

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 American State Bank, Grygla, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of June 11, 1996. 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 "Satisfactory."

Several major factors contribute to the bank's CRA rating. First, the bank has continued to maintain a reasonable loan-to-deposit ratio since the previous evaluation. Second, the bank has made a substantial portion of its loans to residents in its assessment area. Third, the bank has originated a reasonable number of loans to borrowers of all income levels residing in the block numbering areas ("BNA") that make up the assessment area. Finally, the bank has a reasonable distribution of loans between geographies of different income levels.

The following table indicates the performance level of American State Bank, Grygla, Minnesota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	American State Bank, Grygla, Minnesota PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to effectively meet the credit needs of the assessment area. The bank received a satisfactory CRA rating at its prior evaluation. According to the March 31, 1996, Report of Condition ("ROC"), the bank's total assets are approximately \$10.1 million. Total assets have increased approximately \$1 million since the previous evaluation. Based on the bank's total loans, its loan portfolio consists of 51% agricultural, 15% commercial, 15% consumer, 13% consumer real estate, and 6% commercial real estate loans.

The bank's one and only office is in Grygla, Minnesota. The bank offers a variety of products that serve the credit needs of area residents, including agricultural, consumer, small business, community development, and government-guaranteed loans. In addition, the bank provides residential real estate loans for purchasing, refinancing, and improving homes. The bank participates in government-guaranteed loan programs sponsored by the Small Business Administration, Farmers Home Administration, and Minnesota Housing Finance Agency.

DESCRIPTION OF ASSESSMENT AREA FOR AMERICAN STATE BANK, GRYGLA, MINNESOTA

The bank's assessment area consists of 15 BNAs in a five-county area in northwestern Minnesota. The bank is located in BNA 9801 and its assessment area includes BNA 9802; both BNAs are located on the eastern edge of Marshall county. The assessment area also includes the BNAs in Roseau County (9701-9705) and Pennington County (9901-9905), plus BNA 9602 in Lake of the Woods County and BNAs 9505 and 9508 in Beltrami County. The largest towns in the assessment area are Thief River Falls and Grygla, Minnesota. Thief River Falls is located in Pennington County and its population is approximately 8,000; Grygla's population is about 200. According to the 1990 U.S. census, the assessment area has a total population of 40,699. Governmental contacts stated that the population in the assessment area has been increasing the last few years and that local employment has been growing as a result of some small businesses setting up operations in Grygla and existing firms increasing their employees. Governmental contacts added that the major employers in Grygla are Machinewell, Inc., School District 447, May Corp., and Welltech Engineering.

CRA divides income levels for borrowers into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan 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 statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography.

The 15 BNAs in the assessment area consist of one BNA classified as low income, three classified as moderate income, and 11 classified as middle income. The low-income BNA and one of the moderate-income BNAs are located on the western edge of Beltrami County, bordering Marshall and Pennington counties. BNA 9508 is low income and includes the western portion of the Red Lake Indian Reservation. The reservation boundaries closely follow the outline of BNA 9508. BNA 9505 encompasses the northern portion of Beltrami County and is classified as moderate income. The other moderate-income BNAs are 9904, located in the central section of Thief River Falls (part of Pennington County), and BNA 9802, located in Marshall County and bordering the western side of BNA 9801. The other BNAs classified as middle income are

located in Roseau and Lake of the Woods counties, and the remaining portion of Pennington County.

The assessment area's median household income is \$22,065; its median family income is \$26,405. According to 1990 census data, the median family income for the statewide nonmetropolitan areas of Minnesota is \$28,933, which exceeds the assessment area's median family and household incomes. According to 1990 census data, 28% of the households in the assessment area are classified as low income and 15% are classified as moderate income. The remaining 57% are classified as middle and upper income. Approximately 19% of the assessment area's households are below the poverty level.

The assessment area's economy is primarily based on agricultural production. However, there are a number of small manufacturing businesses in Grygla that provide stable employment. As previously mentioned, these manufacturers have been growing and adding new employees to their payrolls. According to the local government officials contacted as part of the evaluation, this increase in employment has created a housing shortage in Grygla. The city has attempted to meet this need by trying to obtain gap financing through a nonprofit organization that provides funds to cover the gap between the cost of building a single-family residence and its final market value. At this time, the city has six vacant residential lots it will donate provided gap financing can be obtained. The bank has provided its expertise by having staff members serve on local development councils.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs in its assessment area. The criteria detailed below were reviewed in determining this rating.

Loan-to-Deposit Ratio Analysis

The bank's lending in its assessment area meets the standards for satisfactory performance. The quarterly average of the bank's loan-to-deposit ratio since the previous evaluation is 64%. The chart below, based on quarterly ROC data, reflects that the loan-to-deposit ratio has remained consistent since the previous evaluation.

Date	Net Loans (In thousands)	Deposits (In thousands)	Loan-to-Deposit Ratio
March 31, 1996	\$5,522	\$9,037	61%
December 31, 1995	\$5,694	\$9,265	61%
September 30, 1995	\$5,901	\$8,951	66%
June 30, 1995	\$5,846	\$8,664	67%
March 31, 1995	\$5,183	\$8,114	64%

The bank's net loans and deposits have been increasing since the previous evaluation. Net loans have increased from \$5.1 million as of March 31, 1995, to \$5.5 million as of March 31, 1996. Deposits have increased by approximately \$0.9 million during the same period. According to the bank, the increase in loans is due to consumer lending growth prompted by growth in local employment. Bank management attributes the growth in deposits to normal operating increases.

The bank's loan-to-deposit ratio, as listed in the December 31, 1995, Uniform Bank Performance Report was 61%, which places the bank in the 53rd percentile in relation to its peer group. There are five competing financial institutions that serve portions of the bank's assessment area; however, the competitors are located between 40 to 54 miles from Grygla. The bank's average loan-to-deposit ratio is the fourth highest of the six banks. However, most residents of the various towns will not drive the sizeable distances to Grygla to conduct their banking business. Although contacts noted a need for mortgage loans, they acknowledge that the lack of available housing stock has limited opportunities to make such loans. They will conduct their banking with financial institutions closer to their residences. Based on these facts, the loan-to-deposit ratio meets satisfactory standards.

Lending in Assessment Area

The bank's lending in its assessment area exceeds standards for satisfactory performance. Based on a statistical sample of its loan originations, the bank originated most loans to borrowers residing in the assessment area. The table below reflects the percentage of the total number and dollar volume of loans by loan type originated inside the assessment area.

Product Line	Total Number of Loans	Total Dollar Amount of Loans
Agricultural/Small Business	97	91
Consumer	94	83

As indicated in the table, the two major product categories reviewed were agricultural and small business loans and consumer loans. As previously mentioned, the primary business in the assessment area is agriculture. The percentages for agricultural and small business loans correspond to the agricultural nature of the assessment area, plus the growing number of small business manufacturing entities in Grygla. The high concentration of lending in the assessment area exceeds satisfactory performance.

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

The bank's lending to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance. The bank provides a sizeable portion of its loans to low- and moderate-income borrowers and a significant number to small businesses and farms. As previously discussed, CRA breaks income into four levels: low, moderate, middle, and upper. Because the assessment area is not located in a metropolitan statistical area, the median household income is determined in relation to the statewide nonmetropolitan median household income for Minnesota. The assessment area's median household income is 93% of the nonmetropolitan Minnesota statewide average.

The table below illustrates the bank's distribution of consumer loans by income level.

DISTRIBUTION OF LOANS BY INCOME LEVEL IN THE ASSESSMENT AREA*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
Consumer				
Percentage of Total Loans	24%	26%	32%	18%
Percentage of Total Loan Amounts	16%	20%	31%	29%
*Income level is determined based on the 1995 statewide median family income of \$34,100 for Minnesota.				

The loan sample data indicate that the bank originated 50% of the number of loans and 36% of the dollars borrowed to low- and moderate-income individuals who that live in the assessment area. As previously mentioned, approximately 43% of the assessment area's households have low and moderate incomes. The bank's percentage of loans originated is slightly higher than the assessment area percentages of low- and moderate-income households while the total amount of loans to borrowers in these categories is slightly lower than the representation in the community.

The bank also lends to small business and agricultural borrowers. All the business and agricultural loans in the sample were provided to small businesses or individuals with total gross annual revenues of less than \$1 million. In addition, 96% of these loans had amounts less than or equal to \$100,000. This distribution of small business and agricultural loans is consistent with the bank's asset size, legal lending limit, and the overall assessment area economic conditions.

Based on the level of consumer lending to low- and moderate-income borrowers relative to the representation of those individuals in the community and the number of small business loans extended, the bank meets the standards for

satisfactory performance.

Geographic Distribution of Loans

The lending patterns in the assessment area meet the standards for satisfactory performance. As previously mentioned, the bank's assessment area includes one BNA that is classified as low income and three BNAs that are classified as moderate income. The table below indicates the bank's loan penetration in the low-, moderate-, and middle-income BNAs.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL			
Loan Type	Low-Income BNA	Moderate- Income BNAs	Middle- Income BNAs
<u>Consumer</u>			
Total Number of Loans	0%	3%	97%
Total Dollar Amount of Loans	0%	4%	96%
<u>Agricultural/Small Business</u>			
Total Number of Loans	2%	0%	98%
Total Dollar of Loans	4%	0%	96%

As previously mentioned, the low-income BNA closely follows the boundaries of the Red Lake Indian Reservation. Also, there are three moderate-income BNAs in the assessment area. The table indicates that the bank did not make any consumer loans and only 2% of its agricultural and small business loans to residents of the low-income BNA, where about 9% of the assessment area's population resides. The table also indicates that 3% of the consumer loans and no agricultural and small business loans were made to residents of the moderate income BNAs, where 18% of the assessment area's population resides. It should be noted that 52% of the households in the low-income BNA and 22% of the households in the moderate-income BNAs have incomes below the poverty level and may not qualify for loans. The bank indicated that there are several reasons for the low lending percentages in the low- and moderate-income BNAs. First, according to bank management and a reservation contact, only a small percentage of the assessment area's population lives in the low-income BNA. The reservation contact also confirmed that the majority of the tribal residents live in Red Lake, Minnesota, which is outside the assessment area. Also, the area comprising these BNAs is sparsely populated and wooded. Second, the bank is located in the center of a middle-income BNA and some of the BNAs are a sizable distance from the bank. Finally, there are a number of competing financial institutions closer to low- and moderate-income BNAs than the bank. Accordingly, the bank's distribution of total loans appears to be reasonable given the demographic characteristics of the assessment area.

General

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws and regulations. Isolated violations of the Equal Credit Opportunity Act's Regulation B were noted during the evaluation. In addition, the bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

June 11, 1996

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American State Bank

Name of Depository Institution

092725150000

Identification Number of Institution

Grygla, Minnesota

Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

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.