



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Public Disclosure

February 20, 2003

Community Reinvestment Act Performance Evaluation

**Midwest Bank, National Association
Charter Number: 6661**

**105 East Soo Street
Parkers Prairie, Minnesota 56361**

**Office of the Comptroller of the Currency
Alexandria Field Office
P. O. Box 849
Alexandria, MN 56308**

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.

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Institution's CRA Rating

This institution is rated Satisfactory. An institution in this group has a satisfactory record of helping to meet the credit needs of the assessment area in a manner that is consistent with its resources and capabilities.

- Midwest Bank, National Association's average net loan-to-deposit ratio of 80% demonstrates a strong willingness to lend given the bank's financial condition, size, and comparison with other lenders within the assessment area (AA).
- The bank's lending in the AA meets the standard for satisfactory performance. A majority of the bank's loans are made within the AA.
- The bank's record of lending to individuals of different income levels and agriculture and business borrowers of different sizes meets the standard for satisfactory performance.
- The bank's geographic distribution of loans throughout the AA meets the standards for satisfactory performance when considering demographic information, the location of the bank's offices and competition from other lenders.

Description of Institution

Midwest Bank, National Association (MB) is located in Otter Tail County in Parkers Prairie, Minnesota. It is an intrastate bank with a branch located in Dalton, Minnesota approximately 35 miles west of Parkers Prairie. In addition, a branch of Liberty Savings Bank, fsb in Baxter, Minnesota was acquired on February 14, 2003.

MB's assets total \$55 million as of December 31, 2002. Parkers Prairie Bancshares, Inc., a two-bank holding company owns 100% of the bank. The holding company is located in Parkers Prairie, Minnesota and has \$133 million in assets as of December 31, 2002.

The bank's loan portfolio is diverse. As of December 31, 2002, the composition of the portfolio is as follows:

Loan Portfolio Composition	\$ (000)	%
Commercial (including Real Estate)	19,749	43.6
Agriculture (including Real Estate)	10,235	22.6
Residential Real Estate Loans	8,422	18.6
Consumer Loans	3,941	8.7
Construction	1,229	2.7
Other Loans	1,059	2.3
Lease Financing Receivable	693	1.5
Total	45,328	100.00

MB offers a wide variety of financial products and services and its lending focus is on business and farm loans. As of December 31, 2002, net loans represent 77% of total assets and the bank's Tier One Leverage Capital is 10.35% of average assets, or \$5.9 million. There are no legal or financial impediments that would restrict the bank's ability to meet the credit needs of the community. The bank's structure has not changed since the previous examination.

MB was rated "Satisfactory" at the last CRA examination dated September 8, 1998.

Description of Midwest Bank, National Association's Assessment Area

MB's assessment area (AA) includes eleven contiguous Block Numbering Areas (BNAs). The AA includes parts of Otter Tail, Todd, Douglas and Grant Counties and encompasses the trade area of the bank's Parkers Prairie and Dalton offices. The AA includes four moderate income BNAs and seven middle income BNAs. There are no low income or upper income BNAs in the AA.

The AA meets the requirements of the regulation. The AA does not arbitrarily exclude low- or moderate-income geographies. Cities included in the AA include but are not limited to Parkers Prairie, Dalton, Battle Lake, Henning, Bertha, Clarissa, Eagle Bend and a portion of Fergus Falls.

The bank's AA is dependent on agriculture and small businesses. Employment opportunities outside of these industries include the public school system and local health care facilities. Due to the close proximity to the cities of Alexandria and Fergus Falls, employment opportunities are also available in these communities.

Information from the Bureau of Labor Statistics lists 2001 unemployment rates at 4.6% for Otter Tail County, 6.1% for Todd County, 3.7% for Douglas County and 6.8% for Grant County. These unemployment rates are slightly higher than the Minnesota statewide average of 3.7% for 2001.

During our evaluation we contacted a community organization and relied on recent community contacts on file to better understand the credit needs of the AA. Based on this information we determined that business loans that generate local employment are an identified credit need in the AA. The contact stated that MB's products and services are very competitive and that the bank effectively meets community credit needs.

The demographics of the AA are illustrated on the next page. The information is based on 1990 census data unless otherwise noted. This is the most recent information available during our evaluation.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	8,704
Number of Households	12,165
Number of Low-Income Families	2,227
% of Low-Income Families	25.6%
Number of Moderate-Income Families	1,907
% of Moderate-Income Families	21.9%
Number of Middle-Income Families	2,087
% of Middle-Income Families	24.0%
Number of Upper-Income Families	2,483
% of Upper-Income Families	28.5%
<i>Geographies</i>	
Number of Census Tracts/BNA	11
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	36.4%
% Middle-Income Census Tracts/BNA	63.6%
% Upper-Income Census Tracts/BNA	0
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,225
2002 HUD-Adjusted MFI	\$48,500
<i>Economic Indicators</i>	
AA 1990 Unemployment Rate	2.63%
Owner-Occupied Housing	54.2%
Median Housing Value	\$40,612
% of Households Below Poverty Level	18.9%

Loan Sampling

The bank's primary loan types were determined by taking all originated and purchased loans for the period September 8, 1998 to December 31, 2002. Loans acquired in the Baxter branch acquisition are not considered in this review.

For the purposes of this evaluation, the primary loan types are business, farm production loans and consumer loans. Business loans account for 25% of the volume of loans originated and farm production loans account for 18% of the volume and 21% of the number of loans originated. Consumer loans represent 20% of the number of loans originated.

To conduct our analysis, we performed statistically valid sampling techniques selecting a sample of twenty business loans, twenty farm loans and twenty consumer loans originated in 2001 and 2002. After initial sampling to determine the banks lending within the AA, additional files were selected if needed so that all loans in the sample were made within the AA.

Conclusions about Performance Criteria

Loan-to-Deposit Ratio

MB's loan-to-deposit (LTD) ratio exceeds the standards for satisfactory performance given the size, financial condition, assessment area needs, and local economic condition. Since the last CRA evaluation, the bank's average quarterly LTD ratio is 80%.

When compared to eight other similarly situated institutions in the AA, MB is ranked second out of nine banks. These banks have similar asset sizes ranging from \$23 to \$88 million. The following table illustrates the total assets and LTD ratios for these banks.

Institution	Assets (as of 12/31/02)	Average Quarterly LTD Ratio
Star Bank, NA	\$88 Million	89%
Midwest Bank, NA	<i>\$58 Million</i>	<i>80%</i>
First State Bank of Alexandria	\$70 Million	78%
Farmers State Bank of Underwood	\$30 Million	77%
Security State Bank of Fergus Falls	\$70 Million	75%
Stearns Bank Evansville NA	\$37 Million	72%
The First National Bank of Henning	\$64 Million	67%
First State Bank of Ashby	\$23 Million	66%
The First National Bank of Battle Lake	\$32 Million	52%

Lending in Assessment Area

Lending within the AA meets the standard for satisfactory performance. A majority of the loans are originated within the AA with 85% of the number and but only 57% of the dollar of all sampled loans originating in the AA. A substantial majority of farm and consumer loans were originated in the AA while less than half of the business loans were originated in the AA. The following table illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Business loan sample	14	70%	1,265	47%	6	30%	1,454	53%
Farm loan sample	20	100%	604	100%	0	0	0	0
Consumer loan sample	17	85%	107	78%	3	15%	30	22%
Total Reviewed	51	85%	1,976	57%	9	15%	1,484	43%

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

Lending to borrowers of different incomes and to businesses and farms of different sizes meets the standard for satisfactory performance. While business loans sampled were not reflective of the AA demographics, loans to consumers and small farms exceeded the demographics of the AA.

Consumer Loans

Consumer loans to low- and moderate-income individuals exceed the demographics of the AA. The following chart illustrates that 80% of the number of loans sampled were to low- and moderate-income borrowers.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	31%		17%		20%		32%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	50%	40%	30%	25%	15%	34%	5%	1%

Small Business Loans

MB's lending to small businesses does not meet the standard for satisfactory performance. Lending to businesses with revenues under \$1 million is not reflective of the demographics of the AA. The following table illustrates that 75% of the number of loans and 47% of the dollar volume of loans is less than the demographics of the AA where 93% of businesses have annual revenues of less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93%	7%
% of Bank Loans in AA #	75%	25%
% of Bank Loans in AA \$	47%	53%

Farm Loans

MB's lending to small farms is good. Lending to farms with revenues under \$1 million exceeds the demographics of the AA. The following chart illustrates that all of the sampled loans were to farms with revenues under \$1 million where 98% of farms have annual revenues of less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms	98%	2%
% of Bank Loans in AA #	100%	None
% of Bank Loans in AA \$	100%	None

Geographic Distribution of Loans

MB's geographic distribution of loans throughout its AA meets the standard for satisfactory performance.

MB has a low level of lending to moderate income BNA's adjacent to the Parkers Prairie office. In our sample of 60 loans, we found only one loan originated in each of the following moderate-income BNA's: 9613, 9902, and 9903. We found that the majority of loan originations are concentrated in close proximity to the Parkers Prairie and Dalton communities. While lending patterns decreased as the distance grew further from the bank offices, geographic distribution is reasonable given the demographic information, the location of the bank's offices and competition with other lenders.

The following tables illustrate that in all categories of loans sampled, MB's loan originations in moderate-income geographies are good compared to the demographics of the AA.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		38%		62%		0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	0	0	65%	54%	35%	46%	0	0
BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		29%		71%		0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	0	0	55%	44%	45%	56%	0	0
FARM LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		44%		56%		0	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	0	0	60%	56%	40%	44%	0	0

Responses to Complaints

MB has not received any complaints about performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on 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.