33									
<b>Limited Review:</b>																								
Rochester AA	156	29.83	0.00	0.00	32.84	83.33	62.30	10.26	4.86	6.41	27.93	0.00	66.10	5.26	37.50									

\* Based on 2000 Peer Small Business Data: US.

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2001).

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE		Geography: MINNESOTA						Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2001							
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share*				
	#	% of Total**	% Families***	% Bank's Loans****	% Families**	% Bank's Loans****	% Families*	% Bank's Loans****	% Families*	% Bank's Loans****	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Winona AA	371	70.13	14.54	10.52	17.28	19.67	24.50	31.58	43.68	38.23	28.27	35.42	27.91	28.42	26.70
<b>Limited Review:</b>															
Rochester AA	158	29.87	15.48	16.46	19.43	32.28	28.55	28.48	36.54	22.78	1.73	1.74	1.20	2.53	1.60

\* Based on 2000 Peer Mortgage Data: Midwestern Region.  
 \*\* As a percentage of loans with borrower income information available. No information was available for 1.89% of loans originated and purchased by Bank.  
 \*\*\* Percentage of Families is based on the 1990 Census information.  
 \*\*\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT			Geography: MINNESOTA				Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2001					Market Share*				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Families**	% Bank's Loans****	% Families*	% Bank's Loans****	% Families*	% Bank's Loans****	% Families*	% Bank's Loans****						
<b>Full Review:</b>																
Winona AA	153	86.93	14.54	7.28	17.28	27.15	24.50	33.78	43.68	31.79	42.33	25.00	46.81	44.44	41.67	
<b>Limited Review:</b>																
Rochester AA	23	13.07	15.48	17.39	19.43	17.39	28.55	39.13	36.54	26.09	1.70	3.08	0.84	2.08	1.40	

\* Based on 2000 Peer Mortgage Data: Midwestern Region.  
 \*\* As a percentage of loans with borrower income information available. No information was available for 1.14% of loans originated and purchased by Bank.  
 \*\*\* Percentage of Families is based on the 1990 Census information.  
 \*\*\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: MINNESOTA				Evaluation Period: JANUARY 1, 2000 TO DECEMBER 31, 2001					Market Share*				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers						
	#	% of Total**	% Families**	% Bank's Loans****	% Families*	% Bank's Loans****	% Families*	% Bank's Loans****	% Families*	% Bank's Loans****	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Winona AA	676	73.16	14.54	5.20	17.28	16.82	24.50	28.75	43.68	49.23	18.53	21.05	23.26	13.61	19.77
<b>Limited Review:</b>															
Rochester AA	248	26.84	15.48	17.96	19.43	25.72	28.55	37.14	36.54	19.18	1.97	2.80	1.94	1.76	1.71

\* Based on 2000 Peer Mortgage Data: Midwestern Region.  
 \*\* As a percentage of loans with borrower income information available. No information was available for 2.71% of loans originated and purchased by Bank.  
 \*\*\* Percentage of Families is based on the 1990 Census information.  
 \*\*\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

**Table11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES		Geography: MINNESOTA		Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2001					
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share*	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less
<b>Full Review:</b>									
Winona AA	637	80.03	87.18	61.85	80.38	9.73	9.89	19.83	22.08
<b>Limited Review:</b>									
Rochester AA	159	19.97	87.82	66.67	89.31	4.40	6.29	2.50	2.78

\* Based on 2000 Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2001).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 9.05% of small loans to businesses originated and purchased by the Bank.

**Table 12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS				Geography: MINNESOTA		Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2001			
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share*	
	#	% of Total**	% of Farms***	% Bank's Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev \$1 Million or Less
<b>Full Review:</b>									
Winona AA	367	70.17	97.23	89.65	91.01	7.08	1.91	21.24	20.66
<b>Limited Review:</b>									
Rochester AA	156	29.83	95.73	92.95	91.03	8.97	0.00	27.93	27.71

\* Based on 2000 Peer Small Business Data: US.

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 2001).

\*\*\*\* Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 5.54% of small loans to farms originated and purchased by Bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS		Geography: MINNESOTA				Evaluation Period: JANUARY 1, 1999 TO APRIL 29, 2002			
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Winona AA	0	0	22	260	22	260	98.04	0	0
<b>Limited Review:</b>									
Rochester AA	0	0	5	5	5	5	1.96	0	0

\* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.  
 \*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

