

## **PUBLIC DISCLOSURE**

April 8, 2013

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

Farmers State Bank of Madelia, Incorporated  
34 Main Street  
Madelia, Minnesota 56062  
RSSD 988658

**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 “Outstanding.”

The Community Reinvestment Act (CRA) performance of Farmers State Bank of Madelia, Incorporated, Madelia, Minnesota, is outstanding. Based on its size and financial condition, the bank effectively meets the credit needs of the residents, small farms, and small businesses in the assessment area. The bank received an outstanding rating at its previous CRA performance evaluation, conducted March 17, 2008.

This CRA rating is based on the following factors:

- The bank’s lending to borrowers of different income levels and to farms and businesses of different sizes is excellent.
- The bank’s net loan-to-deposit ratio is more than reasonable given the bank’s size and financial condition and its assessment area’s credit needs as well as its qualified community development lending.
- The bank originated a substantial majority of its loans within the assessment area.
- The geographic distribution of loans in the assessment area is reasonable.
- The bank’s qualified investments, including donations, and community development services further demonstrate its commitment to meeting community development needs in its assessment area.

## SCOPE OF EVALUATION

This evaluation is based on a statistical sample of consumer, small farm, and small business loans. Examiners selected these loan products because they represent the bank’s major product lines by number of loans or by dollar amount of loans originated by the bank from January 1, 2012, to December 31, 2012, as shown in Table 1.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Consumer	200	44.3	\$ 1,584,033	8.1
Home equity line of credit	9	2.0	238,000	1.2
Small business participations	6	1.3	1,100,000	5.6
Small farm participations	1	0.2	300,000	1.5
Residential real estate	34	7.5	3,375,232	17.1
Ready Reserve	6	1.3	14,400	0.1
Small business (≤ \$1 million)	91	20.1	4,426,039	22.5
Small farm (≤ \$500,000)	105	23.2	8,630,752	43.9
<b>Total</b>	<b>452</b>	<b>100.0</b>	<b>\$19,668,456</b>	<b>100.0</b>

The analysis that follows is based on a statistical sample of 69 small farm and 63 small business loans originated from January 1, 2012, to December 31, 2012; and 67 consumer loans originated from July 1, 2012, to December 31, 2012. Although the bank’s assessment area includes part of the Mankato-North

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

Mankato Metropolitan Statistical Area (Mankato MSA), as discussed in the Description of Assessment Area section of this evaluation, the bank is not required to report Home Mortgage Disclosure Act data because none of the bank's offices are located in the MSA. Over 90.0% of the bank's loans were made to borrowers located in nonmetropolitan areas.

To determine the bank's CRA rating, examiners analyzed the following criteria:

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

For the performance criteria, examiners placed the greatest weight on the bank's lending to borrowers of different income levels and to farms and businesses of different sizes, followed by the bank's net loan-to-deposit ratio. The remaining criteria were weighted equally. Examiners weighted the bank's performance by loan type as follows: small farm and consumer loans received equal weight and received greater weight than small business loans. Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints.

At the option of the bank and in accordance with the Small Bank CRA Examination Procedures, examiners reviewed the bank's community development loans, investments, and services from the evaluation period. The bank's level of community development activities enhances the overall CRA rating.

## DESCRIPTION OF INSTITUTION

*Bank Information.* The bank's hours of service are reasonable and have not changed since the previous evaluation. The bank operates its main office in Madelia, Minnesota; a full-service branch in Lewisville, Minnesota; and a loan and deposit production office in Lake Crystal, Minnesota.

The bank operates three cash-dispensing-only automated teller machines, two in Madelia and one in Lewisville. The bank also offers telephone banking and provides Internet banking services. Internet banking customers may print out credit applications, review accounts, transfer funds, and use bill payment services. The bank's web site also features numerous financial calculators for residential real estate and consumer loans, savings accounts, investment products, and debt management.

*Loan Portfolio.* According to the December 31, 2012, Report of Condition, the bank's assets totaled \$64.9 million, an increase of approximately 10.7% since the previous evaluation. The bank's \$35.5 million loan portfolio consists of approximately 49.8% agricultural, 25.0% commercial, 18.5% residential real estate, and 6.7% consumer loans. All other loans represent less than 1.0% of the portfolio. The loan portfolio declined 14.7% since the previous evaluation, and the commercial loan segment of the portfolio decreased 39.9%. The composition of the loan portfolio remains generally unchanged since the previous evaluation.

*Credit Products.* The bank offers a variety of credit products to meet the needs of the farms, businesses, and consumers in its assessment area. The bank's credit products include agricultural, commercial, consumer, and residential real estate loans. The bank also offers loans through state- and federal-sponsored programs, including those sponsored by the Farm Service Agency (FSA) and Rural

Development programs of the U.S. Department of Agriculture. Furthermore, the bank offers loan programs administered by the Small Business Administration (SBA).

In addition to traditional loan products, the bank actively participates in loan programs that focus on the credit needs of small farms, small businesses, and low- and moderate-income individuals, as follows:

- Between the previous evaluation in March 2008 and the program's expiration in late 2010, the bank offered loans through the SBA America's Recovery Capital (ARC) loan program, which provided up to \$35,000 in short-term relief for viable small businesses facing immediate financial hardship.
- The bank offers loans to small businesses through the Madelia Development Loan Program, which provides loans to new and existing businesses for expansion, job creation or retention, and/or downtown revitalization. The bank did not originate any of these loans during the evaluation period.
- The bank continues to offer loans through the Madelia Housing Program, which provides down payment assistance for individuals purchasing or building a home in Madelia. Loan amounts range from \$1,000 to \$9,000, and the interest rate is based on the borrower's gross annual income and ranges from 2% to 8%.
- The bank also continues to participate in the Minnesota Housing Finance Agency's (MHFA) Fix-Up loan program by offering low, fixed rate loans that provide financing to borrowers to complete qualified home improvement projects.

*Community Contacts.* In addition to having discussions with bank management, examiners contacted an individual who is familiar with the economic and demographic characteristics of the assessment area. Information from the contact and bank management was used in the evaluation of the bank's CRA performance.

## **DESCRIPTION OF ASSESSMENT AREA**

*Assessment Area.* The bank has defined one assessment area for CRA purposes. The assessment area consists of all of Watonwan County (census tracts 9501, 9502, and 9503), a portion of Brown County (census tract 9607), and a portion of Blue Earth County (census tracts 1709, 1710, and 1715). The bank's main office and the Lewisville branch are located in Watonwan County, and the Lake Crystal loan and deposit office is located in Blue Earth County.

The bank has not changed its assessment area since the previous evaluation; however, some census tract code numbers were renumbered based on 2010 U.S. Census data. Specifically, the three census tracts in Blue Earth County that are part of the bank's assessment area were renumbered from 9709, 9710, and 9715 to 1709, 1710, and 1715, respectively. In addition, in November 2008, the U.S. Office of Management and Budget (OMB) updated statistical areas to include changes in principal cities and area titles. At that time, OMB delineated the Mankato MSA, which consists of Blue Earth and Nicollet counties. Therefore, the three census tracts in Blue Earth County that are part of the bank's assessment area are located in the Mankato MSA.

Finally, the Watonwan County census tracts were classified as distressed for 2008 through 2011. However, on June 29, 2012, the Federal Financial Institutions Examination Council (FFIEC) reclassified these census tracts and removed the distressed designation. Banks will continue to receive credit for qualified community development activities in census tracts that no longer meet the requirements to be classified as distressed and/or underserved, for one year after the tracts are removed from the list.

Table 2 provides detailed data about the demographic characteristics for this assessment area. Assessment area demographics are based on 2010 census data and 2012 Dun & Bradstreet data.

<b>TABLE 2</b>								
<b>Assessment Area Demographics</b>								
<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families &lt; Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0	0	0.0	1,168	17.7
Moderate Income	0	0.0	0	0	0	0.0	1,280	19.4
Middle Income	7	100.0	6,612	100.0	409	6.2	1,719	26.0
Upper Income	0	0.0	0	0	0	0.0	2,445	37.0
<b>Total Assessment Area</b>	<b>7</b>	<b>100.0</b>	<b>6,612</b>	<b>100.0</b>	<b>409</b>	<b>6.2</b>	<b>6,612</b>	<b>100.0</b>
<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	10,652	7,966	100.0	74.8	1,638	15.4	1,048	9.8
Upper Income	0	0	0.0	0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>10,652</b>	<b>7,966</b>	<b>100.0</b>	<b>74.8</b>	<b>1,638</b>	<b>15.4</b>	<b>1,048</b>	<b>9.8</b>
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>&gt; \$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	1,425	100.0	1,301	100.0	69	100.0	55	100.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>1,425</b>	<b>100.0</b>	<b>1,301</b>	<b>100.0</b>	<b>69</b>	<b>100.0</b>	<b>55</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>91.3</b>		<b>4.8</b>		<b>3.9</b>
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>&gt; \$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	774	100.0	771	100.0	3	100.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>774</b>	<b>100.0</b>	<b>771</b>	<b>100.0</b>	<b>3</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>
<b>Percentage of Total Farms:</b>				<b>99.6</b>		<b>0.4</b>		<b>0.0</b>

For the purpose of classifying borrower income, this evaluation uses the FFIEC estimated median family income for the relevant area. For borrowers in the Mankato MSA, the median family income is \$69,000 for 2012. For borrowers in the nonmetropolitan areas of Minnesota, the figure is \$60,000 for 2012.

For the purpose of classifying census tracts by income level, this evaluation uses the median family income from the 2010 census. This figure is \$66,038 for the Mankato MSA and \$58,135 for the nonmetropolitan areas of Minnesota.

*Population.* According to 2010 U.S. Census data, the population of the bank's assessment area is 23,971, of whom 11,211 reside in Watonwan County. The population of Madelia is 2,308, a decrease of 1.4% since the 2000 U.S. Census. According to the community contact, Madelia's population has remained stable due to job opportunities with several large employers. Watonwan County has a significant Hispanic population; according to 2010 census data, 20.9% of the county's population is Hispanic, up from 15.2% in 2000. The 2010 figure for the state is 4.7%.

*Economy.* According to bank management and the community contact, the local economy has remained relatively stable in recent years. The local economy primarily involves agriculture-related industries, such as farming, food processing, and ethanol production. The main crop is corn, but the area also includes some sugar beet operations. Bank management and the community contact stated that commodity prices have been very strong throughout the last three years, especially for corn. Farmers have generated sizable profits, enabling them to use cash, rather than bank financing, for equipment and operational needs. As a result, agricultural loan demand has been low. Farmers who obtain operating lines of credit use them only as a source of liquidity to cover unforeseen events. Land values are also high, which results in increased rental income for farmers who rent acreage.

The community contact stated that despite downward small business trends nationally and throughout the surrounding areas since the recession, Madelia has fared well in recent years. The downtown business district is stable, and the majority of business space is occupied. The community contact stated that if a local small business failed or moved operations, another small business occupied the vacant space. For example, a recreational vehicle dealership from Owatonna, Minnesota, recently leased the former General Motors automobile dealership located on the outskirts of Madelia.

Bank management and the community contact stated that housing availability and affordability have remained relatively stable. They also noted that the number of single-family homes listed for sale is limited. Depending on price, single-family homes that are in good condition and priced reasonably usually sell quite quickly. The community contact and bank management attributed sales activity to increased employment at the larger employers in Madelia, including the Madelia Community Hospital and Clinic; new jobs lead to new residents and increasing homeownership.

The largest private employers in the assessment area are Tony Downs Foods, House of Print, Luther Memorial Home, and Madelia Community Hospital and Clinic, all of which are located in Madelia. According to the community contact, local employers usually pay a few dollars above minimum wage; the contact estimated that Tony Downs Foods or House of Print employees earn approximately \$12 per hour. According to the U.S. Bureau of Labor Statistics, the 2012 annual nonseasonally adjusted unemployment rates for Watonwan, Brown, and Blue Earth counties are 6.2%, 5.5%, and 4.9%, respectively. The rate for Watonwan County is higher than the 2012 annual rate for the state of Minnesota, which is 5.6%.

Bank management stated that competition in the assessment area is intense and identified 11 financial institutions actively lending in the assessment area. According to the June 30, 2012, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks 14th of 30 financial institutions operating throughout Watonwan, Brown, and Blue Earth counties, combined, with only 2.4% of the area's deposits. In addition, equipment manufacturers Deere & Company and Case IH are actively

lending in the assessment area. Their direct financing options are attractive to local agricultural producers because they typically offer more liberal terms than do traditional financial institutions.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of consumers, small farms, and small businesses in its assessment area is excellent based on several factors. The bank's lending to borrowers of different income levels and to farms and businesses of different sizes is excellent. The bank originated a substantial majority of its loans within its assessment area. The geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending. In addition, the bank's loan-to-deposit ratio is more than reasonable and is enhanced by its record of making community development loans. Finally, the bank's level of community development investments, donations, and services enhances credit availability in the assessment area.

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

Overall, the bank's lending to businesses and farms of different sizes and to borrowers of different income levels is excellent.

*Consumer.* The bank's lending to borrowers of different income levels is excellent when compared to the percentages of low- and moderate-income households in the assessment area. Table 3 shows the percentage of lending for each income category.

<i>Loan Type</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	50.9%	45.1%	31.6%	32.3%	15.8%	22.2%	1.8%	0.7%	0.0%	0.0%
Percentage of Households in Assessment Area**	19.7%		17.1%		22.1%		41.1%		NA	
*Income classification based on 2012 FFIEC median family income of \$69,000 for the Mankato MSA and \$60,000 for nonmetropolitan areas of Minnesota.										
**Based on 2010 U.S. Census data.										

The bank extended 50.9% of its consumer loans to low-income borrowers and 31.6% to moderate-income borrowers, which significantly exceeds the percentage of low- and moderate-income households in the assessment area, at 19.7% and 17.1%, respectively. Combined, the bank extended 82.5% of consumer loans by number and 77.4% by total dollar amount to low- and moderate-income borrowers, which is an excellent level of lending to these borrowers. Bank management indicated that given the prevailing wages in the area, it is likely that the majority of local residents are low- and moderate-income. The community contact stated that the main employers in the area pay an average wage of \$12 per hour, which equates to a low annual income. Overall, the bank's consumer lending to borrowers of different income levels is excellent and demonstrates the bank's commitment to meeting the credit needs of residents in its assessment area.

*Small Farm Lending.* The bank's lending to farms of different sizes is reasonable. Table 4 shows the small farm lending in the assessment area.



<b>TABLE 4</b>				
<b>Small Farm Lending in the Assessment Area</b>				
<i>Small Farm Loans</i>	<i>≤ \$100,000</i>	<i>&gt; \$100,000 to ≤ \$250,000</i>	<i>&gt; \$250,000 to ≤ \$500,000</i>	<i>Total Originations</i>
Percentage of Small Farm Loans	73.8%	20.0%	6.2%	100.0%
Percentage of Loans to Farms with Revenues of \$1 Million or Less	74.1%	19.0%	6.9%	89.2%

According to 2012 Dun & Bradstreet data, 99.6% of the farms in the assessment area had gross annual revenue of \$1 million or less. The bank originated 89.2% of its small farm loans to entities with gross annual revenue of \$1 million or less. The percentage of loans made to farms with gross annual revenue of \$1 million or less is lower than assessment area demographics; however, it is reasonable given the agricultural conditions in the assessment area. Bank management and the community contact indicated that local farmers have obtained high corn prices in recent years, significantly increasing cash flow and annual revenue, and some farm operations have increased in size. Overall, such increases have pushed some farms over the \$1 million gross annual revenue threshold. In addition, the seven loans extended to farms with gross annual revenue above \$1 million were made to only two agricultural borrowers. The majority of the bank’s small farm loans were originated for \$100,000 or less, which indicates a willingness to meet the credit needs of small farms. Finally, the community contact did not identify any unmet small farm credit needs. Although the bank’s lending to small farm entities is slightly lower than demographic characteristics, it is reasonable.

*Small Business Lending.* The bank’s lending to small businesses is excellent. According to 2012 Dun & Bradstreet data, 91.3% of the businesses in the assessment area had gross annual revenues of \$1 million or less. The bank originated 100.0% of its small business loans to businesses with gross annual revenues of \$1 million or less, which compares very well to the percentage of small businesses in the assessment area. In addition, 92.9% of the loans were for amounts of \$100,000 or less, which indicates a willingness to meet the credit needs of small businesses. Given that the bank is primarily an agricultural lender, its lending to small businesses is impressive. Bank management indicated that competition for small business loans is less intense than for small farm loans. The community contact stated that the bank is well known in the community for its small business lending. Finally, the contact did not identify any unmet small business credit needs.

Overall, the bank’s lending to farms and businesses of different sizes and to individuals of different income levels is excellent. The bank made a substantial majority of its consumer loans to low- and moderate-income borrowers and all of its small business loans to entities with gross annual revenues of \$1 million or less, which is excellent. In addition, the bank originated most of its small farm loans to entities with gross annual revenues of \$1 million or less, which is reasonable. The bank demonstrates excellent responsiveness to meeting the credit needs of residents, businesses, and farms in its assessment area.

#### LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank’s net loan-to-deposit ratio is more than reasonable given its asset size and financial condition, the credit needs of the assessment area, and the bank’s level of community development lending. Table 5 shows the 20-quarter average net loan-to-deposit ratios for the bank and three local competitors in the assessment area.

**TABLE 5**  
**20-Quarter Average Net Loan-to-Deposit Ratio**

<i>Bank</i>	<i>Total Assets as of December 31, 2012 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Farmers State Bank of Madelia, Incorporated Madelia, Minnesota	\$64,977	71.0%
First National Bank at St. James St. James, Minnesota	\$28,721	74.1%
Ormsby State Bank Ormsby, Minnesota	\$26,729	49.6%
Odin State Bank Odin, Minnesota	\$40,330	74.8%

The bank is an active lender. The December 31, 2012, Uniform Bank Performance Report (UBPR) shows that the bank's net loan-to-deposit ratio of 62.3% compares well to its national peer group's net loan-to-deposit ratio of 61.2%. The bank's 20-quarter average net loan-to-deposit ratio of 71.0% is above the peer group's 20-quarter average net loan-to-deposit ratio of 66.9%. The national peer group consists of all insured commercial banks having assets between \$50 million and \$100 million in a nonmetropolitan area with two or fewer full-service banking offices.

Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 57.3% to 84.5%. The bank has a significant agricultural loan portfolio and experiences fluctuations in the net loan-to-deposit ratio that reflect the seasonal nature of agricultural lending. The ratio increases at the beginning of the season and decreases as farmers pay down loans after they sell crops. The bank's 20-quarter average net loan-to-deposit ratio of 71.0% is lower than the 90.0% 21-quarter average net loan-to-deposit ratio at the previous evaluation. Bank management attributes the loan-to-deposit ratio decline to low loan demand from agricultural producers, a reduced commercial loan portfolio, and an overall increase in the bank's deposit base.

In addition, bank management stated that competition also affects the bank's loan-to-deposit ratio. Although only one other FDIC-insured institution has a branch office in Madelia, several large and regional financial institutions operate throughout portions of the bank's assessment area. According to the June 30, 2012, FDIC Deposit Market Share Report, the bank ranks second of eight financial institutions in Watonwan County, with 18.5% of the county's deposits. However, the bank ranks 14th of 30 financial institutions operating throughout Watonwan, Brown, and Blue Earth counties, combined, with only 2.4% of the area's deposits. In addition to competition from financial institutions, financing alternatives are readily available from farm implement manufacturers.

As mentioned in the discussion about the bank's credit products, the bank continues to offer commercial, agricultural, and consumer lending options through alternative assistance programs. Since the previous evaluation, the bank assisted 19 farmers by providing approximately \$7.7 million in FSA-guaranteed loans. In 2009 and 2010, the bank originated \$245,000 in loans through the SBA ARC loan program. The bank also provided \$62,025 in loans through the Madelia Housing Program, and more than \$212,000 in loans through the MHFA Fix-Up loan program since the previous evaluation.

The bank's performance under this criterion is further enhanced by community development lending, as discussed below.

*Community Development Lending.* The bank originated one qualified community development loan for \$61,800 since the previous evaluation. The loan proceeds helped to purchase a 12-unit apartment complex in Madelia. Ten of the units are reserved for low- and moderate-income individuals. The bank's community development lending is responsive to the community development needs in its assessment area. The bank's community development lending is lower than at the previous evaluation; however, bank management stated that opportunities for community development loans have declined and competition for these loans is vigorous. The community development loan enhances the bank's loan-to-deposit ratio performance.

Given the bank's asset size and the assessment area's credit needs, the bank's net loan-to-deposit ratio as well as its community development lending demonstrate the bank's willingness to meet the credit needs of the assessment area. Bank management and the community contact did not identify any unmet credit needs in the assessment area. Thus, the bank's loan-to-deposit ratio is more than reasonable given its enhancement from the bank's community development lending.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a substantial majority of its loans within the assessment area, specifically, 82.4% of loans by number and 79.6% by total dollar amount. Table 6 shows the lending activity by loan type within the assessment area.

<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Consumer	57	85.1	396	82.0	10	14.9	87	18.0
Small Farm	65	94.2	5,238	94.9	4	5.8	283	5.1
Small Business	42	66.7	1,960	55.4	21	33.3	1,575	44.6
<b>Total</b>	<b>164</b>	<b>82.4</b>	<b>7,594</b>	<b>79.6</b>	<b>35</b>	<b>17.6</b>	<b>1,945</b>	<b>20.4</b>

The bank originated a substantial majority of its consumer and small farm loans and a majority of its small business loans inside its assessment area. The bank's long history in the Madelia area helps it build and maintain relationships through referrals from consumers, businesses, and farms inside and outside its assessment area. In addition, a number of customers who formerly lived in Madelia but moved outside the assessment area continue to bank with Farmers State Bank of Madelia. The percentage of small business loans and small business loan dollars originated inside the assessment area is significantly lower than for consumer and small farm loans. Bank management stated that given weak loan demand and strong deposit growth, the bank considered other lending opportunities outside the assessment area, which directly resulted in the reduced percentage of small business loans originated within the assessment area. Finally, the bank originated several small farm, small business, and consumer loans in census tracts adjacent to the assessment area. Overall, the bank originated a substantial majority of its loans within the assessment area.

### GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's loans in the assessment area is reasonable and does not reveal any unexplained gaps in lending patterns. The bank's assessment area consists solely of middle-income census tracts, and the bank originated loans in each tract. The bank is most active for all loan types in Watonwan County, where its main office and Lewisville branch are located. Bank management and the community contact did not identify any significant concentrations of low- or moderate-income people in the assessment area, and thus, further analysis is not meaningful. The geographic distribution of the bank's loans is reasonable.

### COMMUNITY DEVELOPMENT INVESTMENTS AND SERVICES

Since the previous evaluation, the bank made qualified community development investments and provided services that enhance the availability of credit in its assessment area. The bank's community development activities are responsive to community development needs and contribute to the bank's outstanding rating.

Since the previous evaluation, the bank purchased two bonds totaling \$200,000. One bond funded the Madelia independent school district's improvement and safety projects. The other bond provides funding for infrastructure improvements in Madelia. The bank also held a prior-period investment of \$105,000 that matured during the evaluation period. This investment helped fund improvements to the hospital in Madelia. These three investments all benefit Madelia, which is located in a middle-income census tract that was classified as distressed. The bank's investments help provide services to low- and moderate-income people and revitalize and stabilize distressed middle-income geographies by helping to attract new, or retain existing, businesses or residents.

The bank also made community development investments in the form of donations totaling \$11,000 since the previous evaluation. The bank's community development donations increased 42.1% since the previous evaluation. Most of these donations benefited organizations that work to revitalize or stabilize distressed middle-income census tracts in the assessment area. The bank also donated to organizations that promote economic development and provide services to low- and moderate-income individuals.

The bank also provides services that meet community development needs. The bank provided services to organizations that provide community services to low- and moderate-income individuals and that help revitalize or stabilize distressed middle-income census tracts. The focus of the bank's community development services reflects the needs of the assessment area.

Overall, the bank's level of qualified investments, including donations, and community development services as well as the community development loan enhance its performance and contribute to the outstanding rating.

### RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor this Reserve Bank has received any CRA-related complaints since the previous evaluation.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The evaluation did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B--Equal Credit Opportunity Act and the Fair Housing Act), or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

## 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:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; 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; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (the Agencies) have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on:
  - a. Rates of poverty, unemployment, and population loss or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help meet essential community needs, including the needs of low- and moderate-income individuals.

**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.

**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 (e.g., approved, denied, and 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 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 metropolitan area. 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 metropolitan area, 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 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.

**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.)