



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

## **PUBLIC DISCLOSURE**

**March 25, 2003**

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

**Minnstar Bank National Association  
Charter Number 13972**

**202 North Main  
Lake Crystal, MN 56055**

**Comptroller of the Currency  
Minneapolis West Field Office  
920 Second Avenue South Suite 800  
Minneapolis, MN 55402**

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

## TABLE OF CONTENTS

<b>INSTITUTION'S CRA RATING.....</b>	<b>2</b>
<b>DESCRIPTION OF INSTITUTION .....</b>	<b>2</b>
<b>DESCRIPTION OF ASSESSMENT AREA .....</b>	<b>3</b>
<b>CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....</b>	<b>4</b>

## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

- Minnstar National Bank meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 79% percent since the bank's prior CRA examination.
- A substantial majority of loans by both number (87 percent) and by dollar volume (95 percent) are located within the bank's defined assessment area.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers), and meets community demographics for lending to businesses and farms of different sizes.
- Geographic distribution of loans, where applicable, is reasonable and approximates community demographics.

## **DESCRIPTION OF INSTITUTION**

Minnstar Bank, N.A. (MNB) is an \$80 million commercial bank. The bank has three full service branches located in Lake Crystal, Mankato and Good Thunder, Minnesota. The bank has a 24-hour automated teller machine, (ATM) located at the Mankato office. The bank also has an ATM at a convenience store in Lake Crystal. Neither ATM accepts deposits.

MNB's business focus is in commercial, agricultural and consumer lending, with residential real estate lending as a secondary focus. According to its Report of Condition and Income, the bank had the following outstanding loans by dollar volume on December 31, 2002: commercial (27 percent), agricultural (29 percent), residential real estate (25 percent), and consumer (17 percent). Net loans represent 68 percent of total assets.

The bank is 100% owned by Lake Crystal Bancorporation, Inc., an \$80 million dollar one bank holding company also headquartered in Lake Crystal, Minnesota. There are no affiliated banks or non-bank companies.

MNB received a "Satisfactory" rating at its October 26, 1998 CRA examination. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs in its assessment area.

## DESCRIPTION OF ASSESSMENT AREA

The Board of Directors of MNB has designated the majority of Blue Earth County and a small portion of Nicollet County as the bank's assessment area. The area is comprised of 15 block-numbering areas (BNAs), thirteen of which are in Blue Earth County with the other two in Nicollet County. Two of the BNA's are moderate-income. The total population of the assessment area is approximately 58,900 persons based on 1990 census data.

The assessment area complies with regulatory requirements. It includes MNB's main office, branch locations, and ATMs, as well as a majority of the bank's loans. The area does not arbitrarily exclude any low- or moderate-income census tracts.

The U.S. Department of Housing and Urban Development's 2002 updated statewide non-MSA median family income (MFI) estimate for Minnesota is \$48,500. The following table summarizes the income levels of the BNAs and families located within the bank's assessment area:

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Percent of Total BNAs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
	0%	13%	60%	27%	14%	14%	24%	48%

Source: U.S. Census Data (1990)

The economy of the area is heavily dependent on agricultural, agribusiness, services, and manufacturing. The larger employers are located in Mankato and include Immanuel-St. Joseph's-Mayo Health System (1,540 employees), Minnesota State University at Mankato (1,400 employees), and Mankato Rehabilitation Center, Inc (1,325 employees). Area growth has been steady, particularly in the services and construction industries. According to U.S. Department of Labor statistics, the March 2003 unemployment figure for Minnesota was 4.4 percent, which compares favorably to the national average at 5.8 percent. In the bank's assessment area, unemployment in Blue Earth County and in Mankato, MN was low at 3.7 percent and 3.8 percent when compared to the Minnesota average.

Other financial institutions provide significant competition in the bank's assessment area, particularly in Mankato. Competition consists of fourteen banks and two credit unions. Of the fourteen banks, twelve are in Mankato. The other two banks are located in Amboy and Mapleton, Minnesota. Farm Credit Services also provides competition for agricultural loans in the assessment area.

The bank's assessment area credit needs are typical of those in most communities and include small farm, small business, residential and consumer lending.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

MNB's net loan-to-deposit ratio is reasonable. The bank's quarterly net loan-to-deposit ratio averaged 78.6 percent over 18 quarters from September 30, 1998 to December 31, 2002. This ratio is comparable to other community banks of similar size, business focus and location in the assessment area. MNB's net loan-to-deposit ratio ranked fourth among a total of seven similarly situated banks chartered in the assessment area. The other six banks had quarterly net loan-to-deposit ratios averaging 74.4 percent and ranging from 98.6 percent to 48.5 percent over the 18 quarters from September 30, 1998 to December 31, 2002.

### Lending in Assessment Area

MNB originates a substantial majority of its loans to borrowers located within its defined assessment area. Of loans originated in 2000, 2001 and 2002, about 87 percent by number and 95 percent by dollar volume were made to farms, businesses, and individuals located within the bank's assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT (000s)				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Commercial	17	85%	\$1,265	93%
Agricultural	20	100%	\$1,412	100%
Consumer	15	75%	\$126	74%
<b>Total</b>	<b>52</b>	<b>87%</b>	<b>\$2,803</b>	<b>95%</b>

Source: Bank records (verified by examiners)

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

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. Lending to small business and farms and to low- and moderate-income individuals meets or exceeds community demographics.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

Commercial lending activity to small businesses in the assessment area is comparable to community demographics of 93 percent. MNB originated a minimum of 405 commercial loans totaling \$16.2 million between October 1998 and December 2002. The largest number of loans originated in the assessment area were to small businesses with less than \$250,000 in annual revenues. Examiners sampled 20 commercial and commercial real estate borrowers. The following table compares the bank’s commercial lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number	Percent of Number	Business Demographic Data
<\$50,000	6	30%	93%
\$ 50,000-\$100,000	7	35%	
\$100,000-\$250,000	3	15%	
\$250,000-\$1,00,000	2	10%	
>\$1,000,000	2	10%	7%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Agricultural lending activity in the assessment areas meets the community demographics. Agricultural loans are well dispersed among farms of all revenue categories, and the majority of loans are to smaller farms with annual revenues less than \$250,000. Examiners sampled 20 loans to agricultural borrowers originated between October 1998 and December 2002. The table on the following page compares the bank’s agricultural lending activity by revenue size to community demographics:

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE			
Revenue (000s)	Number	Percent of Number	1997 Ag Census
Less Than \$50	5	25%	40%
\$50-\$100	2	10%	17%
\$100-\$250	7	35%	23%
\$250-\$500	4	20%	12%
Greater Than \$500	2	10%	8%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)

Consumer lending activity in the assessment areas meets or exceeds community demographics. MNB meets the community demographics for low-income borrowers and exceeds them for moderate-income borrowers. Examiners sampled 20 consumer loans originated between October 1998 and December 2002. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number	Percent of Number	Percent of Households
Low	4	20%	20%
<b>Moderate</b>	<b>6</b>	<b>30%</b>	<b>15%</b>
Middle	7	35%	19%
Upper	3	15%	46%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

**Geographic Distribution of Loans**

Geographic distribution of commercial and consumer loans in the bank’s assessment area is reasonable. Analysis of agricultural lending by geographic distribution is not meaningful. Both moderate-income census tracts are within the Mankato city limits and contain only 3.3% of the farms in the assessment area. Commercial and consumer loan distribution in moderate-income census tracts is consistent with assessment area demographics, as shown in the following tables:

<b>GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS IN THE ASSESSMENT AREA</b>					
Tract Income Level	Originations Dated October 1, 1998 through December 31, 2002				Percent of Businesses By Tract Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	0	0%	\$0	0%	0%
Moderate-Income	3	15%	\$141	11%	18%
Middle-Income	13	65%	\$633	49%	30%
Upper-Income	4	20%	\$529	41%	52%
Totals	20	100%	\$1,303	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

<b>GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN THE ASSESSMENT AREA</b>					
Tract Income Level	Originations Dated January 1, 2000 through December 31, 2002				Percent of Population By Tract Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	0	0%	\$0	0%	0%
Moderate-Income	3	15%	\$25	18%	12%
Middle-Income	10	50%	\$71	51%	58%
Upper-Income	7	35%	\$42	31%	30%
Totals	20	100%	\$138	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)



## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

### **Responses to Complaints**

The bank has not received any CRA-related complaints since the last CRA examination.

### **Fair Lending Review**

An analysis of 1998, 1999, 2000, and 2001 public comments and consumer complaint information (as applicable, add HMDA, small business and small farm lending data for non-CEBA limited-purpose or wholesale institutions) 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 1998.