

**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 Security Bank Minnesota, Albert Lea, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of November 18, 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 factors support the bank's satisfactory CRA rating. First, the bank has maintained a very good loan-to-deposit ratio since the last evaluation. Second, it makes a majority of its loans to residents and businesses in its assessment area. Third, it has a reasonable distribution of loans to borrowers of different incomes and businesses of different sizes. Finally, it makes a reasonable percentage of its loans to residents in the moderate-income census tract in its assessment area.

The following table indicates the performance level of Security Bank Minnesota, Albert Lea, Minnesota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	SECURITY BANK MINNESOTA ALBERT LEA, 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 Income Levels 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 meet the credit needs of its assessment area effectively. The bank was rated satisfactory in helping to meet the credit needs of its community at its previous CRA evaluation. The bank operates two full-service offices: the main office is in Albert Lea, Minnesota, and a branch office is in Austin, Minnesota. In addition, the bank maintains deposit-accepting automated teller machines ("ATM") at each office and a stand-alone, cash-dispensing ATM in Albert Lea. The bank has not opened or closed any offices since the last evaluation.

According to its September 30, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$68.9 million. The September 30, 1996, ROC indicates that the bank is primarily a commercial lender; approximately 48.2% of its loan portfolio is composed of commercial or commercial-related loans. The balance of the bank's loan portfolio is composed of 32.0% consumer, 15.1% consumer real estate, 3.4% agricultural, and 1.3% other loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of loans by residents of the assessment area.

The bank offers a variety of loan products that serves the credit needs of area residents. Commercial customers may obtain conventional loans for equipment, business start-up funds, accounts receivable financing, inventory, and commercial real estate purposes. The bank is also certified to offer selected Small Business Administration ("SBA") loan programs. In addition, the bank participates in the State of Minnesota's Capital Access Program ("MCAP"). This program fosters economic growth by encouraging private lending institutions to lend to small- and medium-sized businesses.

For consumer real estate loans, the bank provides several conventional real estate loan products for purchase, refinance, and home improvement purposes. The bank is certified to offer selected loan programs for the Department of Veterans Affairs, Federal Housing Administration, and Minnesota Housing Finance Agency ("MHFA"). Through the MHFA, the bank offers First-Time Home Buyer, the Great Minnesota Fix-up Fund, and the Home Energy Loan programs. The Great Minnesota Fix-up Fund loans are targeted to homeowners with gross annual household incomes of \$44,000 or less. The below-market interest rates on these loans are based on the annual household income. Homeowners with lower incomes pay a lower interest rate. The bank actively offers consumer real estate loans that it sells on the secondary market. The bank does this to provide customers with real estate loan products with competitive interest rates.

Finally, the bank offers a wide array of consumer loans, including automobile purchase, debt consolidation, and mobile home purchase loans. Its open-end credit products include overdraft protection credit lines, home equity lines of credit, and credit cards. The bank refers guaranteed student loans to a student loan company based in West Des Moines, Iowa. The bank's loan products appear appropriate for its community's credit needs.

## DESCRIPTION OF SECURITY BANK MINNESOTA'S ASSESSMENT AREA

Albert Lea is 55 miles southwest of Rochester, Minnesota, and 100 miles south of the Minneapolis-St. Paul, Minnesota, metropolitan area. Approximately 18,448 people reside in Albert Lea. The branch office in Austin, which has a population of about 22,000, is 20 miles east of Albert Lea.

The bank has defined its assessment area as Freeborn and Mower counties in Minnesota. Based on the 1990 census, the population for Freeborn and Mower counties is approximately 33,060 and 37,385, respectively. The assessment area contains block numbering areas ("BNA") 9801, 9802, 9803, 9804, 9805, 9806, 9807, 9808, 9809, and 9810 in Freeborn County and census tracts 1.00, 2.00, 3.00, 4.10, 6.00, 8.00, 9.00, 10.00, 12.00, 13.00, and 14.00 in Mower County. Census tract 4.10 is designated a moderate-income area, while BNA 9804 and census tract 2.00 are designated upper-income areas. The remaining BNAs and census tracts are considered middle-income areas. The bank's Albert Lea office is in BNA 9806 and its Austin office is in census tract 4.10, the moderate-income tract.

CRA divides income levels 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 geography'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 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. Based on 1990 census data, Minnesota's statewide nonmetropolitan median family income is \$28,933.

Based on 1990 census data, the bank's assessment area has 70,445 residents, its median family income is \$29,387, and its median household income is \$24,227. Of the 28,053 households in the assessment area, 21.5% are low income, 16.6% are moderate income, 20.8% are middle income, and 41.0% are upper income. Approximately 7.3% of the assessment area's families and 11.4% of its households have incomes below the poverty level.

The majority of the assessment area's residents live in middle-income BNAs and census tracts. Specifically, 84.5% of the residents live in middle-income BNAs and census tracts, 9.0% live in the upper-income BNA and census tract, and 6.5% live in the moderate-income census tract. The assessment area has no low-income BNAs or census tracts.

The economy in Albert Lea is diversified, stable, and growing steadily. The city's largest employer, a shelving manufacturer, has approximately 900 workers. Other large employers are related to the health care industry and the local educational system. The city also has several smaller businesses

that each employ 100 people or fewer in the manufacturing, food processing, and retail industries. The population in Albert Lea is considered stable.

Austin's economy is dominated by a large meat processing company. The economy is considered diversified, growing, and stable. A community contact attributed Austin's overall economic growth to it being home to the corporate headquarters of a large international company. The company brings in new jobs at the management level, which helps the local economy by adding consumers to the population. The downtown retail environment has declined in the past few years because of the increase of shopping malls outside the downtown area.

Examiners contacted two members of the community familiar with the business development needs of the assessment area as part of the bank's CRA evaluation. Information received from these contacts was relied on to help evaluate the bank's CRA performance.

#### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs in its assessment area. Much of the analysis below is based on a statistical sample of 167 consumer and 118 small business loans. The criteria detailed below were reviewed in determining this rating.

#### LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standard for satisfactory performance. Based on quarterly ROC data, the bank's average net loan-to-deposit ratio since the previous evaluation is 76%. The following chart, based on quarterly ROC data since the previous evaluation, shows that the bank's net loan-to-deposit ratio has ranged from 74% to 81%. According to the June 30, 1996, Uniform Bank Performance Report, the bank's net loan-to-deposit ratio is 78.19%, which places the institution in the 83rd percentile of its peer group.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO- DEPOSIT RATIO
March 31, 1995	\$38,050	\$51,112	74%
June 30, 1995	\$39,875	\$53,436	75%
September 30, 1995	\$41,278	\$54,935	75%
December 31, 1995	\$42,769	\$56,076	76%
March 31, 1996	\$45,242	\$60,350	75%
June 30, 1996	\$46,546	\$59,532	78%
September 30, 1996	\$49,202	\$61,102	81%

The bank's average loan-to-deposit ratio is comparable to the quarterly average ratios of many of its local competitors. Based on quarterly ROC data from March 31, 1995, to September 30, 1996, the following table identifies the asset size and quarterly average loan-to-deposit ratios for the bank and its competitors.

<b>BANK and LOCATION</b>	<b>TOTAL ASSETS (September 30, 1996) (In thousands)</b>	<b>QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO</b>
Security Bank Minnesota Albert Lea, MN	\$68,990	76%
Competitor A	\$59,913	92%
Competitor B	\$108,688	71%
Competitor C	\$18,832	74%
Competitor D	\$17,045	87%

In addition to the competitor banks listed above, several credit unions, savings banks, and nonbank entities extend credit to residents and businesses within the bank's assessment area. There are also several branches of larger regional banks, for which local loan-to-deposit ratio information is not available. The many financial institutions operating within the bank's assessment area create a very competitive credit market for the types of loans offered by the bank. As reflected by the competitor data, it appears that the demand for credit in the Albert Lea and Austin market is strong, and local banks are willing to extend credit to fulfill the needs of local residents and businesses. As the competitor data above show, the bank does not compete against many similarly sized banks in the assessment area. The bank's quarterly average loan-to-deposit ratio is roughly in the middle of this group. The bank's loan-to-deposit ratio, however, is lower than two of its smaller competitors.

The bank's loan-to-deposit ratio does not reflect its sale of residential real estate loans to the secondary loan market. Though the bank actively engages in this activity, its loan-to-deposit ratio would increase slightly if such loans were included in its total loans.

The bank has experienced significant growth in its loan portfolio since the last evaluation. On March 31, 1995, the bank's net loans, exclusive of loans sold on the secondary market, totaled approximately \$38 million. By September 30, 1996, the loan portfolio had increased by 29% to approximately \$49 million. Its ROC data show that the bank has consistently increased the size of its loan portfolio each quarter since the last evaluation. It has accomplished this continuous growth by actively marketing for new loan customers, in addition to maintaining and increasing loan volume with existing customers. Many of the bank's local competitors have sustained similar loan growth during the same period.

In addition to the bank's loan-to-deposit ratio being above its peer group and several local competitors, the bank has made several MHFA mortgage and home improvement loans since the last evaluation. The bank also made a number of community development loans since the last evaluation. In addition, community contacts indicated that the bank is responsive to the credit needs of the community; they are unaware of any unmet local credit needs. Based on these facts, the bank's loan-to-deposit ratio meets satisfactory standards.

#### LENDING IN THE ASSESSMENT AREA

A review of a statistical sample of loans originated by the bank from at least

the last six months preceding the evaluation reveals that a majority of its loans were made inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and amount in each major loan category.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Product	Total Number of Loans	Total Amount of Loans
Small Business	73%	54%
Consumer	74%	73%

As noted in the table, the majority of the bank's loans are within the assessment area. Further, many loans outside the bank's assessment area are to borrowers in neighboring communities. Bank management also stated that some borrowers moved from the area but maintained their banking relationships, which in some cases includes loans. This level of concentration in the assessment area meets standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS 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 significant portion of its loans to low- and moderate-income borrowers and to small businesses. The following table shows the percentage of consumer loans made to borrowers of different income levels in the bank's assessment area.

DISTRIBUTION OF LOANS BY BORROWER INCOME LEVEL IN THE ASSESSMENT AREA*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
<b>CONSUMER</b>				
Percentage of Total Loans	24%	24%	30%	23%
Percentage of Total Loan Amounts	10%	23%	29%	26%
*Income level is determined based on Minnesota's 1995 nonmetropolitan median family income of \$34,100.				

The data in the table indicate the bank provided 48% of the sampled consumer loans to low- and moderate-income individuals who live in the assessment area. As previously mentioned, approximately 38% of the assessment area's households are classified as low and moderate income. This level of consumer lending to low- and moderate-income individuals is reasonable and approximates the percentage of these individuals living in the assessment area. In addition, the bank made a much smaller percentage of loans to upper-income borrowers (23%), as compared with the percentage of upper-income households in the assessment area (41%).

The bank also has a very good record of lending to small businesses. Nearly 95% of the commercial loans in the sample were provided to small businesses or individuals with total gross annual revenues of \$1 million or less. In addition, 98% of these loans had amounts less than or equal to \$100,000. This distribution of small business 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 distribution of the bank's loans in geographies of different income levels is reasonable and meets the standards for satisfactory performance. The table indicates the bank's loan penetration in the assessment area's moderate-, middle-, and upper-income BNAs and census tracts.

<b>DISTRIBUTION OF LOANS IN ASSESSMENT AREA BY BNA OR CENSUS TRACT INCOME LEVEL*</b>			
<b>Type of Loan</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
<b>SMALL BUSINESS</b>			
Total Number of Loans	12%	83%	6%
Total Amount of Loans	18%	75%	6%
<b>CONSUMER</b>			
Total Number of Loans	6%	87%	7%
Total Amount of Loans	5%	88%	7%
*The bank's assessment area does not contain any low-income BNAs or census tracts.			

As previously discussed, the bank's assessment area includes one moderate-income census tract, 18 middle-income BNAs and census tracts, and two upper-income BNAs and census tracts. The moderate-income tract is located in south-central Austin and represents 6.5% of the assessment area's population.

Discussions with bank management indicate that other assessment area banks have targeted their marketing efforts to larger commercial businesses in Albert Lea and Austin. Conversely, the bank's primary marketing efforts have been directed to small businesses and individual consumers considered to be in the "blue collar" segment of the population. These marketing efforts are evidenced by the geographic distribution of its loans. Despite the high degree of competition, both consumer and small business loan levels are well proportioned to the assessment area's percentage of persons living in the moderate-income census tract. The bank's lending in middle- and upper-income BNAs and census tracts also compares favorably with the percentage of residents living in these areas.

According to community members contacted during the evaluation, there are no unmet credit needs. Overall, considering the bank's lending in the moderate-income census tract, its lending in the various geographies of its assessment area is reasonable and meets the standards for satisfactory performance.

GENERAL

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

## **PUBLIC DISCLOSURE**

November 18, 1996

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Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Security Bank Minnesota

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Name of Depository Institution

092701060000

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Identification Number of Institution

Albert Lea, Minnesota

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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.