

PUBLIC DISCLOSURE

October 28, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers State Bank of West Concord
181 Main Street
West Concord, Minnesota 55985
RSSD 777254

**Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291**

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 the 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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Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.

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

Examiners evaluated Farmers State Bank of West Concord's Community Reinvestment Act (CRA) performance using the Small Bank CRA Evaluation Procedures. Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of the small businesses and small farms as well as the individuals in its assessment areas. Several factors support the bank's satisfactory rating.

- The bank's lending to businesses and farms of different sizes and to borrowers of different income levels is reasonable.
- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment areas credit needs.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas without unexplained gaps in lending.
- The bank originated a substantial majority of its loans within its assessment areas.

SCOPE OF EVALUATION

This evaluation uses a statistical sample of 61 business and farm loans and 69 consumer loans. To meet the sample requirements of at least 50 loans within the previous year, the examiners combined business loans and farm loans into one product category. The business and farm loans have origination dates between January 1, 2012, and December 31, 2012. The consumer loans have origination dates between July 1, 2012, and December 31, 2012.

The two product lines included in the statistical sample are representative of the bank's loan activity during the entire examination period. First, small business and small farm loans, when combined into one product category, represent the bank's major product line by total dollar. Second, consumer loans represent the bank's major product line by total number of loans. Table 1 shows the bank's origination activity by loan type.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Loan Dollars</i>
Consumer	214	64.3	\$1,907,969	21.2
Home Equity Line of Credit	3	0.9	85,000	0.9
Residential Real Estate	26	7.8	1,287,231	14.3
Small Business (≤ \$1 million)	49	14.7	2,692,512	29.9
Small Farm (≤ \$500,000)	40	12.0	2,111,732	23.4
Agriculture (> \$500,000)	1	0.3	935,000	10.4
Total	333	100.0	\$9,019,444	100.0

For CRA purposes, the bank operates in two assessment areas. For this evaluation, examiners conducted a full-scope review of lending activity in each assessment area. The examiners analyzed the following criteria to determine the bank's CRA rating:

¹Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

- Lending to borrowers of different income levels and to farms of different sizes.
- Geographic distribution of loans.
- Net loan-to-deposit ratio.
- Lending inside the assessment area.
- Record of responding to complaints about the bank's CRA performance.

In assigning the overall CRA rating, examiners placed the greatest weight on the bank's level of lending to consumers of different income levels and to businesses and farms of different sizes. Examiners weighted the remaining criteria equally. This CRA analysis weights each assessment area equally.

DESCRIPTION OF INSTITUTION

Offices. The bank's main office is located in West Concord, Minnesota. The bank operates one full-service branch in Dennison, Minnesota. The main office is open 8:30 a.m. to 4:30 p.m. Monday through Wednesday and Friday and 8:30 a.m. to 6:30 p.m. Thursday. The drive-up hours for the main office are 7:30 a.m. to 4:30 p.m. Monday through Wednesday and 7:30 a.m. to 6:30 p.m. Thursday and Friday.

The branch is open 8:30 a.m. to 3:00 p.m. Monday through Wednesday and Friday and 8:30 a.m. to 6:00 p.m. Thursday. The branch drive-up facility hours are 7:30 a.m. to 5:00 p.m. Monday through Wednesday and Friday, 7:30 a.m. to 6:00 p.m. Thursday, and 8:00 a.m. to noon Saturday.

Alternative Delivery Methods. The bank offers its customers web access to their deposit accounts and offers electronic bill payment. Customers can download consumer and residential loan applications. In addition, customers have the option of using telephone banking to transfer funds and conduct account inquiries. Since the last examination, the bank began offering electronic statements and a peer-to-peer payment service. Overall, the bank provides services that are accessible throughout its assessment areas. The bank has a cash-dispensing automated teller machine in the lobby of each office.

Loan Portfolio. According to the June 30, 2013, Report of Condition (ROC), the bank has total assets of \$49.7 million and total loans of \$24.2 million. Overall, the loan portfolio decreased 26.9% since the previous evaluation, and total assets increased by 7.4% based on June 30, 2009, ROC data. The loan portfolio consists of 40.2% residential real estate, 18.8% commercial, 31.7% agricultural, 9.2% consumer loans, and less than 1.0% all other loans. The composition of the loan portfolio remained relatively stable; however, residential real estate and commercial loans currently represent a smaller portion and agricultural loans currently represent a larger portion of the portfolio than at the prior evaluation.

Credit Products. The bank continues to offer traditional, relatively noncomplex credit products, including loans and lines of credit. In addition to offering conventional loan products, the bank sells residential real estate loans on the secondary market, which allows it to offer a larger variety of loan products. The bank also participates in loan programs through the U.S. Small Business Administration.

Deposit Market Share. Of the 19 financial institutions located in Dodge and Goodhue counties, the bank ranks tenth and holds 1.6% of the market's deposits, according to the June 30, 2013, Federal Deposit Insurance Corporation Deposit Market Share Report.

DESCRIPTION OF ASSESSMENT AREAS

Assessment Areas. Based on its two office locations and the requirements of CRA regulations, the bank designated two assessment areas for CRA purposes: (1) the West Concord assessment area and (2) the Dennison assessment area. While the two assessment areas are contiguous, the bank cannot combine

them because CRA regulations prevent an individual assessment area boundary from extending substantially beyond a metropolitan statistical area's (MSA) boundary. Since the West Concord assessment area is part of the Rochester, Minnesota, MSA, the bank designated a second assessment area to cover its branch in Dennison.

While the overall shape of the combined assessment areas has not changed since the previous evaluation, the 2010 U.S. Census data changed its composition. The 2010 census increased the total number of census tracts, changed some of the census tracts numbers, and changed the income levels for some of the census tracts. Specifically, the West Concord assessment area changed from three middle-income census tracts to two middle-income census tracts and one upper-income census tract. The Dennison assessment area changed from two middle-income census tracts and four upper-income census tracts to three middle-income census tracts and six upper-income census tracts. In addition, the 2010 census renumbered several of the census tracts within the Dennison assessment area. A more detailed description of each assessment area is provided below.

Community Contacts. In addition to discussions with bank management, examiners contacted members of the community familiar with economic issues and demographic characteristics in the assessment areas. Examiners used information from the community contacts and bank management in the evaluation of the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment areas is satisfactory. Examiners based this evaluation on a review of the bank's lending performance in both assessment areas. The bank's lending to businesses and farms of different sizes and to borrowers of different income levels is reasonable. The geographic distribution of loans throughout the bank's assessment areas is reasonable and does not reveal any unexplained gaps in lending patterns. In addition, the bank's net loan-to-deposit ratio is reasonable, and the bank originated a substantial majority of the loans in the sample within the assessment areas.

The regulation requires a separate analysis for the bank's performance in each assessment area. Therefore, a detailed discussion of the bank's lending to businesses and farms of different sizes and borrowers of different income levels and the geographic distribution of the bank's loans can be found in the separate assessment area sections of this evaluation. However, examiners analyzed the net loan-to-deposit ratio and the comparison of lending inside and outside of the assessment areas at the bank level. These two criteria are discussed below.

This evaluation compares the bank's lending activity to demographic information, including the 2010 U.S. Census data and 2012 Dun & Bradstreet data. Although demographic information provides context for understanding and evaluating the bank's performance, comparisons to the demographic data should not be construed as defining an expected level of lending. Examiners evaluate each individual bank's CRA performance in light of its overall performance context.

NET LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable given the bank's asset size, financial condition, and assessment areas' credit needs. Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio ranged from 51.9% to 78.3%. The bank's average net loan-to-deposit ratio for the previous 16 quarters is 60.2%, which is lower than the average of 87.2% at the previous evaluation.

The bank's 16-quarter average net loan-to-deposit ratio is slightly lower than the national peer group's average net loan-to-deposit ratio of 64.6%. The national peer group includes all insured commercial banks having assets less than \$50 million located in a metropolitan area with more than one full-service office. The following table displays the 16-quarter average net loan-to-deposit ratios for the bank and some of its local competitors.

<i>Name and Location</i>	<i>Assets as of June 2013 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Farmers State Bank of West Concord West Concord, Minnesota	\$49,735	60.2%
Security State Bank of Wanamingo Wanamingo, Minnesota	\$71,780	94.3%
Pine Island Bank Pine Island, Minnesota	\$73,227	70.5%
Security State Bank of Kenyon Kenyon, Minnesota	\$51,378	91.5%

Community contacts and bank management indicated the bank operates in a highly competitive environment, as numerous financial institutions as well as a regional cooperative that specializes in agricultural lending operate in the bank's assessment areas. A high level of competition can reduce a bank's lending opportunities.

Like many of its peers, the bank's net loan-to-deposit ratio has trended lower since its previous evaluation. This is partially due to an increase in deposits at local financial institutions and an overall decline in loan demand. However, the bank's current loan-to-deposit ratio still demonstrates the bank's willingness to fulfill the credit needs in its assessment areas. Community contacts and bank management did not identify any unmet credit needs within the assessment areas.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank originated a substantial majority of its loans within the assessment areas. Specifically, 83.1% of the bank's loans by number and 89.6% by total dollar amount are within the assessment areas. Table 3 details lending activity by loan type within and outside the assessment areas.

<i>Loan Type</i>	<i>Inside</i>				<i>Outside</i>			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Consumer	54	78.3	526	83.9	15	21.7	101	16.1
Small Business and Small Farm	54	88.5	2,511	90.9	7	11.5	251	9.1
Total	108	83.1	3,037	89.6	22	16.9	352	10.4

The bank originated a majority of its small business and small farm loans as well as consumer loans to borrowers in its assessment areas. The bank's lending shows its commitment to meeting the needs within its assessment areas.

DISTRIBUTION OF LOANS AMONG BORROWERS AND GEOGRAPHIES

Overall, the bank's level of lending to business and farms of different sizes and to consumers of different income levels is reasonable. The bank actively lends to businesses and farms with gross annual revenues of \$1 million or less and to low- and moderate-income individuals.

The bank's geographic distribution of loans reflects reasonable dispersion throughout the assessment areas and does not reveal any unexplained gaps in lending patterns. The assessment areas include only middle- and upper-income census tracts.

Refer to the individual assessment area sections for more detailed information on the bank's borrower and geographic distribution of lending.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis received any CRA-related complaints concerning the bank since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The evaluation did not reveal any violations of antidiscrimination laws or regulations. This includes Regulation B, which implements the Equal Credit Opportunity Act, and Regulation C, which implements the Home Mortgage Disclosure Act. In addition, the evaluation did not reveal any evidence of other illegal acts or practices that would be inconsistent with meeting the community's credit needs.

METROPOLITAN AREA

DESCRIPTION OF THE WEST CONCORD ASSESSMENT AREA

The bank operates one office in the assessment area, which is located in the city of West Concord. The bank defines the West Concord assessment area as a portion of Dodge County, including the cities of West Concord, Claremont, Dodge Center, and Mantorville, Minnesota. The assessment area consists of two middle-income census tracts and one upper-income census tract. The middle-income census tracts are 9502.00 and 9503.00. The upper-income census tract is 9501.00. Dodge County is part of the Rochester, Minnesota, MSA. Table 4 illustrates the demographic information for the West Concord assessment area, according to 2010 U.S. Census data and 2012 Dun & Bradstreet data.

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	399	13.3
Moderate Income	0	0.0	0	0.0	0	0.0	621	20.7
Middle Income	2	66.7	1,766	58.8	79	4.5	885	29.5
Upper Income	1	33.3	1,238	41.2	8	0.6	1,099	36.6
Total Assessment Area	3	100.0	3,004	100.0	87	2.9	3,004	100.0
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	0	0	0.0	0.0	0	0.0	0	0.0
Middle Income	2,603	2,070	60.0	79.5	334	12.8	199	7.6
Upper Income	1,539	1,380	40.0	89.7	115	7.5	44	2.9
Total Assessment Area	4,142	3,450	100.0	83.3	449	10.8	243	5.9
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
	#	%	<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
			#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	351	59.8	320	58.7	18	81.8	13	65.0
Upper Income	236	40.2	225	41.3	4	18.2	7	35.0
Total Assessment Area	587	100.0	545	100.0	22	100.0	20	100.0
Percentage of Total Businesses:				92.8		3.7		3.4
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
	#	%	<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
			#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	114	59.1	113	59.8	1	25.0	0	0.0
Upper Income	79	40.9	76	40.2	3	75.0	0	0.0
Total Assessment Area	193	100.0	189	100.0	4	100.0	0	0.0
Percentage of Total Farms:				97.9		2.1		0.0

Income. For purposes of classifying borrower incomes, this evaluation uses the Federal Financial Institutions Examination Council's (FFIEC) estimated median family income. For borrowers in the Rochester, Minnesota, MSA, this figure is \$81,300 for 2012. For purposes of classifying census tracts by income levels, this evaluation uses the MSA median family income from the 2010 census, which is \$76,764.

Population. According to the 2010 U.S. Census data, the population of the West Concord assessment area is 10,841. The West Concord assessment area consists of a portion of Dodge County. According to the 2010 U.S. Census data, the population of Dodge County is 20,087. The estimated population for 2012 for Dodge County is 20,231, reflecting a 0.7% increase in populations. According to a community contact, the population of West Concord has seen a lot of turnover during the last couple of years, as banks foreclosed on houses with delinquent mortgages. Newer residents tend to be younger, as housing is affordable. In addition, West Concord's middle school closed a few years ago, but a new charter school opened in August 2013.

Economy. West Concord is near several larger cities, including Rochester, Owatonna, and Albert Lea, Minnesota. People can live in West Concord and commute to these cities for work. In addition, the Mayo Clinic is nearby and provides work for some residents. Overall, unemployment figures have declined in recent years. Based on U.S. Department of Labor Statistics data for August 2013, the unemployment rate in Dodge County was 4.4%. Comparatively, the 2009 annual average unemployment rate was 7.6%.

According to the community contact, while overall unemployment has been declining, many individuals still work part-time rather than full-time because of local market conditions. The major employers in the area are Clean Plus, Inc., and Ellingson Companies. Clean Plus manufactures soap, packages auto parts, and produces oil-absorbent materials from cornstalks. Ellingson does septic work and installs drain tiles in fields. Some recent business openings in West Concord include a greenhouse, an auto body shop, and a downtown restaurant. The agricultural industry also provides employment for many residents and includes corn and soybean crops as well as dairy farming and hog production.

The community contact believes that local financial institutions are doing a good job of meeting consumer and business credit needs in the area. The contact also stated that local credit unions provide very attractive rates with which local banks struggle to compete.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance in the West Concord assessment area is reasonable. Overall, the bank's lending to businesses and farms of different sizes and borrowers of different income levels is reasonable. The geographic distribution of loans also reflects a reasonable distribution and dispersion throughout the assessment area and does not reveal any unexplained gaps in lending patterns.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES AND FARMS OF DIFFERENT SIZES

Small Business and Small Farm Lending. The bank's level of lending to small businesses and small farms is reasonable. Table 5 displays the bank's small business and small farm lending in the West Concord assessment area. The bank originated 70.0% of its small business and small farm loans to entities with gross annual revenues of \$1 million or less. According to 2012 Dun & Bradstreet data, 92.8% of the businesses and 97.9% of the farms in the assessment area have gross annual revenues of \$1 million or less. While lower than demographic data, the bank's lending to small businesses and small

farms is reasonable. In the West Concord assessment area, the bank originated 20 small farm and small business loans during the sample period. Of the 20 loans, four (or 30%) were to businesses or farms with gross annual revenues over \$1 million. Three of the four loans were to the same borrower. This illustrates that the primary focus of the bank's business and farm lending is to businesses and farms with gross annual revenues under \$1 million.

Furthermore, the bank actively extends small-dollar loans. Of the bank's loans to businesses or farms with revenues of \$1 million or less, 85.7% were for amounts of \$100,000 or less. This high percentage of small-dollar loans indicates a willingness to serve the credit needs of small businesses and small farms.

<i>Small Business and Small Farm Originations</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ $\leq \$1,000,000$	$> \$1,000,000$	<i>Total Originations</i>
Percentage of Small Business and Small Farm Loans	80.0%	10.0%	10.0%	0.0%	100.0%
Percentage of Loans to Businesses or Farms with Revenue of \$1 Million or Less	85.7%	7.1%	7.1%	0.0%	70.0%

Consumer Lending. The bank's consumer lending to low- and moderate-income borrowers is excellent. Table 6 displays the percentage of consumer loans originated to borrowers of different income levels.

<i>Loan Type Sample</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	47.8%	49.1%	26.1%	19.4%	13.0%	16.1%	8.7%	16.1%	4.3%	0.1%
Demographic Data										
Percentage of Households by Income Levels**	18.2%		17.4%		19.4%		45.0		NA	
*Income classification is based the FFIEC 2012 median family income of \$81,300 for the Rochester MSA.										
**According to 2010 census data.										

The bank extended 47.8% of its consumer loans to low-income borrowers and 26.1% to moderate-income borrowers, which significantly exceeds the percentage of low- and moderate-income households in the assessment area, at 18.2% and 17.4%, respectively. The bank extended 73.9% of consumer loans by number and 68.5% by total dollar amount to low- and moderate-income borrowers combined, which is an excellent level of lending to these borrowers. The bank does not require a minimum loan amount for consumer loans, which helps the bank address the credit needs of lower-income borrowers.

While still impressive, the fact that the town of West Concord resides on the border of the Rochester MSA partially explains the bank's high level of lending to low- and moderate-income borrowers. The Rochester MSA has a median family income of \$81,300, which is notably higher than the median family income of \$60,000 for nonmetropolitan areas of Minnesota. Therefore, within this assessment area, low-income borrowers can have a family income of up to \$40,650 (50% of the area median income), and moderate-income borrowers can have a family income of up to \$65,040 (80% of the area median income). By comparison, in the nonmetropolitan areas of Minnesota, low-income borrowers can have incomes up to \$30,000 and moderate-income borrowers can have income up to \$48,000. The fact that low- and

moderate-income borrowers in this assessment area have higher incomes can increase lending opportunities to this demographic.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans within the West Concord assessment area is reasonable. This assessment area consists of two middle-income census tracts and one upper-income census tract. The bank made loans in all three census tracts in the assessment area. The distribution of the bank's loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending patterns.

NONMETROPOLITAN AREA

DESCRIPTION OF THE DENNISON ASSESSMENT AREA

The bank operates one full-service branch in the assessment area, which is in the city of Dennison. The Dennison assessment area consists of portions of Goodhue and Rice counties, including three middle-income census tracts and six upper-income census tracts. The middle-income census tracts are 0807.00, 0706.01, and 0706.02. The upper-income census tracts are 0805.00, 0702.00, 0704.00, 0705.01, 0705.03, and 0705.04. Table 7 shows the demographic information for the Dennison assessment area, according to 2010 U.S. Census data and 2012 Dun & Bradstreet data.

TABLE 7 Dennison Assessment Area Demographics								
<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	818	9.4
Moderate Income	0	0.0	0	0.0	0	0.0	1,049	12.0
Middle Income	3	33.3	2,258	25.9	127	5.6	1,766	20.3
Upper Income	6	66.7	6,448	74.1	218	3.4	5,073	58.3
Total Assessment Area	9	100.0	8,706	100.0	345	4.0	8,706	100.0
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>		<i>Rental</i>		<i>Vacant</i>		
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	0	0	0.0	0.0	0	0.0	0	0.0
Middle Income	4,254	2,650	27.7	62.3	1,347	31.7	257	6.0
Upper Income	8,896	6,908	72.3	77.7	1,332	15.0	656	7.4
Total Assessment Area	13,150	9,558	100.0	72.7	2,679	20.4	913	6.9
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	643	31.6	570	30.2	45	46.4	28	51.9
Upper Income	1,393	68.4	1,315	69.8	52	53.6	26	48.1
Total Assessment Area	2,036	100.0	1,885	100.0	97	100.0	54	100.0
Percentage of Total Businesses:				92.6		4.8		2.7
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	146	28.1	145	28.0	1	33.3	0	0.0
Upper Income	374	71.9	372	72.0	2	66.7	0	0.0
Total Assessment Area	520	100.0	517	100.0	3	100.0	0	0.0
Percentage of Total Farms:				99.4		0.6		0.0

Income. For purposes of classifying borrower incomes, this evaluation uses FFIEC's estimated median family income for the statewide nonmetropolitan area for Minnesota. For borrowers in the Dennison assessment area, this figure is \$60,000 for 2012. For purposes of classifying census tract income levels, this evaluation uses the nonmetropolitan area's median family income from the 2010 census, which is \$58,135.

Population. According to the 2010 U.S. Census data, the population of the Dennison assessment area is 36,423. The Dennison assessment area consists of portions of Goodhue and Rice counties. According to 2010 U.S. Census data, the population of Goodhue and Rice counties is 110,325. The estimated population for 2012 for Goodhue and Rice counties is 111,190, reflecting an estimated 0.8% increase in population for the two counties. According to a community contact, the majority of the county's growth is in either Pine Island, Minnesota, due to the jobs in Rochester, Minnesota, or Cannon Falls, Minnesota, due to the jobs in the Twin Cities.

Economy. According to community contacts and bank management, the local economy has not experienced significant job losses or unemployment. Rice County's food-based economy helped the county endure the recent recession better than other parts of the state. Large food-related employers include MOM Brands Company (formerly Malt-O-Meal Company), Jennie-O Turkey Store, LLC, McLane Minnesota, and Faribault Foods, Inc. Other large employers include St. Olaf College, Carleton College, Northfield Hospital, and Northfield Public Schools. The local agriculture industry includes corn and soybean crops as well as some dairy farming and hog production.

Overall, unemployment figures have decreased since the previous evaluation. Based on U.S. Department of Labor Statistics data, as of August 2013, unemployment rates are 4.7% in Goodhue County and 5.4% in Rice County. Comparatively, the 2009 annual average unemployment rates were 7.4% for Goodhue County and 8.8% for Rice County.

Community contacts and bank management stated that while businesses are able to get loans, overall loan demand is down. Credit conditions tightened after the recent recession, but creditors have begun to loosen their standards somewhat. Strong crop prices over the last three years have helped grain farms to be profitable and may have reduced the amount of financing they required.

Community contacts and bank management indicated that the financial services market in the assessment area is competitive. Numerous financial institutions operate in the assessment area, including branches of significantly larger banks. The bank faces competition for all types of loan products. The community contacts did not identify any unmet credit needs in the assessment area. Overall, the county has good community banks that work well with businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance in the Dennison assessment area is reasonable. Overall, the bank's lending to businesses and farms of different sizes and borrowers of different income levels is reasonable. In addition, the geographic distribution of loans reflects a reasonable distribution and dispersion throughout the assessment area and does not reveal any unexplained gaps in lending patterns.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES AND FARMS OF DIFFERENT SIZES

Small Business and Small Farm Lending. The bank's level of lending to farms of different sizes and to consumers of different income levels is reasonable. Table 8 displays the bank's small business and small

farm lending in the assessment area. The bank originated 100.0% of its small business and small farm loans to entities with gross annual revenues of \$1 million or less. The bank's small business and small farm lending levels exceed demographic data. According to 2012 Dun & Bradstreet data, 92.6% of the businesses and 99.4% of the farms in the assessment area have gross annual revenues of \$1 million or less.

In addition, the bank actively extends small-dollar loans. Of the bank's loans to businesses or farms with revenues of \$1 million or less, 94.1% were for amounts of \$100,000 or less. This high percentage of small-dollar loans indicates a willingness to serve the credit needs of the small businesses and small farms.

<i>Small Business and Small Farm Originations</i>	<i>≤\$100,000</i>	<i>>\$100,000 to ≤\$250,000</i>	<i>>\$250,000 ≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Total Originations</i>
Percentage of Small Business and Small Farm Loans	94.1%	5.9%	0.0%	0.0%	100.0%
Percentage of Loans to Businesses or Farms with Revenue of \$1 Million or Less	94.1%	5.9%	0.0%	0.0%	100.0%

Consumer Lending. The bank's consumer lending to low- and moderate-income borrowers is reasonable. Table 9 displays the percentage of consumer loans originated to borrowers of different income levels.

<i>Loan Type Sample</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Consumer	6.5%	1.5%	16.1%	8.1%	22.6%	16.2%	32.3%	57.2%	22.6%	17.1%
Demographic Data										
Percentage of Households by Income Levels**	14.6%		10.3%		16.3%		58.8%		NA	
*Income classification is based on FFIEC 2012 median family income of \$60,000 for nonmetropolitan areas of Minnesota.										
**According to 2010 census data.										

The bank extended 6.5% of its consumer loans to low-income borrowers and 16.1% to moderate-income borrowers. The level of lending to low-income borrowers is below the percentage of low-income households in the assessment area, at 14.6%. The level of lending to moderate-income borrowers is higher than the percentage of moderate-income households in the assessment area. The bank extended 22.6% of consumer loans by number and 9.6% by total dollar amount to low- and moderate-income borrowers combined, which is a reasonable level of lending to these borrowers given the assessment areas demographics and economic conditions. According to bank management, the bank does not require a minimum loan amount for consumer loans, which helps it further meet the credit needs of lower-income borrowers.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans within the Dennison assessment area is reasonable. This assessment area consists of three middle-income census tracts and six upper-income census tracts. The bank made loans in one of the middle-income census tracts and four of the upper-income census tracts. The bank did not originate any loans in census tracts 706.01, 706.02, 705.01, and 705.03; however, these tracts are located in the city of Northfield where there is considerable competition from other financial institutions. The distribution of the bank's loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending patterns.

Appendix A

Glossary of Common CRA Terms

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 metropolitan statistical area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on 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: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) 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 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. It 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.

Distressed nonmetropolitan middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% or more over the 5-year period preceding the most recent census.

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 nonrelatives 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 householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Full-scope review: Performance 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., responsiveness).

Geography: A census tract 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 statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (i.e., approved, denied, or withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings 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-scope review: Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

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 metropolitan statistical area/assessment area.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

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 multistate MSA. 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 multistate MSA, the institution will receive a rating for the multistate metropolitan area.

Small loan to business: A loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

Small loan to farm: 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 classified as loans to finance agricultural production and other loans to farmers.

Underserved middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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 geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)