

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 Peoples State Bank of Plainview, Plainview, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of September 3, 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 rating. First, the bank has maintained a reasonable loan-to-deposit ratio. Second, the bank has originated a substantial portion of its consumer loans to low- and moderate-income borrowers. Finally, a significant majority of the bank's farm loans and commercial loans are to businesses with revenues of \$1 million or less.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	PEOPLES STATE BANK OF PLAINVIEW PLAINVIEW, 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 outstanding 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 located in Plainview, Minnesota, and a branch office in Elgin, Minnesota. In addition, the bank maintains a limited-service office in Millville, Minnesota, and one cash-dispensing automated teller machine ("ATM") within its assessment area. The bank has not opened or closed any offices since the last evaluation.

According to its June 30, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$65.4 million. The June 30, 1996, ROC indicates that the bank is primarily an agricultural lender; approximately 48.5% of its loan portfolio is composed of agriculture or agriculture-related loans. The balance of the bank's loan portfolio is composed of 22.1% consumer real estate, 19.2% commercial, 10% consumer, and .12% 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 serve the credit needs of area residents. Its agricultural products include operating, machinery, and farm real estate loans. Furthermore, the bank provides Farm Service Agency ("FSA") guaranteed and subordinated loans and Rural Finance Authority guaranteed loans. Commercial customers may obtain conventional and Small Business Administration ("SBA") guaranteed loans for equipment, short-term financing, business start-up funds, accounts receivable and inventory financing, and commercial real estate purposes. The bank also provides several real estate loan products for purchasing, refinancing, and improving homes. In addition to conventional real estate loans, the bank offers Minnesota Housing Finance Agency ("MHFA") First-Time Home Buyer and Home Improvement loans. The bank also participates in the Federal Home Loan Mortgage Association's Affordable Gold Program. Finally, the bank has an active consumer lending program. The bank's loan products appear appropriate for its community's credit needs.

DESCRIPTION OF PEOPLES STATE BANK OF PLAINVIEW'S ASSESSMENT AREA

Plainview is located 25 miles northeast of Rochester, Minnesota, and 75 miles southeast of the Minneapolis-St. Paul, Minnesota, metropolitan area. Approximately 3,000 people reside in Plainview. The branch offices are located in small neighboring communities. Elgin, population 300, is five miles southwest of Plainview. Millville, located 12 miles northwest of the main office, has a population of 250 and is primarily a residential community.

The bank has defined its assessment area as portions of Olmsted, Wabasha, and Winona counties in Minnesota. The assessment area contains block numbering areas ("BNA") 9901, 9902, 9904, 9905, and 9906 located in Wabasha County; BNA 9701 in Winona County; and census tracts 7, 16, 19, and 20 in Olmsted County. Census tract 20 is designated as a moderate-income area while BNA 9906 is designated as an upper-income area. The remaining BNAs and census tracts are considered middle-income areas.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because a portion of the bank's assessment area includes the Rochester, Minnesota, Metropolitan Statistical Area ("MSA"), the income level of borrowers and geographies within that MSA is determined relative to the MSA median family income. Income levels for the remaining non-MSA portion of the assessment area are determined based on 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, the MSA median family income is \$43,197, and Minnesota's statewide nonmetropolitan median family income is \$28,933.

Additionally, based on 1990 census data, the bank's assessment area has 47,062 residents; its median family income is \$37,888, and its median household income is \$33,003. Of the 16,754 households in the assessment area, 18.5% are low income, 14.6% are moderate income, 20.8% are middle income, and 46.0% are upper income. Approximately 4.9% of the families and 7.6% of its households have income below the poverty level.

The vast majority of the assessment area's residents live in middle-income BNAs and census tracts. Specifically, 81.59% of the residents live in middle-income areas, 6.12% live in upper-income areas, and 12.29% live in moderate-income areas. The assessment area has no low-income census tracts or BNAs.

Examiners contacted several members of the community as part of the bank's CRA evaluation, including a government official and local businessperson. Examiners used information from these contacts to evaluate the bank's CRA performance.

According to bank management and community contacts, agriculture, including many agriculture-related businesses, is the primary economic factor in the assessment area. Currently, the agricultural markets are strong and have provided stable and profitable prices for producers. Individual family-owned farming operations continue to be financially viable and are predominantly involved in both dairy and crop production. Nevertheless, bank personnel and community contacts have witnessed numerous farm operation consolidations. Although Plainview serves as the area's primary farm trade center, retail business continues to face growing pressure from competitors in nearby Rochester. Plainview's major employers include a food processing plant, creamery, seed company, and the local school system. Despite Plainview's inability to compete for retail business, the community's population continues to grow. Many young families and retired persons have located in the Plainview area because of Rochester's higher housing costs.

Elgin is also a growing bedroom community of Rochester. New single-family housing construction has increased within the last year. In addition, the city has applied for a Minnesota Department of Trade and Economic Development small city development grant to provide housing rehabilitation funds for the city's current housing stock. Finally, the city is currently investigating the advantages of investing in an industrial park project. The project would incorporate new housing developments within the community. The major employers in Elgin are the local school, an agricultural cooperative, and the bank.

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 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 prior evaluation is 70.45%. The following chart, based on quarterly ROC data, shows that the bank's net loan-to-deposit ratio has ranged from 74% to 68%. Fluctuations are primarily the result of

agricultural loan line advances and paydowns. In addition, bank management has made a conscious decision to increase core deposits, offering highly competitive rates on its certificates of deposit. According to the June 30, 1996, Uniform Bank Performance Report ("UBPR"), the bank's net loan-to-deposit ratio is 67.97%, which places the institution in the 44th percentile of its peer group.

DATE	NET LOANS (in thousands)	DEPOSITS (in thousands)	NET LOAN-TO- DEPOSIT RATIO
June 30, 1995	\$40,419	\$54,370	74.34%
September 30, 1995	\$38,336	\$55,095	69.58%
December 31, 1995	\$38,119	\$55,629	68.52%
March 31, 1996	\$37,868	\$52,700	71.86%
June 30, 1996	\$38,358	\$56,432	67.97%

The bank's only local competitor has total assets of \$79.6 million according to the June 30, 1996, UBPR data. This competitor bank has maintained higher quarterly loan-to-deposit ratios than the bank. The competitor's quarterly average loan-to-deposit ratio since June 30, 1995, is 81.24%. According to community contacts and bank management, individuals residing in the bank's assessment area who are employed in Rochester will often obtain credit from financial institutions located in Rochester. There are several credit unions, savings and loans, and branches of large regional financial institutions located in Rochester, creating a very competitive banking environment.

Although the bank's loan-to-deposit ratio is below peer and local competition, the bank has made several MHFA home improvement loans in addition to a sizable FSA agricultural loan and an SBA loan since the last evaluation. In addition, community contacts indicated that the bank is responsive to the credit needs of the community, and 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 ASSESSMENT AREA

A review of the statistical sample of loans originated by the bank in the six months preceding the evaluation reveals that a substantial 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
Agricultural/Small Business	88%	94%
Consumer Loans (Secured/Unsecured)	85%	84%

As noted in the table, the vast 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. This level of concentration in the assessment area exceeds 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 exceeds the standards for satisfactory performance. The bank provides a significant portion of its loans to low- and moderate-income borrowers and to small businesses and farms. 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
Consumer:				
Percentage of Total Loans	57%	21%	10%	11%
Percentage of Total Loan Amounts	49%	22%	8%	21%
*Income level is determined based on the 1996 MSA median family income of \$54,800 and Minnesota's 1996 nonmetropolitan median family income of \$36,200.				

The data in the table indicate that the bank provided 78% of the consumer loans to low- and moderate-income individuals who live in the assessment area.

As previously mentioned, approximately 33% of the assessment area's households are classified as low and moderate income. The bank's consumer lending to low- and moderate-income individuals significantly exceeds the percentage of these individuals living in the assessment area. In addition, the bank made far fewer loans to upper-income borrowers (11%) compared to the percentage of upper-income households in the assessment area (46%).

The bank also has an excellent record of lending to small businesses and small farms. 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, 95% 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 exceeds 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 to the moderate-, middle-, and upper-income BNAs and census tracts.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA BY BNA INCOME LEVEL*			
Type of Loan	Moderate Income	Middle Income	Upper Income
AGRICULTURE/SMALL BUSINESS			
Total Number of Loans	10%	61%	29%
Total Amount of Loans	7%	65%	28%
CONSUMER			
Total Number of Loans	9%	41%	50%
Total Amount of Loans	6%	35%	59%
*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, eight middle-income BNAs and census tracts, and one upper-income BNA. The moderate-income area is located five miles south of Plainview and represents 12.29% of the bank's assessment area population. The tract is primarily rural with farming operations being the major economic activity. Discussions with bank management indicate that the community's only other bank has targeted their marketing efforts to residents located south and east of Plainview. Conversely, the bank's primary marketing efforts have been directed to customers located both north and west of Plainview. These marketing efforts are evidenced by the location of the bank's branch offices and the geographic distribution of its loans. Therefore, because of the high degree of local competition and the location of the bank's branches, both consumer and agricultural/small business loans are slightly less than the assessment area's percentage of persons living in the moderate-income census tract. The bank's lending in middle- and upper-income BNAs 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, the bank's lending to 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

September 3, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples State Bank of Plainview
Name of Depository Institution

092748900000
Identification Number of Institution

Plainview, 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.