

**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 Le Sueur State Bank, Le Sueur, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of August 26, 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."

The CRA evaluation revealed numerous factors that support rating the bank's CRA performance as satisfactory. First, the bank maintains a high loan-to-deposit ratio. Second, it has originated a majority of its loans to assessment area residents and businesses. Third, it actively extends loans to individuals with low to moderate incomes and to small businesses.

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

| SMALL INSTITUTION<br>ASSESSMENT CRITERIA  | LE SUEUR STATE BANK<br>LE SUEUR, MINNESOTA<br>PERFORMANCE LEVELS  |  |  |
|---|---|--|--|
|   | Exceeds<br>Standards<br>for<br>Satisfactory<br>Performance        | Meets<br>Standards<br>for<br>Satisfactory<br>Performance | Does Not Meet<br>Standards<br>for<br>Satisfactory<br>Performance |
| Loan-to-Deposit Ratio   | X   |  |  |
| Lending in Assessment Area  |   | X  |  |
| Lending to Borrowers of<br>Different Incomes and to<br>Businesses of Different<br>Sizes |   | X  |  |
| Geographic Distribution of<br>Loans   |   | X  |  |
| Response to Complaints  | No CRA complaints were received<br>since the previous evaluation. |  |  |

**DESCRIPTION OF INSTITUTION**

For a variety of factors, the bank is able to fulfill area credit needs effectively. The bank received a satisfactory rating at its last CRA evaluation. It operates one full-service office and one automated teller machine ("ATM") in Le Sueur, Minnesota. The ATM accepts deposits and is accessible 24 hours a day at a local convenience store. The bank's main office and ATM, situated centrally within the assessment area, are located in a middle-income BNA.

The bank's size does not restrict its ability to meet the credit needs of members of its assessment area. According to its June 30, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$22 million. The bank's loan portfolio has steadily increased in size since the last evaluation. The bank's quarterly loan and deposit growth rates are set forth in the following table.

| QUARTERLY GROWTH RATES               |           |          |
|--------------------------------------|-----------|----------|
| Time Period                          | Net Loans | Deposits |
| July 1, 1995 to September 30, 1995   | 1%        | 1%       |
| October 1, 1995 to December 31, 1995 | 5%        | 9%       |
| January 1, 1996 to March 31, 1996    | 6%        | (4%)     |
| April 1, 1996 to June 30, 1996       | 8%        | 8%       |

The June 30, 1996, ROC indicates that the bank is primarily a consumer and commercial lender; approximately 42% of its portfolio is consumer real estate, 8% is consumer, and 34% is commercial loans. The balance of the bank's loan portfolio is composed of 15% agricultural and 1% other loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by members of the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of residents and businesses within its assessment area. It extends consumer, residential real estate, mobile home, commercial, and agricultural loans. In addition to these conventional loan products, the bank is willing to extend Small Business Administration, Farm Service Agency, Minnesota Housing Finance Agency, and Minnesota Department of Agriculture Rural Housing Finance Authority loans. The bank also periodically refers applicants for residential real estate loans to a third-party creditor. In addition to originating loans, the bank services loans originated by a local community development organization.

**DESCRIPTION OF LE SUEUR STATE BANK'S ASSESSMENT AREA**

The bank has defined its assessment area to include sections of three counties: Le Sueur, Nicollet, and Sibley. The assessment area is located southwest of the Minneapolis-St. Paul metropolitan area ("MSP"). Within the boundaries of the assessment area are the following block numbering areas ("BNA"):

- Le Sueur County - 9501
- Le Sueur County - 9502
- Nicollet County - 9802
- Sibley County - 9701.98
- Sibley County - 9704

There are no low- or moderate-income BNAs in the assessment area. BNAs 9502, 9701.98, and 9704 are classified as middle-income areas, while BNAs 9501 and 9802 are designated as upper-income areas. The middle-income BNAs have 56% of the assessment area's residents. The upper-income BNAs contain the remaining 44% of assessment area residents.

The bank's assessment area is located in central Minnesota's Minnesota River Valley between the MSP and Mankato. Two of the counties in the assessment area, Le Sueur and Sibley, are adjacent to the seven-county MSP. The communities located within the assessment area include Le Sueur, New Auburn, Arlington, Green Isle, Henderson, Heidelberg, and Nicollet. According to the 1990 U.S. Census data, the assessment area population is 20,470. With a population of 3,714, the city of Le Sueur represents 18% of the assessment area's population. Historically, population levels within the bank's assessment area have been stable.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not located in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to CRA's definitions, 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 middle-income individuals as persons with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the statewide nonmetropolitan median family income are classified as upper-income persons. BNAs are classified using similar categories based on the level of the median family income in the geography. Based on 1990 U.S. Census data, Minnesota's statewide nonmetropolitan median family income is \$28,933. According to 1995 updated data, the statewide nonmetropolitan median family income in Minnesota is \$34,100.

According to the 1990 U.S. Census data, the assessment area's median household income is \$29,250, while its median family income is \$33,935. There are 7,249 households and 5,574 families within the assessment area. Approximately 9.5% of the households and 6.2% of the families residing within the assessment area have incomes below the poverty level. The percentage of such households and families in the assessment area is generally lower than the statewide percentages of 14.4% and 9.6%, respectively. The distribution of assessment area residents by household and family income level is summarized in the table below.

| ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL |            |                 |               |              |
|---|------------|-----------------|---------------|--------------|
| Unit of Measure   | Low Income | Moderate Income | Middle Income | Upper Income |
| Households Compared to                                  | 17%        | 13%             | 18%           | 52%          |

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| Median Household Income                   |     |     |     |     |
| Families Compared to Median Family Income | 13% | 16% | 23% | 48% |

According to the U.S. Department of Commerce's Bureau of Economic Analysis data, the 1989 per capita income for Le Sueur, Nicollet, and Sibley counties was \$15,080, \$14,678, and \$14,723, respectively. The 1994 data shows that the per capita income for these counties was \$18,454, \$18,936, and \$17,672, respectively. Based on 1990 U.S. Census data, the unemployment rate in the assessment area is 4.2%.

The economy in the local region, defined as the bank's assessment area, remains stable. According to bank management, Le Sueur County has evolved into an extended suburb of the MSP. Nonetheless, the number of Le Sueur residents who travel to the MSP for employment is declining, while the number of nonresidents working in Le Sueur is increasing. Bank management and development leaders believe that job turnover will eventually benefit Le Sueur residents who are willing to accept local employment.

Although the county government is a primary employer, Le Sueur has a manufacturing-based economy. The significant employers are a plastic moldings manufacturer, a telecommunications equipment manufacturer, an egg processor, a cheese processor, and a pet food processor. These five businesses employ approximately 1,200 employees. According to bank management, the local wage scale for manufacturing jobs has declined since a primary employer reduced operations in the area.

Within the assessment area, manufacturers account for approximately 35% of the employment opportunities. Although several large manufacturers are located in the assessment area, 73% of manufacturing operations employ between 1 and 49 people. The retail trade sector of the assessment area, which creates 16% of the local jobs, is also significant. Almost all of the retail sector businesses employ fewer than 50 people.

The Nicollet and Sibley county sections of the bank's assessment area have economies supported primarily by agriculture and agribusiness. Many of the Nicollet County residents in the bank's assessment area are employed in St. Peter and Mankato, Minnesota, both of which are located outside the bank's assessment area; however, residents of both counties also travel to Le Sueur to work at the city's large manufacturing plants.

According to bank management, the Le Sueur housing market is improving. Previously, area residents experienced a shortage of affordable starter homes. A current housing project planned for Le Sueur will increase the number of multifamily homes in the area. Because of Minnesota's property tax laws, Le Sueur historically has had a rental property shortage.

The residents and businesses in the assessment area are served by several financial institutions. Other financial institutions operating within the bank's assessment area include a local nationally chartered bank and an MSP federal savings bank branch office. Because the MSP federal savings bank extends few loans in the community, bank management considers the national bank its primary competitor in the credit market. A significant local provider of agricultural credit is Farm Credit Services.

Examiners contacted local government officials and development representatives as part of the bank's CRA evaluation. Information from these contacts was used to evaluate the bank's CRA performance.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance. Since the last evaluation, the bank's loan-to-deposit ratio has fluctuated between 66% and 73%. It compares favorably with its peer group, based on the June 30, 1996, Uniform Bank Performance Report data. These data indicate that the bank's June 30, 1996, loan-to-deposit ratio of 73% ranks the bank in the 77th percentile as compared with its peers. The quarterly average of the bank's net loan-to-deposit ratio, based on the data for the five calendar quarters since June 30, 1995, is 70%. The following chart summarizes the bank's loan-to-deposit ratio and its components since June 30, 1995.

| DATE               | NET LOANS<br>(In thousands) | DEPOSITS<br>(In thousands) | NET LOAN-TO-<br>DEPOSIT<br>RATIO |
|--------------------|-----------------------------|----------------------------|----------------------------------|
| June 30, 1995      | \$12,119                    | \$17,512                   | 69%                              |
| September 30, 1995 | \$12,176                    | \$17,738                   | 69%                              |
| December 31, 1995  | \$12,782                    | \$19,417                   | 66%                              |
| March 31, 1996     | \$13,492                    | \$18,544                   | 73%                              |
| June 30, 1996      | \$14,522                    | \$19,967                   | 73%                              |

The bank's average loan-to-deposit ratio compares favorably with the quarterly average ratio of its local competitor. Based on quarterly ROC data, the following table identifies the asset size and quarterly average loan-to-deposit ratios for the bank and its competitor.

| BANK                                       | TOTAL ASSETS<br>(June 30, 1996)<br>(In thousands) | QUARTERLY AVERAGE<br>NET LOAN-TO-DEPOSIT RATIO |
|--|---|--|
| Le Sueur State Bank<br>Le Sueur, Minnesota | \$21,925  | 70%  |
| Competitor A<br>Le Sueur, Minnesota        | \$39,164  | 72%  |

As the chart indicates, credit demand in the bank's assessment area is strong. In addition to the two financial institutions listed above, local residents and businesses have access to credit through a branch of a federal savings bank.

In addition to maintaining a high loan-to-deposit ratio, the bank has extended a loan to finance a low- and moderate-income housing complex in Le Sueur. As a result, the bank's lending activity exceeds this category's standard for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its assessment area meets the standards for satisfactory performance. The bank has extended a majority of its loans to residents of its assessment area since the last evaluation. The table below shows the percentage of consumer, consumer real estate, and commercial loans by total number and dollar amount originated within the assessment area.

| LOANS IN THE ASSESSMENT AREA |                       |                              |
|------------------------------|-----------------------|------------------------------|
| LOAN TYPE                    | TOTAL NUMBER OF LOANS | TOTAL DOLLAR AMOUNT OF LOANS |
| Consumer                     | 77%                   | 84%                          |
| Consumer Real Estate         | 78%                   | 80%                          |
| Commercial                   | 79%                   | 76%                          |

The data is based on a statistical sampling of consumer, consumer real estate and commercial loans originated since the last evaluation. As the data indicate, the bank's lending activity is concentrated within the assessment area. For this reason, the bank's lending activity in the assessment area meets this category's standard for satisfactory performance.

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The bank's level of lending to individuals of different income levels and to businesses of different sizes meets the standards for satisfactory performance. As previously discussed, CRA classifies income levels into four categories: low, moderate, middle, and upper. The median household and family incomes for the bank's assessment area are \$29,250 and \$33,935, respectively.

The following table shows the percentage of consumer loans made to borrowers of different income levels.

| DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS* |                      |                           |                         |                        |
|---|----------------------|---------------------------|-------------------------|------------------------|
| Loan Type   | Low-Income Borrowers | Moderate-Income Borrowers | Middle-Income Borrowers | Upper-Income Borrowers |
| CONSUMER  |                      |                           |                         |                        |
| Total Number of Loans   | 26%                  | 27%                       | 21%                     | 25%                    |
| Total Amount of Loans   | 12%                  | 22%                       | 32%                     | 34%                    |
| CONSUMER REAL ESTATE  |                      |                           |                         |                        |
| Total Number of Loans   | 7%                   | 30%                       | 19%                     | 44%                    |
| Total Amount of Loans   | 3%                   | 26%                       | 19%                     | 51%                    |

\*Income level is determined based on Minnesota's 1995 nonmetropolitan median family income of \$34,100.

The consumer loan data, based on a statistical sampling of loans originated since the last evaluation, reveal that the bank extends a large percentage of consumer loans to low- and moderate-income borrowers. Consumer loans to these borrowers represented 53% of the total number of loans and 34% of the total amount of loans in the sample.

Low- and moderate-income households and families comprise 30% and 39% of the assessment area population, respectively. More specifically, low-income households and families represent 17% and 13% of the local population, respectively. Thus, the bank's consumer lending to low- and moderate-income borrowers exceeds the representation of such persons in the assessment area. This concentration of the number of consumer loans to members of both income categories is particularly commendable considering the demographic data.

The bank's consumer real estate loan data show that the bank does not actively originate loans to low-income persons. However, the bank actively extends consumer real estate loans to moderate-income persons. The median value of housing in the bank's assessment area is \$59,140; the median value in the middle-income BNAs is \$52,994, while it is \$69,589 in the upper-income BNAs. Within the assessment area, 22% of the housing stock is valued at \$40,000 or less and 30% is valued at \$41,000 to \$60,000. The housing vacancy rate in the assessment area is 5.1%, which is significantly lower than the 19% vacancy rate for Minnesota's nonmetropolitan areas. The demographic data suggest that affordable housing is not available for low- and moderate-income persons and may explain the data collected during the evaluation.

The sample of commercial loans reviewed during the evaluation shows that the bank originates loans to small businesses, defined as commercial entities with

gross annual revenues of less than \$1 million. Of loans with original principal amounts of \$100,000 or less, the bank extended 92% of the number of loans and 93% of the amount of such loans to small business. For loans with original amounts of \$100,001 to \$250,000, small business loans represented 83% of the number of originations and 76% of the amount of originations.

Based on the loans sampled during the evaluation, the bank originates loans of varying amounts to small businesses. Almost all of the sampled small business loans had loan amounts of \$100,000 or less. More specifically, 88% of the total number of commercial loans, representing 45% of the total amount of loans, to borrowers in the assessment area had loan amounts of \$100,000 or less. Of the remaining 12% of the sampled commercial loans, 11% had amounts greater than \$100,000 but less than or equal to \$250,000.

Based on the income distribution of the bank's borrowers and the demographics of the assessment area, the bank's level of lending to low- and moderate-income borrowers and to small businesses meets the standards for satisfactory performance.

#### Geographic Distribution of Loans

The geographic distribution of loans in the assessment area meets the standards for satisfactory performance. As previously discussed, the bank's assessment area includes only middle- and upper-income BNAs. Based on loans in the assessment area, the bank made all the sampled consumer, consumer real estate, and commercial loans in the middle-income BNAs. This level of lending far exceeds the percentage of assessment area residents living in middle-income BNAs. As previously discussed, 56% of assessment area residents live in the middle-income BNAs. The bank's geographic distribution of loans appears reasonable given that the bank's office and ATM are located in a middle-income BNA. As such, the geographic distribution of the bank's assessment area loans meets the standards for satisfactory performance.

#### General

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

## **PUBLIC DISCLOSURE**

---

August 26, 1996  
Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

---

Le Sueur State Bank  
Name of Depository Institution

---

092734360000  
Identification Number of Institution

---

Le Sueur, 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.