

Public Disclosure

March 11, 1999

Community Reinvestment Act Performance Evaluation

**Stearns Bank Upsala National Association
Charter Number 23458**

**105 Main Street South, Suite 001
Upsala, Minnesota 56384**

Office of the Comptroller of the Currency

**Alexandria Field Office
1309 Highway 29, P.O. Box 849
Alexandria, Minnesota 56308**

Note: 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.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Stearns Bank Upsala National Association prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of March 11, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated Satisfactory. We assigned the rating based on the following information:

- The bank's net loan-to-deposit ratio of 56 percent reflects an adequate level of lending. In addition, the majority of the loans we reviewed - 74 percent - were made within the bank's assessment areas.
- Within the Morrison-Todd Counties assessment area, a good level - 70 percent - of the bank's loans were made to small businesses. Within the Stearns County assessment area, a weaker but acceptable level - 48 percent - of the bank's loans were made to small businesses.
- The overall geographic distribution of the bank's lending is reasonable. The bank's strength for this factor was its lending in the low-income geography of Stearns County. While only six percent of businesses are located in the low-income geography of Stearns County, 24 percent of the loans the bank made in the County were in that geography.

Description of Institution

Stearns Bank Upsala National Association operates its sole office in Upsala, Minnesota. The bank also owns one ATM located in Upsala, Minnesota that dispenses cash only. The bank has not opened or closed any branches since the last examination.

As of December 31, 1998, the bank’s assets totaled \$39,106,000, of which loans comprise 54 percent. The primary type of credit the bank extends is real estate loans and the secondary type is leases. The composition of the bank’s loan portfolio was as follows:

LOANS OUTSTANDING ON DECEMBER 31, 1998		
LOAN TYPE	DOLLAR AMOUNT (000'S)	PERCENT
Real Estate *	12,120	58
Commercial	2,215	11
Consumer	496	2
Agricultural	440	2
Leases	5,784	27
Total Loans and Leases	21,055	100

* Includes residential, commercial, and agricultural loans secured by real estate.

There are no legal or financial impediments to the bank’s ability to meet area credit needs. The bank is owned by Stearns Financial Services, Inc., St. Cloud, Minnesota, a \$676 million company which owns five other banks. The affiliated banks are located in St. Cloud, Evansville, Holdingford, and Canby, Minnesota and in Scottsdale, Arizona.

The nature of the bank’s business is strongly impacted by the above affiliation. The bank purchases loans and leases from its affiliates. Many of these loans and leases are to borrowers in the Stearns County portion of the bank’s assessment area and many are to borrowers outside of the assessment areas. In fact, as of December 31, 1998, the majority of the bank’s loans - 55 percent - were participations it had purchased. An even greater majority - 63 percent - of the bank’s deposits are from out of area.

The most recent examination of the bank’s Community Reinvestment Act performance was conducted as of February 18, 1997 and the bank was rated Satisfactory.

Description of Assessment Areas

The bank’s CRA assessment areas consist of three whole counties - Morrison, Todd, and Stearns. All of the counties are contiguous. The bank is in the southwestern corner of Morrison County and is located centrally within the combined three-county area. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies.

For the purposes of this evaluation, we have combined information for Morrison and Todd Counties, neither of which is in a metropolitan statistical area. We evaluated Stearns County separately because it is part of the St. Cloud, Minnesota Metropolitan Statistical Area (number 6980). As such, it has demographic characteristics that are different than those of the nonmetropolitan statistical areas within the state.

The Morrison and Todd Counties assessment area is a largely rural area and consists of 16 block-numbering areas, three or 19 percent of which are designated moderate-income with the remainder designated middle-income.* The statewide nonmetropolitan median family income from the 1990 census was \$28,933. The Department of Housing and Urban Development (HUD) estimated this figure was \$40,500 for 1998.

The Stearns County assessment area consists of 30 census tracts. Their distribution is: one or three percent low-income; one or three percent moderate-income; 23 or 77 percent middle-income; and five or 17 percent upper-income. The median family income for this assessment area from the 1990 census was \$32,693. HUD estimated this figure was \$45,300 for 1998. The major city within the assessment area, St. Cloud, has a population of approximately 70,000.

We reviewed information from 11 community contacts made by this and other regulatory agencies within the past two years. We also made three new community contacts during the examination. Most of the contacts were with nonprofit organizations and government agencies. Many of the contacts help address small business and economic development needs. Others address housing needs or provide family services. Seven of the contacts were made in Morrison-Todd Counties assessment area and another seven were in the Stearns County assessment area.

For the Morrison-Todd Counties assessment area, contacts noted the economy is diverse and stable, although the agricultural sector is weakened due to falling farm prices. In addition, retail business has suffered due to competition from St. Cloud retailers and from an influx of large retail chains. Many of the contacts noted a shortage of affordable housing, caused in part by people who work in the growing St. Cloud market and are seeking homes in more rural and affordable areas. The contacts noted a full range of credit needs, including consumer credit, loans for home purchase and rehabilitation, and business loans.

For the Stearns County assessment area, contacts noted the economy is very strong, notably in the retail sector. Housing prices are rising faster than wages and competition for lower cost housing is strong. Just as in the Morrison-Todd Counties assessment area, contacts noted a shortage of affordable housing. Contacts noted a need for downpayment assistance and financing for start-up businesses.

Competition from other banks within the assessment areas is strong. Considering only banks with state or national charters, there are 30 other banks with the three-county area. Most are unit banks although some have regional affiliations. Assets of these 30 banks range from \$12 million to \$424 million, although most are less than \$100 million. For comparison purposes, we focused on 20 smaller banks within the assessment areas.

* For the purposes of this evaluation, "low-income" is less than 50% of area median family income, "moderate-income" is

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50% to less than 80% of median family income, "middle-income" is 80% to less than 120% of median family income, and "upper-income" is greater than 120% of median median family income.

Scope of Examination

Based on the following information regarding the bank's 1997 and 1998 loan originations, we focused our review on the bank's commercial lending.

1997 AND 1998 LOAN ORIGINATIONS				
	Number	Percent of Number	Dollars	Percent of Dollars
Residential Real Estate	26	8	964,686	5
Agricultural	65	20	1,089,438	5
Commercial	78	25	17,639,991	86
Consumer	148	47	837,878	4
Total	317	100	20,531,993	100

We reviewed all of the commercial loans the bank originated and purchased during the two-year evaluation period. Commercial loans, in addition to being the bank's primary loan product, were also a credit need specifically noted by community contacts.

Conclusions with Respect to Performance Criteria

Net Loan-to-Deposit Ratio

The bank's net loan-to-deposit ratio reflects an adequate level of lending. Relative to other banks within the assessment areas, Stearns Bank Upsala National Association has a lower ratio but one that still falls within an acceptable range. The bank's net loan-to-deposit ratio is 56 percent. This is based on the average of the quarter-end ratios for the eight quarters since the bank's prior CRA examination. The ratio remained relatively unchanged during that time period and was 57 percent on December 31, 1998. The average ratio for other banks within the assessment areas for the eight quarters was 72 percent, reflecting a higher volume of deposits at those banks is used to generate loans.

Lending in Assessment Area

An adequate level of the bank's loans is made within the bank's assessment areas. By number, 74 percent of the bank's loan originations and purchases were made within the assessment area. By dollar, somewhat fewer - 62 percent - were made within the assessment area.

Lending to Businesses of Different Sizes within Assessment Area

The bank’s lending to businesses of different sizes is reasonable. Under the Community Reinvestment Act, greater emphasis is placed on extending loans to smaller businesses, those with revenues less than \$1 million. Stearns Bank Upsala National Association’s lending to businesses with revenues less than \$1 million was good within the Morrison-Todd Counties assessment area and was weaker, but acceptable, within the Stearns County assessment area.

The following table shows that within the Morrison-Todd Counties assessment area, 68 percent of the businesses have revenues of \$1 million or less. The bank’s lending distribution was stronger than this demographic information, as 70 percent of the bank’s loans, by number, were to businesses with revenues of \$1 million or less. We placed greater emphasis on the number of loans to small businesses rather than the dollars of loans because the number of loans is a better reflection of the number of businesses that benefited from the loans.

MORRISON-TODD COUNTIES ASSESSMENT AREA					
	Demographic Information: Percentage of Businesses	Loans to Businesses by Business Revenue Size			
		Number of Loans	Percentage Based on Number of Loans	Dollars of Loans	Percentage Based on Dollars of Loans
Revenues of \$1 Million or Less	68	26	70	1,122,654	22
Revenues of Greater Than \$1 Million	6	11	30	4,018,329	78
Revenues Unknown or Not Available	26	0	0	0	0
Total	100	37	100	5,140,983	100

The following table shows that within the Stearns County assessment area, 65 percent of the businesses have revenues of \$1 million or less. The bank’s lending distribution was weaker than this demographic information, as 48 percent of the bank’s loans, by number, were to businesses with revenues of \$1 million or less. Again, we placed greater emphasis on the number of loans to small businesses rather than the dollars of loans.

STEARNS COUNTY ASSESSMENT AREA					
	Demographic Information: Percentage of Businesses by Revenue Size	Loans to Businesses by Business Revenue Size			
		Number of Loans	Percentage Based on Number of Loans	Dollars of Loans	Percentage Based on Dollars of Loans
Revenues of \$1 Million or Less	65	10	48	1,982,777	34
Revenues of Greater Than \$1 Million	9	10	48	3,518,615	61
Revenues Unknown or Not Available	26	1	4	309,555	5
Total	100	21	100	5,810,947	100

Geographic Distribution of Loans

The overall geographic distribution of the bank’s lending is reasonable. Under the Community Reinvestment Act, greater emphasis is placed on extending loans within low- and moderate-income geographies. Stearns Bank Upsala National Association’s lending to businesses located in low- and moderate-income geographies was acceptable for the Morrison-Todd Counties assessment area and was very good within the Stearns County assessment area.

The following table shows that within the Morrison-Todd Counties assessment area, there are no low-income geographies. It also shows that 17 percent of the businesses within the assessment area are located within the three moderate-income geographies and the bank did not lend to any of them. This lack of business lending within those geographies is not considered unreasonable based on the location of the bank relative to those geographies. The moderate-income geographies include the cities of Little Falls, Bertha, Clarissa, and Eagle Bend which are approximately 20 to 60 miles from the bank. In addition, there are other banks located in those geographies that would provide competition for Stearns Bank Upsala National Association.

MORRISON-TODD COUNTIES ASSESSMENT AREA					
Income Level of Geography	Demographic Information: Percentage of Businesses by Geographic Distribution	Loans to Businesses Based on Geographic Distribution			
		Number of Loans	Percentage Based on Number of Loans	Dollars of Loans	Percentage Based on Dollars of Loans
Low	-	-	-	-	-
Moderate	17	0	0	0	0
Middle	83	37	100	5,140,983	100
Upper	-	-	-	-	-
Total	100	37	100	5,140,983	100

The following table shows that within the Stearns County assessment area, six percent of the businesses are located within the county’s one low-income geography. The bank’s penetration of that geography is excellent, as 24 percent of the bank’s loans are to businesses located there. For the county’s one moderate-income geography, only three percent of the businesses in Stearns County are located there and the bank did not lend to any of them. In aggregate, this reflects very good geographic distribution within Stearns County.

STEARNS COUNTY ASSESSMENT AREA					
Income Level of Geography	Demographic Information: Percentage of Businesses by Geographic Distribution	Loans to Businesses Based on Geographic Distribution			
		Number of Loans	Percentage Based on Number of Loans	Dollars of Loans	Percentage Based on Dollars of Loans
Low	6	5	24	1,454,053	25
Moderate	3	0	0	0	0
Middle	79	11	52	2,751,355	47
Upper	12	5	24	1,605,539	28
Total	100	21	100	5,810,947	100

Response to CRA Complaints

The bank did not receive any complaints related to the Community Reinvestment Act since the last examination.

Compliance with Antidiscrimination Laws

We identified no substantive violations of the antidiscrimination laws and regulations during the examination. To draw this conclusion, we reviewed a sample of automobile loans the bank granted within the past six months. We compared the terms and conditions on these loans relative to the borrowers' gender. We identified no unexplained differences.