

## 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 the 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 La Crescent State Bank, La Crescent, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of April 27, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION’S CRA RATING:** This institution is rated “Outstanding.”

Several factors support rating the bank’s CRA performance outstanding. First, the bank’s lending to borrowers of different income levels and to businesses of different sizes reflects excellent penetration of all income levels. The number of consumer loans extended to low- and moderate-income borrowers is particularly noteworthy. Further, the bank continues to offer a variety of real estate products to increase availability of credit to low- and moderate-income borrowers. Second, the bank’s net loan-to-deposit ratio, including all lending-related activity, is excellent given the bank’s size. Third, the geographic distribution of the bank’s loans reflects good dispersion throughout the assessment area. Fourth, the bank’s lending is reasonably concentrated in the assessment area. Finally, the bank’s qualified community development services enhance credit availability, particularly in regard to assisting small businesses in the assessment area.

## DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is capable of meeting the credit needs of communities in its assessment area effectively. The bank received an outstanding rating at its last CRA performance evaluation, which was conducted by the Federal Deposit Insurance Corporation (“FDIC”) on April 5, 1996. The bank became a member of the Federal Reserve System on July 31, 1997 (“membership date”). The bank’s office is located in La Crescent, Minnesota. The bank has two proprietary automated teller machines (“ATM”): a deposit-taking ATM located in the bank’s drive-up and a cash-dispensing ATM located in the Amoco station at 318 Walnut Street, La Crescent. The bank is open from 8:30 a.m. to 4:00 p.m. Monday through Thursday and 8:30 a.m. to 5:00 p.m. Friday. The bank’s drive-up facility is open from 7:30 a.m. to 6:00 p.m. Monday through Thursday, 7:30 a.m. to 7:00 p.m. Friday, and 9:00 a.m. to noon Saturday. The bank has not opened or closed any offices since membership date.

The bank’s continued growth supports its ability to meet the credit needs of the community. According to the March 31, 1998, Report of Condition (“ROC”), its total assets are approximately \$35.8 million. The bank’s asset size has increased by approximately \$5.6 million, or 19%, since June 30, 1996. The bank attributes this growth to its intensive marketing efforts to increase deposits. Deposits have increased by approximately \$5.8 million since June 1996. As subsequently discussed in more detail, the bank’s loan levels have fluctuated slightly during the evaluation period from a high of about \$23.3 million on September 30, 1997, to a low of about \$20.7 million on March 31, 1998. According to the March 31, 1998, ROC data, the loan portfolio is composed of approximately 46% commercial, 22% consumer real estate, 25% consumer, 6% agriculture, and 1% other. Little demand exists for agricultural loans in most of the bank’s assessment area. The bank’s loan mix reflects the level of demand for specific types of loans by people and businesses within the assessment area.

The variety of loan products offered by the bank helps it meet community credit needs. These products include many types of consumer, mobile home, residential real estate, commercial real estate, and commercial loans. The bank offers agricultural loans; however, as discussed, there is little demand for these loans in the assessment area. The bank’s residential real estate loan portfolio includes purchase money, refinancing, and home improvement loans. As part of its conventional residential real estate loan program, the bank offers convertible 1-year adjustable rate mortgages, construction loans, fixed-rate loans with 15- to 30-year maturities, and balloon-payment loans with 1- and 7-year maturities. The bank also offers a variety of closed- and open-end consumer loans. Its open-end products include overdraft checking and home equity lines of credit. Finally, although the bank does not extend credit card loans, the bank makes applications available for MasterCard and VISA credit cards from its affiliate bank, Merchants National Bank of Winona, Winona, Minnesota.

In addition to its conventional loan products, the bank offers a wide array of government-guaranteed and -insured loan products. It offers Small Business Administration, Rural Development (“RD”), Federal Housing Administration (“FHA”), Department of Veterans Affairs (“VA”), Minnesota Housing Finance Agency (“MHFA”), FHA Title I home improvement, and government-guaranteed student loans. Furthermore, the bank actively sells loans in the secondary market through the Federal Home Loan Mortgage Corporation and has arrangements to sell loans through the Federal National Mortgage Association.

The bank is located in the La Crosse, Wisconsin, metropolitan statistical area (“MSA”); consequently, it is subject to the Home Mortgage Disclosure Act (“HMDA”). Pursuant to HMDA, the bank is required to report information about home purchase, refinance, and improvement loan applications and originations. The HMDA data show that the bank is an active lender in the MSA. The bank reported 223 and 228 loans in 1996 and 1997, respectively. Of 1996 and 1997 reportable applications, 175 and 176 loans,

respectively, were in the bank's assessment area. This activity represented approximately 4% of the MSA activity in 1996. As of the evaluation date, aggregate information was not yet available for 1997.

## **DESCRIPTION OF LA CRESCENT STATE BANK'S ASSESSMENT AREA**

The bank has defined its assessment area as the MSA, which includes Houston County in southeastern Minnesota and La Crosse County in southwestern Wisconsin. The Mississippi River divides Houston and La Crosse counties. The larger Minnesota communities in assessment area include La Crescent, Houston, Caledonia, Hokah, Brownsville, and Spring Grove. The larger Wisconsin communities include La Crosse, Onalaska, Holmen, West Salem, Bangor, and French Island.

According to the 1990 U.S. Census figures, the bank's assessment area has 116,401 residents. La Crosse County has a population of 97,904, or 84% of the assessment area's population. Approximately 52% of La Crosse County residents live in the city of La Crosse. Population estimates for 1996 indicate the city of La Crosse has 51,942 residents. Although the population of La Crosse has increased only slightly since the 1990 census, the population of the neighboring communities has increased dramatically. Onalaska, which borders the northern edge of La Crosse, has experienced a 54% increase in population since 1980; its estimated 1996 population is 14,257. The population of Holmen, another neighboring community, almost doubled between 1980 and 1996. Holmen's population is estimated to be 4,409.

Houston County is less populated than La Crosse County with an approximate population of 18,497. The 1990 U.S. Census data show that La Crescent has a population of 4,311. According to bank management, the population of La Crescent has increased to approximately 4,700. Based on these estimates, La Crescent's population has increased 9% since the last census. Caledonia is the county seat and the second largest community in Houston County.

As the demographic data indicate, much of the assessment area's population growth has occurred in northern La Crosse County communities. Community contacts and bank management explained that the cities of La Crosse and La Crescent have natural boundaries that limit growth. The Mississippi River serves as a boundary for both cities and bluffs form the boundaries of eastern La Crosse and southern La Crescent. As such, the MSA's growth has continued northward into Onalaska and Holmen in Wisconsin. La Crescent's northward growth is limited because it borders the southern edge of Winona County.

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower or geography's income is determined relative to the MSA's median family income. According to CRA's definitions, low-income individuals have incomes of less than 50% of the MSA median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the MSA median family income. An individual with an income that is 120% or more of the MSA median family income is defined as upper income. Census tracts are classified using similar categories based on the level of median family income in the geography compared with the 1990 MSA median family income of \$33,226. The updated 1997 MSA median family income is \$41,800; this figure is used to classify borrower incomes.

As stated above, 1990 census data report the assessment area's median family income as \$33,226, which is slightly lower than the statewide median family income for Minnesota and Wisconsin. The Minnesota and Wisconsin median family incomes are \$36,916 and \$35,082, respectively. The median household income of the assessment area is \$26,685. The assessment area has approximately 29,182 families, of which approximately 7% have incomes below the poverty level. Approximately 12% of the assessment

area's 43,702 households have incomes below the poverty level. The following table identifies the distribution of assessment area families and households by income level.

<b>ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL</b>				
	Low Income	Moderate Income	Middle Income	Upper Income
Families Compared to Median Family Income	18%	19%	26%	37%
Households Compared to Median Household Income	23%	17%	20%	40%

According to the 1990 U.S. Census data, the bank's assessment area has 3 low-income, 6 moderate-income, 18 middle-income, and 5 upper-income census tracts. The income distribution of the assessment area's census tracts is 9% low income, 19% moderate income, 56% middle income, and 16% upper income. Of the assessment area's 32 census tracts, census tracts 3, 4, and 104 are classified as low income. Two of the low-income census tracts, 3 and 4, are the central business district of La Crosse. Bank management described census tract 104 as an empty, grassy area north of downtown La Crosse. According to the 1990 census data, the total population in the low-income census tracts is 6,248, or 5% of the assessment area's total population. Tract 104 has no residents, while tract 3 has only 579 residents. The population of census tract 3 accounts for less than 1% of the assessment area's total population. In addition, census data show that approximately 2,815, or 6%, of the housing units in the assessment area are located in the low-income census tracts. The data show that 12% of these units are owner occupied, 82% are rental units, and the remainder are vacant. Of the owner-occupied units in the assessment area, only 324, or 1%, are in the low-income census tracts.

Low-income census tract 4 and middle-income tract 5 surround three postsecondary educational campuses: the University of Wisconsin-La Crosse, Viterbo College, and Western Wisconsin Technical College. Census tract 4 and moderate-income tract 9 are home to two large, regional health care facilities: Gunderson-Lutheran Medical Center and Franciscan Skemp Healthcare.

Six of the assessment area's census tracts are classified as moderate income. These census tracts are 1, 2, and 9 in La Crosse County and tracts 204, 205, and 206 in Houston County. The moderate-income census tracts have a total population of 23,173, or 20% of assessment area residents. Census tracts 1 and 2 are north of downtown La Crosse along the Mississippi River. Census tract 9 is located south of downtown La Crosse along the Mississippi River. Census tracts 204, 205, and 206 are the southern, rural sections of Houston County. Approximately 32% of the moderate-income census tract's population resides in Houston County; the population of Houston County's moderate-income census tracts is 6% of the assessment area's population. Census data for 1990 show that approximately 10,129 housing units, or 22% of the assessment area's units, are located in the moderate-income census tracts. In these tracts, 48% of the housing units are owner occupied, 46% are rental units, and the remainder are vacant. Of the owner-occupied units in the assessment area, 4,834, or 17%, are in the moderate-income census tracts.

Eighteen of the assessment area's census tracts are classified as middle income. Census tracts 201, 202, and 203 are the northern half of Houston County. The 15 La Crosse County middle-income tracts are 5, 8, 10, 11.01, 11.02, 12, 101.01, 101.02, 102.01, 102.02, 102.03, 103, 104.02, 105, and 108. The majority of assessment area residents live in middle-income census tracts. Specifically, 70,694, or 61% of the assessment area's population, live in middle-income census tracts. Approximately 16% of these middle-income tract residents live in Houston County. The bank is located in census tract 201. The assessment area's 15 middle-income census tracts in Wisconsin border central La Crosse and encompass much of the rural outlying areas of La Crosse County. The population in these tracts has shown significant growth; the city of Holmen is located in tract 102.01. According to the 1990 census data, 26,352, or 58%, of the housing units in the assessment area are located in the middle-income census

tracts. The data show that 70% of these units are owner occupied, 26% are rental units, and the remainder are vacant. Of the owner-occupied housing units in the assessment area, 18,399, or 65%, are in the middle-income census tracts.

The remaining five census tracts are classified as upper income. Upper-income census tracts 6, 7, 104.01, 106, and 107 are located mostly in eastern La Crosse, including its bluff areas. With approximately 14% of the assessment area's population, the upper-income census tracts have a total population of 16,286. In addition, census data show that approximately 6,200, or 14%, of the housing units in the assessment area are located in the upper-income census tracts. An estimated 80% of the housing units in the upper-income census tracts are owner occupied, 17% are rental units, and 3% are vacant. However, it should be noted that the population demographics of these tracts have changed since the 1990 census data were published. The city of Onalaska, the second fastest-growing community in the La Crosse area, is partially located in upper-income census tract 104.01.

As previously discussed, sections of the MSA have relatively low levels of owner-occupied housing. These areas are concentrated in the low- and moderate-income census tracts in and around La Crosse. Specifically, in the low- and moderate-income tracts in La Crosse County, 12% and 39% of the households, respectively, have owner-occupied housing. However, at 80%, the percentage of owner-occupied housing is considerably higher in Houston County's moderate-income tracts than in La Crosse County's.

According to the community contacts, La Crosse has a variety of housing-related problems. One community contact stated that much of the affordable housing is in poor condition. Homes built along the Mississippi River in the early 1900s were poorly constructed and suffered from termite problems related to sawmill dust. Due to the rehabilitate costs, these homes are not considered affordable.

La Crosse has also suffered a decline in the condition of many of its rental properties. One contact indicated that census tracts 4, 5, and 9 contain many of these properties. The properties in census tracts 4 and 5 are primarily student rental properties. Apparently, the demand for rental housing by students has contributed to a decline in the quality of existing rental housing. The demand for student housing has also lowered the overall number of owner-occupied dwellings in La Crosse.

Another problem with affordable housing in La Crosse is that many properties in two moderate-income census tracts (1 and 2) are located in a flood plain. Although the city of La Crosse assists residents of these areas through a housing rehabilitation program, it neither provides assistance for purchasing nor encourages people to buy homes in these areas.

The geographic characteristics of the area also affect housing availability in La Crosse. As discussed, La Crosse's western, eastern, and southern sides have natural boundaries created by the Mississippi River and bluffs. As a result, most of residential housing growth has moved northward into Onalaska, Holmen, and other northern La Crosse County communities.

The La Crescent area has also encountered affordable housing problems. According to one community contact, property values have increased dramatically in the past five years and the turnover in existing homes is low. New housing starts continue at a record pace for the La Crescent area with prices in the general range of \$150,000 and higher. A community contact indicated that there is a need for affordable rental housing as well as home improvement programs for the aging housing stock. The Minnesota communities of Hokah, Houston, and Dakota also have aging residential properties, which are in need of improvements. The contact indicated, however, that affordable housing is generally not available in the La Crescent area for a couple of reasons. First, the development of affordable housing has been opposed

by some of the community's business leaders and residents. Second, the difference between Minnesota and Wisconsin taxes limits the city's ability to compete effectively with the lower rents available in La Crosse.

As previously stated, La Crescent's growth is limited because of the natural barriers and political boundaries. Currently the city plans to annex land north of the city. Eventually, the city hopes to annex additional land that could include part of Winona County. In addition to the lack of commercial space available for development, the Minnesota commercial property tax rate makes it difficult to attract new businesses or lure businesses to Minnesota from Wisconsin.

To address such issues as aging housing stock, commercial development, and traffic problems in the business district, the La Crescent city council is developing a long-term plan. The city's 20-year plan includes plans for adding townhouses to replace some of the area's older housing stock.

Bank management and community representatives describe the La Crescent and La Crosse areas' economies as stable to relatively strong. Unemployment rates in La Crosse County have consistently remained below state and national levels. According to the 1996 Wisconsin Department of Workforce Development report, unemployment for 1995 was 3.7%. Recent studies indicate the August 1996 unemployment level reached an all-time low of 2.5%. According to one community contact, the unemployment rate in La Crescent is virtually 0%. Underemployment is the greatest employment concern in La Crescent.

Medical services is one of the major industries in the La Crosse area. This industry provides jobs for over 10% of the labor force. La Crosse's two large, regional medical centers employ more than 4,000 individuals and attract patients from a wide radius in and around the city. La Crescent's medical center is affiliated with one of the regional centers and the Mayo Clinic in Rochester, Minnesota. In addition to these health care facilities, the La Crosse area will soon be the site of a regional health education center. Development recently began on this center, which is expected to increase the number and the quality of students and instructors in the health field. La Crosse also has a strong educational environment. Its University of Wisconsin System campus has about 8,700 students and about 1,000 employees. The community is also home to a small private college, Viterbo College, which has about 1,600 students. In addition to its four-year postsecondary institutions, La Crosse has a two-year technical college with an annual enrollment of about 20,000 students.

There are several large manufacturers in La Crosse. Although downsizing has occurred in some of the community's largest manufacturing employers, specifically the Trane Company and G. Heileman Brewing Company, the manufacturing industry continues to employ a large percentage of the labor force. Trane Company has approximately 2,300 employees. Another major manufacturing company, La Crosse Footwear, Inc., employs about 1,200 individuals. One community contact commented that La Crosse has a relatively large number of businesses with gross annual revenues of more than \$1 million.

Community contacts noted an increase in the number of small- and medium-sized businesses during the past 10 to 15 years; these businesses have absorbed employees who lost positions with larger companies. According to the REIS data for 1994, 94% of the assessment area's business establishments have 49 or fewer employees. Approximately 6% of the establishments have between 50 and 499 employees. Eight area business establishments, all located in La Crosse County, have 500 or more employees; these establishments account for less than .3% of the assessment area's establishments. Although Houston County, or more specifically the La Crescent area, has a variety of businesses that employ over 3,500 individuals, La Crescent remains essentially a bedroom community because of its proximity to La Crosse.

Management indicated that competition among financial institutions in the assessment area is very intense. At least 10 banks and federal savings banks have offices in La Crosse and Onalaska. In addition to these institutions, La Crosse has nine credit unions and several finance companies and mortgage brokers. Downtown La Crosse is home to bank offices affiliated with or operated by two large regional banks, Norwest Bank La Crosse, National Association, La Crosse, and U.S. Bancorp, Minneapolis, Minnesota. Furthermore, in addition to the bank, La Crescent has offices of several other financial institutions.

Examiners contacted individuals and other community representatives familiar with the local economy and business characteristics of the assessment area to identify community credit needs. Information obtained from these community contacts was used in evaluating the bank's CRA performance.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank has done an outstanding job of meeting the credit needs of its assessment area. Much of the analysis on the following pages is based on a statistical sample of 106 consumer, 76 residential real estate, and 49 small business loans originated during the six months preceding the evaluation. The sample was selected based on the number and amount of loans originated by the bank during the sample period. Overall, real estate lending was given the most weight in evaluating the CRA performance. The criteria discussed below were reviewed in determining the rating. In assigning the overall rating, greatest weight was placed on the assessment of lending to borrowers of different income levels and businesses of different sizes and the net loan-to-deposit ratio. These two factors in conjunction with the geographic distribution of the bank's loans throughout the assessment area most closely measure the bank's efforts to meet the credit needs of all segments of its community.

### **LOAN-TO-DEPOSIT RATIO ANALYSIS**

The bank's performance in this category significantly exceeds the standards for satisfactory performance based on its net loan-to-deposit ratio, its strong real estate lending, and its lending-related activity. The bank lending activity has been strong since the previous CRA evaluation. As indicated, the bank originated 223 and 228 HMDA loans in 1996 and 1997, respectively. The bank's 1996 HMDA activity represented 4% of the MSA activity. The following chart summarizes the bank's net loan-to-deposit ratio and its components since June 30, 1996.

<b>DATE</b>	<b>DEPOSITS (In thousands)</b>	<b>NET LOANS (In thousands)</b>	<b>NET LOAN-TO- DEPOSIT RATIO</b>
March 31, 1998	\$32,555	\$20,695	64%
December 31, 1997	\$31,377	\$22,698	72%
September 30, 1997	\$29,581	\$23,341	79%
June 30, 1997	\$26,656	\$21,910	82%
March 31, 1997	\$26,144	\$21,165	81%
December 31, 1996	\$27,460	\$20,992	76%
September 30, 1996	\$27,506	\$21,750	79%
June 30, 1996	\$26,739	\$21,172	79%

For the eight calendar quarters reflected in the table, the quarterly average of the bank's net loan-to-deposit ratios is 77%. The fluctuations in loan volume reflect several factors. First, the bank is actively

marketing several new deposit products, which has increased the deposit base by 22% since June 30, 1996. Second, bank management indicated there has been a recent downturn in the number of commercial credit opportunities. Finally, as indicated previously, financial competition is extremely intense throughout the assessment area.

The bank's net loan-to-deposit ratio is higher than most of its peer group, based on the December 31, 1997, Uniform Bank Performance Report data. These data indicate the bank's net loan-to-deposit ratio of 72%, compared with the national peer average of 68%, ranks the bank in the 60th percentile of its peers.

The bank's net loan-to-deposit ratio does not reflect residential real estate loans sold on the secondary market; the bank actively sells a significant majority of the loans in this category on the secondary market. As discussed under the Description of Institution section, the bank offers a wide variety of mortgage loan products that benefit residents in the bank's assessment area. Community contacts identified the bank as a strong lender in the community

The bank's quarterly average net loan-to-deposit ratio compares favorably with the ratios of its local competitors. The following chart shows the asset size and quarterly average net loan-to-deposit ratio for the bank and its local competitors since June 30, 1996.

<b>Bank</b>	<b>TOTAL ASSETS (as of March 30, 1998) (In thousands)</b>	<b>QUARTERLY AVERAGE NET LOAN-TO- DEPOSIT RATIO</b>
La Crescent State Bank La Crescent, Minnesota	\$35,771	77%
Jennings State Bank Spring Grove, Minnesota	\$21,580	75%
M&I Bank of La Crosse La Crosse, Wisconsin	\$120,753	70%
The Coulee State Bank La Crosse, Wisconsin	\$85,701	68%
Farmers State Bank Bangor, Wisconsin	\$60,515	64%
Park Bank Holmen, Wisconsin	\$34,569	61%

As shown above, the bank's quarterly average net loan-to-deposit ratio is slightly higher than the ratio of one of its local competitors and significantly higher than the ratios of the other competitors. In addition, as described previously, there are branch offices of very large regional institutions in the assessment area. Financial data is not available for these institutions by branch; therefore, a useful comparison of the bank with these regional institutions could not be performed.

Based on the strong net loan-to-deposit ratio, the level of HMDA activity, the level of competition in the assessment area, and its strong secondary market residential real estate lending activity, the bank's performance in this category exceeds the standards for satisfactory performance.



**COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA**

The bank meets the standards for satisfactory performance in this category. A review of the statistical sample of the loans originated by the bank reveals that the bank made a majority of loans inside the assessment area. The following table shows the percentage of loans within the assessment area based on the total number and loan amount in each major loan category.

<b>LOANS ORIGINATED INSIDE THE ASSESSMENT AREA</b>		
<b>Loan Type</b>	<b>Total Number of Loans</b>	<b>Total Dollar Amount of Loans</b>
Consumer	75%	75%
Residential Real Estate	82%	84%
Small Business	78%	88%

As shown above, the bank makes a significant number and dollar amount of its residential real estate and a significant dollar amount of small business loans in its assessment area. Bank management indicated that residents living within 10 miles of the bank in Winona County often seek credit from La Crescent financial institutions. The bank’s assessment area, however, does not include Winona County, Minnesota, which is located only a few miles from downtown La Crescent and is not a part of the MSA. This is the primary reason that the percentages set forth in the table are not higher.

Based on the concentration of loans originated within the assessment area, the bank meets the standards for satisfactory performance in this category.

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

The bank’s level of lending to individuals of different income levels and to businesses of different sizes significantly exceeds the standards for satisfactory performance. The following table shows the percentage of consumer and residential real estate loans originated to low-, moderate-, middle-, and upper-income borrowers.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*</b>				
<b>Loan Type</b>	<b>Low-Income Borrowers</b>	<b>Moderate-Income Borrowers</b>	<b>Middle-Income Borrowers</b>	<b>Upper-Income Borrowers</b>
<b>Consumer</b>				
Total Number of Loans	26%	21%	36%	17%
Total Amount of Loans	11%	18%	36%	35%
<b>Residential Real Estate</b>				
Total Number of Loans	5%	10%	26%	59%
Total Amount of Loans	2%	7%	23%	68%

\*Income level based on the 1997 MSA median family income of \$41,800

As previously mentioned, low-income households and families represent 23% and 18% of the assessment area’s population, respectively. Moderate-income households and families represent 17% and 19% of the assessment area’s population, respectively.

The data in the table indicate that the bank originated a significant percentage, 47%, of its consumer loans to low- and moderate-income borrowers. This figure significantly exceeds the demographic distribution of low- and moderate-income households and families in the assessment area. Although the total amount

of loans extended to low- and moderate-income borrowers is only 29%, this is reasonable as low- and moderate-income borrowers typically qualify for smaller dollar amount loans. The bank is willing to extend small-dollar loans to service the needs of the assessment area.

The residential real estate data show that the bank extended 15% of the total number and 9% of the total amount of residential real estate loans to low- and moderate-income borrowers. It should be noted that the CRA sample does not represent all of the bank's lending in the real estate market. The bank's 1996 and 1997 HMDA data show a higher lending activity to borrowers of various incomes. The classification of borrower income for HMDA data is based on 1996 median family income of \$40,100 and 1997 median family income of \$41,800. The table, set forth below, shows the income distribution for the bank's 1996 and 1997 HMDA loans. It also shows the income distribution of all lenders reporting HMDA loans in the MSA; these lenders do not necessarily represent all originators of residential real estate loans in the MSA because HMDA requires only certain institutions to collect and report data.

<b>1996 AND 1997 BORROWER INCOME DISTRIBUTION*</b>								
	<b>Low-Income Borrowers</b>		<b>Moderate-Income Borrowers</b>		<b>Middle-Income Borrowers</b>		<b>Upper-Income Borrowers</b>	
	Number of Loans	%	Number of Loans	%	Number of Loans	%	Number of Loans	%
1996 La Crescent State Bank	27	15	29	17	59	34	59	34
1996 Aggregate Lenders	325	7	841	17	1,511	32	2,112	43
1997 La Crescent State Bank	16	9	37	21	66	38	57	32

\*Percentages do not total 100% because income is unknown for some borrowers.

As shown in the above table, the bank's HMDA lending to low- and moderate-income borrowers was strong at 32% in 1996. In light of the aggregate data, which show that the aggregate lenders extended 24% of HMDA loans to low- and moderate-income borrowers, the bank's penetration of this market is very strong. Although the percentage of HMDA loans extended to low- and moderate-income borrowers in 1997 is slightly lower than the 1996 figure, it also is strong in comparison to the 1996 aggregate data. The 1997 aggregate data was not available as of the evaluation date. As noted in the Description of Institution section, the bank's HMDA activity represents approximately 4% of the assessment area activity in 1996. The bank is the fifth largest HMDA lender in the assessment area. The largest lender reported extending 25% of the assessment area's HMDA loans, and the second largest lender, the combined operations of a large regional financial institution, reported extending approximately 10% of the assessment area's HMDA loans.

The bank's residential real estate loan activity is distributed among various types of real estate loan products. As previously stated, the bank makes FHA, MHFA, VA, RD, purchase money, refinancing, and home improvement loans. In 1996, the bank's HMDA market share in the various loan categories ranged from 9% in the government-insured loan category to 3% of the refinancing loans. For its size, the bank is a significant lender in the market, particularly in the government-insured loan category. These loan programs typically benefit low- and moderate-income borrowers. In addition, because the bank's only office is located in Minnesota, it is not eligible to make loans under Wisconsin Housing and Economic Development Authority programs geared to low- and moderate-income borrowers. The heavy concentration of assessment area population in the Wisconsin portion of the assessment area coupled with

the bank's inability to offer state-sponsored products geared to low- and moderate-income people in this part of the assessment area makes the lending performance shown in the table particularly noteworthy. Likewise, the previously discussed affordable housing issues in both the La Crescent and La Crosse areas also limit opportunities to make real estate loans to low- and moderate-income individuals. As previously discussed, community contacts indicated that both communities lack quality, affordable housing.

The bank has a satisfactory distribution of its small business loans to entities of different sizes. For the purposes of this evaluation, small business loans are most commercial loans with original principal balances of \$1 million or less. The bank has an excellent record of providing small business loans to businesses with gross annual revenues of \$1 million or less. The loan sample reveals that the bank originated 84% of its small business loans to entities with gross annual revenues of \$1 million or less. Of loans to these entities, the bank extended 94% for amounts of \$100,000 or less. Pursuant to the CRA, independent banks and thrifts with assets of \$250 million or more and banks affiliated with a holding company with total bank and thrift assets of \$1 billion or more must report small business loan data. Within the MSA, 1996 reporting entities extended 58% of small business loans to borrowers with gross annual revenues of \$1 million or less. Based on the bank's small business lending data compared with the aggregate data, the bank's lending to small businesses is strong and commendable.

Overall, the bank's lending to individuals of different income levels and to businesses of different sizes is excellent. Based on 1996 HMDA data, the bank's residential real estate lending to low- and moderate-income individuals is stronger than that of the aggregate lenders. Furthermore, given the bank's asset size, its level of residential real estate lending indicates excellent responsiveness to community credit needs. Thus, the bank exceeds the standards for satisfactory performance in this category.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans is good based on the dispersion of loans and the percentage of loans in low-, moderate-, middle-, and upper-income census tracts. As previously discussed, the assessment area includes 3 low-, 6 moderate-, 18 middle-, and 5 upper-income census tracts in La Crosse and Houston counties. The following table shows the distribution of the bank's loans among the assessment area's low-, moderate-, middle-, and upper-income census tracts.

<b>DISTRIBUTION OF LOANS BY CENSUS TRACT INCOME LEVEL</b>								
<b>Loan Type</b>	<b>Low-Income Census Tracts</b>		<b>Moderate-Income Census Tracts</b>		<b>Middle-Income Census Tracts</b>		<b>Upper-Income Census Tracts</b>	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Consumer	3%	3%	9%	6%	86%	91%	2%	0%
Residential Real Estate	0%	0%	18%	17%	76%	74%	6%	10%
Small Business	3%	3%	8%	12%	87%	85%	2%	1%

The distribution of the bank's consumer and residential real estate loans in the low- and moderate-income census tracts is lower than the percentage of assessment area residents living in these tracts. While 25% of the assessment area's population lives in low- and moderate-income tracts, the bank made only 12% of its consumer and 18% of its residential real estate loans in these areas. Nonetheless, the distribution of the bank's consumer and residential real estate loans among census tracts of different income levels is more than reasonable for several reasons. The low-income census tracts are located in the Wisconsin section of the assessment area and have a total population of 6,248, 5% of the assessment area's total. The areas with residents, census tracts 3 and 4, are La Crosse's central business district. People living in

these areas are unlikely to travel to La Crescent for banking services; other financial institutions are more proximate to these low-income census tracts than the bank. Further, low-income census tract 4 is home to postsecondary educational facilities. Accordingly, much of the population is students who have limited demands for credit. For these reasons, the penetration of the bank's consumer loans in low-income census tracts appears more than reasonable. The moderate-income census tracts are located in both Minnesota and Wisconsin and include 20% of the assessment area's population. These areas are also more conveniently served by other financial institutions. The lack of consumer loans in the moderate-income tracts of Minnesota results primarily from the presence of a bank affiliate in one of those tracts. This institution is centrally located in the moderate-income tracts of Houston County.

The distribution of residential real estate loans closely mirrors the assessment area's distribution of owner-occupied housing in the low- and moderate-income tracts. The bank's residential real estate loans in the low- and moderate-income census tracts equal the percentage of owner-occupied housing units in these tracts. As discussed in the Description of Assessment Area section, the assessment area's low- and moderate-income census tracts contain only 1% and 17% of the assessment area's total 28,494 owner-occupied housing units, respectively. In general, given the bank's size, the distribution of the bank's residential real estate loans is excellent given the distribution of owner-occupied housing in the assessment area.

The 1996 and 1997 HMDA data provide more information about the bank's performance in the assessment area. The bank's assessment area has 32 census tracts; reportable loan activity in these census tracts by income level is shown in the following table.

<b>DISTRIBUTION OF HMDA LOANS BY CENSUS TRACT INCOME LEVEL</b>								
	<b>Low-Income Census Tracts</b>		<b>Moderate-Income Census Tracts</b>		<b>Middle-Income Census Tracts</b>		<b>Upper-Income Census Tracts</b>	
	Number of Loans	%	Number of Loans	%	Number of Loans	%	Number of Loans	%
1996 La Crescent State Bank	0	0	6	3	161	92	8	5
1996 Aggregate	79	2	444	9	3,495	71	893	18
1997 La Crescent State Bank	4	2	29	17	138	78	5	3

The bank's HMDA reportable loans within the assessment area are generally distributed throughout the assessment area. As shown in the table, in 1996, the bank's loan activity in the low- and moderate-income census tracts was less than that of the aggregate lenders. However, the bank has its only office in La Crescent, a significant distance from the low- and moderate-income census tracts in the assessment area. Also, a bank affiliate is located in the moderate-income tracts of Houston County. Finally, numerous financial institutions are located closer to the low- and moderate-income tracts of La Crosse County than the bank. The bank's lending in the low- and moderate-income census tracts in 1997 is significantly higher than it was in 1996. The bank's residential real estate lending in low- and moderate-income census tracts is comparable to the dispersion of owner-occupied housing in the assessment area. The dramatic increase in the bank's penetration in low- and moderate-income census tracts is highly commendable. According to the 1997 HMDA data, the bank made reportable loans in 24 of the 32 census tracts.

The bank's small business lending is highly concentrated in middle-income census tracts. Although the bank extended small business loans throughout the assessment area, its activity is predictably concentrated in middle-income census tract 201, which is the city of La Crescent. Given the bank's

location and size as well as the competitors in La Crosse, the fact that the bank extended few small business loans in La Crosse's low- and moderate-income census tracts is not unreasonable. Similar factors explain the low small business loan penetration in Houston County's moderate-income areas.

As stated, the distribution of assessment area census tracts by income level is 9% low income, 19% moderate income, 56% middle income, and 16% upper income. The bank extended loans in all Houston County census tracts but did not extend any consumer loans in Houston County's moderate-income census tracts 204 and 205. This situation probably reflects the fact that a bank affiliate is located in census tract 205. The bank extended loans in the two La Crosse County low-income census tracts that have residents. Additionally, it extended loans in 67% of La Crosse County's moderate-income tracts. Overall, the bank extended loans in 75% of the assessment area's census tracts. According to the 1997 HMDA data, the bank extended reportable loans in 24 of the 32 census tracts. Although the bank's loans are dispersed throughout the assessment area, its lending is concentrated in the Minnesota census tracts nearest the bank's office. These areas are middle-income census tracts 201 and 202.

In general, given the bank's size and the competition for residential real estate loans within the assessment area, the distribution of the bank's residential real estate loans in 1997 reflects superior efforts to lend in the assessment area. The improved penetration of 1997 HMDA loans in low- and moderate-income census tracts demonstrates the bank's commitment to servicing the residential real estate credit needs of the residents of low- and moderate-income areas. Further, given the bank's location and size as well as the nature of the market in which the bank operates, even the limited loan penetration in the low- and moderate-income areas is reasonable. As such, the bank meets the standard for satisfactory performance in this category.

### SERVICES

The bank has an excellent record of helping to meet the credit needs of its assessment area through services that benefit low- and moderate-income individuals.

The bank is very effective in delivering retail-banking services to low- and moderate-income individuals. The bank offers free checking accounts and 24-hour, toll-free telephone banking. Through the telephone banking service, customers can make checking and savings account inquiries and transfers between accounts. In addition, credit customers can make loan payments using the telephone banking service.

With respect to community development services, the bank provided technical assistance to one local manufacturing business seeking to expand its business operations and create new jobs. Specifically, the bank's assistance included providing financial expertise during the application process for a Minnesota Investment Fund ("MIF") grant through the Minnesota Department of Trade and Economic Development. As a result of the bank's financial expertise and assistance, the city received a \$250,000 MIF grant. The city will lend the monies to the manufacturer to buy equipment. As a result, the business will create at least 16 new jobs and retain 64 positions. The average hourly wage rate for these jobs is between \$8.00 and \$8.50. The job creation will directly benefit low- and moderate-income wage earners. In addition to the MIF grant, the city used tax increment financing to provide the manufacturer with an additional \$50,000. The bank was instrumental in providing the technical assistance needed to arrange the expansion financing. In addition, the bank provided a gap loan that allowed the business to purchase the equipment before the grant monies are dispersed.

The bank's level of community development services is commendable and demonstrates a strong commitment to serving the assessment area. While these activities enhance the bank's overall CRA performance, the outstanding CRA rating is largely attributed to the exceptional distribution of loans to borrowers of different income levels and to the high net loan-to-deposit ratio.

## GENERAL

The bank has not received any CRA-related complaints since membership date. The evaluation did not reveal any credit practices in violation of the substantive provisions of the fair lending and housing laws and regulations. However, the evaluation revealed a violation of HMDA's Regulation C data collection provisions. Bank management promised to correct the data exceptions and establish procedures to prevent recurrence of the violations.

## **PUBLIC DISCLOSURE**

April 27, 1998  
Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

La Crescent State Bank  
Name of Depository Institution

092732400000  
Identification Number of Institution

La Crescent, Minnesota  
Address of Institution

Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue  
Minneapolis, Minnesota 55401-1804

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.