



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 25, 2010**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Minnesota National Bank  
Charter Number 6417

235 Main Street  
Sauk Centre, MN 56378-0000

Office of the Comptroller of the Currency

MINNEAPOLIS (ALEXANDRIA) Field Office  
Campbell Mithun Tower 222 South Ninth Street  
Minneapolis, MN 55402-3393

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

Minnesota National Bank's lending performance reflects a satisfactory response to community credit needs for both the St. Cloud Metropolitan Statistical Area (MSA) and Todd County and Otter Tail County non-MSA portions of the assessment area (AA). Factors contributing to this rating include the following:

- The bank's loan-to-deposit is reasonable.
- A majority of originated and purchased loans are in the AA.
- Reasonable lending among businesses of different sizes and consumers of different income levels.

**SCOPE OF EXAMINATION**

We evaluated the bank using Small Bank Community Reinvestment Act examination procedures. The evaluation period is October 25, 2004 through January 25, 2010. We evaluated the bank's loan data for the time period beginning January 1, 2008 through December 31, 2009. The following tables depict the number and dollar volume of loans originated and purchased in the separate AA's.

## St. Cloud MSA

Loan Type	\$	#
Commercial	63.63%	22.29%
Consumer	10.31%	56.20%
Residential Real Estate	13.75%	10.61%
Agricultural	12.31%	10.89%

## Todd County and Otter Tail County Non-MSA

Loan Type	\$	#
Commercial	48.17%	15.35%
Consumer	19.60%	66.34%
Residential Real Estate	24.32%	11.27%
Agricultural	7.91%	7.04%

The bank's primary products are commercial and consumer loans in both AA's. We used a sample of 20 for each primary product to complete our analysis.

**DESCRIPTION OF INSTITUTION**

Minnesota National Bank (MNB), previously First National Bank of Sauk Centre, is a \$174 million bank located in Sauk Centre, Minnesota, a city of approximately 4,200 people. Sauk Centre is located 45 miles northeast of St. Cloud, the largest community in Stearns County. The bank has three branches located in the Coborn's grocery store in Sauk Centre, Long Prairie, and Pelican Rapids. The later two branches were acquired in March 2008 when the bank purchased Lake Country State Bank. Long Prairie is located in Todd County, approximately 15 miles north of the main office, and Pelican Rapids is located in Otter Tail County, approximately 50 miles southeast of Fargo, ND.

MNB is 100% owned by Sauk Centre Financial Services, Inc., a one-bank holding company headquartered in Sauk Centre, MN. As of December 31, 2009 the holding company had total assets of \$198 million. The bank has one affiliate business, Minnesota National Agency, also located in Sauk Centre, MN.

MNB offers a range of loan and deposit products with an emphasis on business and consumer lending. As of December 31, 2009 the bank's \$103 million loan portfolio was comprised of the following loan types by outstanding dollar volume: commercial and commercial real estate (54%), residential real estate (23%), agriculture (12%), consumer (6%), construction and development (4%), and leases/other (1%). Net loans total 52% of assets. Other products and services include internet banking, online bill pay, and remote deposit capture. The bank has one deposit taking automated teller machine (ATM) located at the main office and nine non-deposit taking ATMs.

There are no financial, legal or other factors that impede the bank's ability to meet the credit needs of its community. First National Bank of Sauk Centre received a Satisfactory rating as of its October 25, 2004 CRA evaluation and Lake Country State Bank received a Satisfactory rating as of its November 18, 2002 CRA evaluation.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

MNB's AA is delineated as three separate areas by the bank. These areas include a portion of Stearns County, Todd County and Otter Tail County. For analysis purposes we combined the non-MSA Census Tracts (CTs) located in Todd and Otter Tail County as they have similar characteristics of both being located in rural areas with similar lending strategies. The CTs located in Stearns County will be assessed separately as they are located in an MSA.

### **St Cloud MSA AA**

The St. Cloud MSA includes all of Stearns County and Benton County. MNB's AA incorporates three CT's located in the northwest portion of Stearns County which includes the city of Sauk Centre. Based on 2000 US Census data, all the CTs are middle-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 US Census data indicates a population of 12,992 and households of 4,767. The same source indicates 25% of households are low-income, 19% are moderate-income, 22% are middle-income, and 34% are upper-income. Data also indicates 8% of households in the AA are below poverty level. The 2000 US Census Data shows a weighted average of Median Household Income of \$38,443. Based on the Department of Housing and Urban Development 2009 estimate, the median family income for the MSA is \$67,000. According to the US Census the median housing value in the AA is \$86,700 with 76% of units being owner-occupied, 18% rental units and 6% vacant.

2000 US Census data indicates unemployment levels in the AA is 3%. However, information from the United States Department of Labor shows annual unemployment in Stearns County for 2007 and 2008 of 4.6% and 5.5%, respectively. As of November 2009 the unemployment rate had risen to 6.6%. Statewide unemployment levels increased from 4.8% in 2007 to 7.4% as of December 2009.

Stearns County offers several employment opportunities and employs more than 79,000 people. MN Pro shows major employers in Sauk Centre include Sauk Centre Independent School District (178 employees), St. Michaels Hospital and Nursing Homes (172 employees), and Cabinet Components (130 employees).

Bank competition in the AA is strong. According to the June 30, 2009 Deposit Market Share Report provided from the Federal Depository Insurance Corporation (FDIC), there are five institutions in the AA however in the entire county there are 31 institutions. MNB has a strong deposit share of the institutions in the AA with 37% of the market share. The FDIC report does not include credit unions which are also competition to this bank with a credit union located directly in Sauk Centre.

We contacted a city official to assess the lending needs in the community and the ability of local financial institutions to meet these needs. The primary need identified was business development. The individual felt that the local banks understood of the needs of the community.

### **Todd and Otter Tail County Non-MSA AA**

The non-MSA AA includes portions of Todd County and Otter Tail County. The AA includes six CTs in Todd County and four CTs in Otter Tail County. Based on the 2000 US Census data, all the CTs are middle-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The 2000 US Census data indicates a population of 29,733 and households of 11,347. The same source indicates 25% of households in the AA are low-income, 18% are moderate-income, 22% are middle-income, and 35% are upper-income. Data also indicates 12% of households in the AA are below poverty level. The 2000 US Census Data shows a weighted average of Median Housing Income of \$35,439. According to the US Census the median housing value in the AA is \$81,566 with 58% of units being owner-occupied, 10% being rental units and 32% being vacant.

2000 US Census data indicates unemployment levels in the AA is 5.4%. However, information from the United States Department of Labor shows annual unemployment levels in 2008 of 6.6% and 6.1% for Todd and Otter Tail County respectively. As of November 2009 the unemployment rates for these two counties have risen to 7.8% and 6.9%. Statewide unemployment levels increased from 4.8% in 2007 to 7.4% as of December 2009.

Todd County is a hub for industry and agricultural processing and employs approximately 11,000 people. MN Pro shows major employers in Long Prairie as RR Donnelley (600 employees), Long Prairie Packaging Co. (300 employees), Long Prairie Memorial Hospital (250 employees), and County of Todd (250 employees). Otter Tail County employs more than 28,000 people. Pelican Rapids is home to the West Central Turkeys Inc (Jennie-O Turkey) which employs 720 people. Other employers include the Pelican Rapids School District (153 employees), Good Samaritan Center (96 employees) and Meritcare Pelican Rapids (92 employees).

Bank competition in this AA is moderate. According to the June 30, 2009 Deposit Market Share Report provided from the Federal Depository Insurance Corporation (FDIC), there are eight institutions in the AA. MNB is the second highest deposit share holder with 18% of the market share. The FDIC report does not include credit unions which are also competition to this bank.

We contacted a city official to assess the lending needs in the community and the ability of local financial institutions to meet these needs. The primary need identified was small business development for retail businesses. The individual felt that the local community banks were above average in understanding the needs of the residents and businesses in the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

MNB's average loan-to-deposit is satisfactory and demonstrates a willingness to extend credit in relation to its financial capacity and lending opportunities. Since the last CRA evaluation, the bank's average quarterly loan-to-deposit ratio is 70%.

A review of three other similarly situated banking institutions ranks MNB third out of four. These financial institutions have asset sizes ranging from \$75 to \$225 million and are located within the defined AA. The average LTD ratio for all four banks for the evaluation period is 77%.

Institution	Assets (as of 9/30/09)	Quarterly Average LTD Ratio
First State Bank of Sauk Centre	\$94 million	59.22%
<b>Minnesota National Bank</b>	<b>\$189 million</b>	<b>70.35%</b>
American Heritage National Bank	\$202 million	87.99%
Freeport State Bank	\$76 million	90.06%

## Lending in Assessment Area

MNB's lending in their defined AA's is satisfactory. Overall we found the bank originates a majority of its loans to borrowers within their AA. Lending within the AA's was determined by a random sample of 20 commercial and consumer loans from each AA.

Lending in All Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	31	78%	9	12%	100	2,886,837	73%	1,075,156	27%	100
Consumer	34	85%	6	15%	100	195,069	79%	51,757	21%	100
<b>Totals</b>	<b>65</b>	<b>81%</b>	<b>15</b>	<b>19%</b>	<b>100</b>	<b>3,081,906</b>	<b>73%</b>	<b>1,126,913</b>	<b>27%</b>	<b>100</b>

Source: Sample of Loans

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

The bank's lending to businesses of different sizes and to borrowers of different income levels meets the standards for satisfactory performance in both AAs. We used a sample of 20 loans for each primary product originated between January 1, 2008 to December 31, 2009 to determine penetration.

### St. Cloud MSA Assessment Area

#### Borrower Distribution of Business Loans

MNB does a reasonable job of lending to businesses of different sizes. We expanded our sample to include 60 commercial loans located in the AA that totaled \$3.5 million. Lending to businesses with revenues of \$1 million or less is near the demographics of the AA. In discussion with the bank personnel there is a mix of small and larger businesses in Sauk Centre as there are a number of smaller retail businesses along with several trucking firms and distribution companies.

Borrower Distribution of Loans to Businesses in St. Cloud MSA AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80%	5%	15%	100%
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	58%	42%	0%	100%

Source: Loan data and 2009 Business Geodemographic Data

**Borrower Distribution of Consumer Loans**

The bank does a reasonable job of lending to borrowers of different incomes. The bank exceeds demographics for lending to households of both low- and moderate-income levels.

<b>Borrower Distribution of Consumer Loans in St. Cloud MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.59%	30.00%	18.73%	20.00%	22.15%	15.00%	34.53%	35.00%

Source: Loan data and 2000 US Census

**Todd County and Otter Tail County Assessment Area**

**Borrower Distribution of Business Loans**

MNB’s performance of lending to borrowers of different incomes in this area is excellent. Lending to businesses with revenues of \$1 million or less exceeds the demographics of the AA. There are 22% of businesses that do not report their revenue. In discussion with bank personnel the areas serviced by this AA is comprised of mostly smaller business operations given their rural location.

<b>Borrower Distribution of Loans to Businesses in Todd County and Otter Tail County AA</b>				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76%	2%	22%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	95%	5%	0%	100%

Source: Loan data and 2009 Business Geodemographic Data

**Borrower Distribution of Consumer Loans**

The bank does a reasonable job of lending to borrowers of different incomes. While the bank falls below the demographics for lending to households of low-income levels, the bank exceeds demographics for lending to moderate-income households and overall meets demographics. Nearly 12% of households in the AA are below the poverty level. These borrowers have a higher degree of difficulty qualifying for credit.

<b>Borrower Distribution of Consumer Loans in Todd County and Otter Tail County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.59%	10.00%	18%	20.00%	21.66%	40.00%	35.75%	30.00%

Source: Loan data and 2000 US Census

**Geographic Distribution of Loans**

All of the geographies in the bank’s Assessment Areas are considered middle-income. Therefore, an analysis of geographic distribution would not be meaningful and was not completed.

**Responses to Complaints**

The bank has not had any CRA related complaints since the prior CRA evaluation.

**Fair Lending or Other Illegal Credit Practices Review**

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