

## PUBLIC DISCLOSURE

November 18, 2002

Date of Evaluation

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American State Bank of Olivia

Name of Depository Institution

168759

Institution's Identification Number

Olivia, Minnesota

Address of Institution

**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 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.

American State Bank's satisfactory rating is based on several factors.

- First, the bank's net loan-to-deposit ratio is very high.
- Second, the bank's lending to low- and moderate-income borrowers and to businesses and farms of different sizes is strong.
- Third, the bank originates a majority of its loans within its assessment area.
- Finally, the geographic distribution of the bank's lending is reasonable.

## DESCRIPTION OF INSTITUTION

The bank is capable of meeting the credit needs of assessment area residents, businesses, and farms effectively based on its size, financial condition, and credit products. The bank received a satisfactory rating at its previous Community Reinvestment Act (“CRA”) evaluation conducted as of November 20, 1997, by the Federal Deposit Insurance Corporation.

*Offices.* American State Bank of Olivia is a full-service bank with its main office in Olivia, Minnesota. The bank also operates a full-service branch in Renville, Minnesota. Renville is located approximately 12 miles west of Olivia. The bank operates one automated teller machine (“ATM”) at a local restaurant in Olivia, Minnesota. The ATM does not accept deposits.

*Loan portfolio.* According to the September 30, 2002, Report of Condition (“ROC”), the bank’s assets total \$42.9 million, with a loan portfolio of \$38.3 million. Since the previous evaluation, the bank’s assets have increased 29%, while the loan portfolio has increased 39%. Agricultural loans are the largest component of the loan portfolio at 65%. The remainder of the portfolio is composed of 23% commercial loans, 6% consumer loans, and 5% residential real estate loans. The composition of the loan portfolio has changed only slightly since the previous evaluation, when the breakdown according to the December 31, 1997, ROC was as follows: 72% agricultural loans, 14% commercial loans, 9% consumer loans, and 5% residential real estate loans.

*Credit products.* The bank offers a variety of conventional consumer, residential real estate, commercial, and agricultural loan products to fulfill the credit needs of residents, businesses, and farms within its assessment area. The bank also participates in state and federal government loan programs including those sponsored by the Small Business Administration and the Minnesota Housing Finance Agency. Through its referral arrangement with a mortgage broker, the bank provides consumers access to secondary market residential real estate loans.

## DESCRIPTION OF AMERICAN STATE BANK OF OLIVIA’S ASSESSMENT AREA

*Assessment area.* The bank has defined its assessment area as Renville County, Minnesota. The county, which is located in south central Minnesota, consists of six block numbering areas (“BNA”) classified as middle income. Olivia is located approximately 90 miles southwest of Minneapolis-St. Paul, Minnesota. The bank’s main office in Olivia is located in BNA 9905, while the Renville branch is located in BNA 9904.

In addition to discussions with bank management, examiners contacted an individual familiar with the economic development needs of the area. Information received from the contact and bank management was used in the evaluation of the bank’s CRA performance.

*Population.* Olivia is a small rural community with a population of 2,570 according to 2000 U.S. Census data. It is the county seat and the largest community in the assessment area. Renville County’s population is 17,154 according to the 2000 census data. The populations of both Olivia and Renville County decreased only slightly since the 1990 census. Table 1 illustrates various demographic characteristics of the bank’s assessment area.

<i>Tract Summary</i>	
<b>Total Number of Tracts</b>	<b>6</b>
Number of Low-Income Tracts	0
Number of Moderate-Income Tracts	0
Number of Middle-Income Tracts	6
Number of Upper-Income Tracts	0
<i>Income Summary</i>	
<b>Median Family Income<sup>2</sup> - 1990</b>	<b>\$28,057</b>
Percentage of Low-Income Families	18%
Percentage of Moderate-Income Families	20%
Percentage of Middle-Income Families	27%
Percentage of Upper-Income Families	35%
<i>Miscellaneous Information</i>	
<b>Total Population</b>	<b>17,673</b>
Percentage of Families Below Poverty Level	9.4%
<b>Total Housing Units</b>	<b>7,442</b>
Percentage Owner-Occupied to Total Units	72%
Percentage Rental to Total Units	19%
Percentage Vacant to Total Units	9%

*Economy.* According to bank management and the community contact, the economy in the assessment area is good. Agriculture continues to be the largest industry in the county. Bank management explained that Renville County is home to some of the richest farmland in Minnesota. Land prices range from \$2,500 to \$2,800 per acre. Major crops are corn, soybeans, and beets. Yields are strong this year, and due to drought in other areas, prices are also higher than usual. Several seed research and production companies, such as Golden Harvest Research and Mycogen Seeds, maintain offices in Olivia. A beet processing plant, Southern Minnesota Beet Sugar, is located in Renville, Minnesota. Renville is known as the “Cooperative Capital” of Minnesota due to the numerous value-added, farmer cooperatives located there.

Outside of the agricultural industry, other major employers in the assessment area include the county, the school districts, the Renville County Hospital, and Olivia Healthcare Center. According to the community contact and bank management, wages in the area have a wide range and are generally livable. The unemployment rate for Renville County in October 2002 was 3.2% and an average of 6.0% in 2001, according to the Minnesota Department of Economic Security. Comparatively, the state unemployment rate for the same month was 3.5% and an average of 3.7% in 2001. A great deal of available employment in Renville County is seasonal. Unemployment in Renville County is up from an average of 4.7% in 1999.

Bank management attributed some of the increase in unemployment to the shrinking livestock industry in the area. State pollution laws limit expansion and relocation of livestock farms, according to bank management. The impact on the economy is significant because not only is livestock farming more

<sup>1</sup>All information based on 1990 census data.

<sup>2</sup>See Appendix A for definitions of low, moderate, middle, and upper income.

labor-intensive than crop farming, but also employment levels are higher due to the need for related businesses such as veterinarians, feed, and processing.

The 2002 data published by Dun and Bradstreet show that commercial entities represent 67% of the assessment area's businesses. According to the data, the remaining 33% are agriculture-related entities. Approximately 74% of the commercial businesses and 98% of the agricultural businesses have gross annual revenues of less than \$1 million.

Banking competition in the area is relatively strong. Olivia is home to two banking offices and a branch of Farm Credit Services; Renville has two banking offices. Branches of large regional banks, brokerage firms, and credit unions are located in Willmar, Minnesota, which is located 30 miles north of Olivia.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job in meeting the credit needs of the residents, businesses, and farms in the assessment area. Much of the analysis on the following pages is based on a statistical sample of loans that the bank originated in the six-month period from March to August 2002. Table 2 illustrates the bank's total loan activity between January and August 2002.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>%</i>	<i>Total Amount of Loans (in thousands)</i>	<i>%</i>
Consumer	150	32	\$ 1,157	4
Residential Real Estate	20	4	\$ 569	2
Small Business	82	17	\$ 4,568	17
Small Farm	223	47	\$20,841	77

The bank's CRA performance evaluation is based on three loan categories: consumer, small business, and small farm loans. Consumer loans were selected for review given the high number of loans originated. Small business and small farm loans were selected for review because they represent a significant portion of both the total number and dollar amount of originated loans. The analysis uses a sample of 76 consumer loans, 47 small business loans, and 91 small farm loans.

The evaluation of the bank's overall lending performance is based on several criteria: net loan-to-deposit ratio, lending inside the assessment area, the distribution of loans to borrowers of different income levels and to businesses and farms of different sizes, and the geographic distribution of loans. In assigning the overall rating, the greatest weight was placed on the bank's level of lending to borrowers of different income levels and to businesses and farms of different sizes. Also, given the bank's loan portfolio mix, the greatest weight was assigned to the bank's small farm lending performance.

## LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is very good. The loan-to-deposit ratio is one way of measuring whether the bank is reinvesting deposits it receives from customers back into the community in the form of loans. For the four calendar quarters preceding the evaluation, the bank's average net loan-to-deposit ratio was 93%. The following table, based on quarterly ROC data, shows the bank's net loans, deposits, and quarterly net loan-to-deposit ratio since the date of membership.

<i>Date</i>	<i>Net Loans (in thousands)</i>	<i>Deposits (in thousands)</i>	<i>Net Loan-to- Deposit Ratio</i>
September 30, 2002	\$37,546	\$36,062	104%
June 30, 2002	\$36,580	\$36,286	101%
March 31, 2002	\$33,589	\$37,091	91%
December 31, 2001	\$33,861	\$43,854	77%

The most recent Uniform Bank Performance Report shows that the bank's September 30, 2002, net loan-to-deposit ratio compares favorably with the bank's national peer group's ratio. The September 30, 2002, net loan-to-deposit ratio for the national peer group is 74%. The bank's 104% net loan-to-deposit ratio ranks the bank in the 97th percentile. The bank's national peer group consists of all insured commercial banks having assets between \$25 million and \$50 million with two or more banking offices located in a nonmetropolitan area.

The bank's average quarterly net loan-to-deposit ratio is higher than the ratios of its local competitors. The following table lists the bank's and competitor's total assets and the quarterly average net loan-to-deposit ratios. The figures are according to ROC data for the quarter ending September 30, 2002.

<i>Bank and Location</i>	<i>Total Assets (in thousands)</i>	<i>Quarterly Average Net Loan-to-Deposit Ratio</i>
American State Bank of Olivia Olivia, Minnesota	\$42,961	104%
Citizens State Bank of Olivia Olivia, Minnesota	\$26,670	77%
Heartland State Bank Storden, Minnesota	\$38,322	82%
HomeTown Bank Redwood Falls, Minnesota	\$60,076	102%

Based on the quarterly average net loan-to-deposit ratio, the bank's overall level of lending reflects strong responsiveness to the credit needs in the assessment area. The bank's quarterly average net loan-to-deposit ratio is very high. It is higher than the ratios of the local competitors and compares favorably with the bank's national peer group. The bank's overall lending activity, as evidenced by the quarterly average net loan-to-deposit ratio, exceeds the standards for satisfactory performance in this category.

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

The CRA emphasizes the importance of banks serving the credit needs of the individuals, businesses, and farms inside their assessment areas. Evaluating the number and amount of loans the bank extends within its assessment area is one way of determining whether the bank is meeting the credit needs of the community. The bank's lending activity within the assessment area meets the standard for satisfactory performance. Overall, the bank extends a majority of its loans inside the assessment area. Table 5 shows the number and dollar amount of consumer, small business, and small farm loans that the bank extended within the assessment area.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Total Dollar Amount of Loans</i>
Consumer	80%	79%
Small Business	74%	62%
Small Farm	70%	63%
<b>Overall</b>	<b>75%</b>	<b>68%</b>

As the data in the table indicates, the bank originates a substantial majority of its loans in the assessment area. A review of the loan sample showed that loans originated outside of the assessment area were generally located in BNAs immediately surrounding the assessment area. Based on the bank's concentration of loans within the assessment area, the bank's performance in this category meets the standards for satisfactory performance.

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

In establishing the CRA, Congress sought to encourage banks to extend credit to low- and moderate-income persons, consistent with safe and sound banking operations. Examiners consider the extent to which banks extend credit to low- and moderate-income persons and to businesses or farms of varied sizes.

The bank's level of lending to borrowers of different income levels and to businesses of different sizes is strong. Table 6 shows the distribution of the sampled consumer loans by borrower income level.

	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Income Not Available</i>
	#	\$	#	\$	#	\$	#	\$	#
Consumer Loans	46%	29%	20%	32%	17%	23%	17%	16%	11%
Percentage of Families by Income Levels**	18%		20%		27%		35%		
*2002 Median Family Income of \$48,500 for nonmetropolitan areas of Minnesota.									
**Based on 1990 census data.									

*Consumer lending.* As the data in Table 6 indicates, the bank's level of consumer installment lending to low- and moderate-income borrowers is excellent. The bank made 66% of its consumer loans to low- and moderate-income borrowers. The bank's loan originations to low- and moderate-income borrowers meets or exceeds the demographic distribution of families by median family income level in the assessment area.

One indicator of the bank's willingness to meet assessment area credit needs is loan size. Small-dollar loans are generally made to fund living expenses rather than discretionary purchases. Of the loans to low- and moderate-income borrowers, approximately 48% were originated for amounts of \$3,000 or less. This level of lending demonstrates the bank's willingness to extend loans to all residents of the assessment area.



*Small business and small farm lending.* The bank has a good record of providing small business and small farm loans to entities with gross annual revenues of \$1 million or less. As defined by CRA, small business loans are most commercial loans with original principal amounts of \$1 million or less. Small farm loans are most agricultural loans with principal amounts of \$500,000 or less. Please refer to the Appendix on page 9 for more definitions concerning small business and small farm lending.

Table 7 shows the bank's distribution of small business and small farm loans by dollar amount in the assessment area. The loan amount is one way to determine whether the bank actively extends smaller loans typically requested by smaller entities.

<b>TABLE 7 SMALL BUSINESS AND SMALL FARM LENDING IN THE ASSESSMENT AREA</b>				
<i>Small Business and Small Farm Originations</i>	<i>Less Than \$100,000</i>	<i>More Than \$100,000 to Less Than \$250,000</i>	<i>More Than \$250,000 to Less Than \$500,000</i>	<i>Total Originations</i>
Percentage of the Number of Small Business Loans	91%	6%	3%	100%
Percentage of Loans to Businesses With Revenues Less Than \$1 Million	100%	100%	0%	97%
Percentage of the Number of Small Farm Loans	81%	8%	11%	100%
Percentage of Loans to Farms With Revenues Less Than \$1 Million	90%	100%	71%	89%

As described in the table, the bank originated a significant number of the loans to small farms and small businesses for amounts of \$100,000 or less. Further, the bank made the large majority of the loans to entities with gross annual revenues of \$1 million or less.

The loan data indicates that the bank originated 97% of its small business loans and 89% of its small farm loans to entities with gross annual revenues of \$1 million or less. As previously mentioned, industry reports published by Dun & Bradstreet show that 74% of the businesses and 98% of the farms in the assessment area had gross annual revenues of \$1 million or less.

Overall, the bank's lending to individuals of different income levels and to entities of different sizes is fully satisfactory. A substantial number of the bank's consumer loans are extended to low- and moderate-income borrowers. In addition, the vast majority of the bank's small business and small farm loans were originated for amounts of \$100,000 or less and to entities with gross annual revenues of \$1 million or less. The bank demonstrates good responsiveness to meeting the credit needs of all residents in its assessment area.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending patterns. As previously stated, the bank's assessment area consists solely of middle-income BNAs. Conversations with bank management and the community contact did not indicate that there were any significant concentrations of low- and/or moderate-income families in any of the BNAs. Therefore, further analysis of the bank's lending in geographies of different income levels is not meaningful. The loan sample indicates that the bank actively lends in all of the BNAs that comprise its assessment area. Consequently, the geographic distribution and dispersion of the bank's loans are satisfactory.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair lending and housing laws and regulations. In addition, the bank has not received any CRA-related complaints since the previous evaluation.

## Appendix A Glossary of Common CRA Terms

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

**Assessment Area** - The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated teller machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

**Block Numbering Areas (BNAs)** - BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

**Census Tracts** - Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

**Community Development** - Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

**Community Development Loan** - A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank):

1. has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan, and
2. benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

**Community Development Service** - A service that has as its primary purpose community development is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area, and has not been claimed by other affiliated institutions.

**Consumer Loans** - Loans to individuals for household, family, and other personal expenditures. These loans do not include real estate-secured loans.

**Dun & Bradstreet Data** - Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. This data can be sorted by geographies.

**Income Level** - Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In non-MSA areas, the level is based on the statewide, non-MSA median income.

- **Low Income** - Less than 50 percent of the area median income.
- **Moderate Income** - At least 50 percent and less than 80 percent of area median income.
- **Middle Income** - At least 80 percent and less than 120 percent of the area median income.
- **Upper Income** - At least 120 percent or more of the area median income.

**Metropolitan Statistical Area (MSA)** - A federally designated geographical unit consisting of an urbanized area with a central city of at least 50,000 residents and a regional population of 100,000. MSAs may cross state boundaries.

**Qualified Investment** - A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Small Business** - A business with gross annual revenues of \$1 million or less.

**Small Business Loan** - A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

**Small Farm** - A farm with gross annual revenues of \$1 million or less.

**Small Farm Loan** - A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”