

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 Pioneer Bank, Mapleton, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of April 7, 1997. 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 very good loan-to-deposit ratio since becoming an FRS state member bank. Second, it makes a majority of its loans to businesses in its assessment area and the majority of the dollar amount of consumer loans in its assessment area. Third, it has a reasonable distribution of loans to borrowers of different incomes and businesses of different sizes. Finally, it has a reasonable distribution of loans among geographies of different income levels.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area effectively. This is the bank's first CRA evaluation since becoming a member of the Federal Reserve System on January 2, 1996. The bank was rated satisfactory in helping to meet the credit needs of its community at its previous CRA evaluation on March 29, 1993. Since becoming a state-chartered institution, the bank acquired another local institution with offices in Elmore and Delavan, Minnesota. The newly acquired bank had received an outstanding CRA rating at its most recent examination on September 11, 1995. This combination of offices effectively doubled the asset size of the institution. The bank does not own or operate any automated teller machines ("ATM"); however, it offers cards that can access ATMs.

According to its December 31, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$54.9 million. The December 31, 1996, ROC indicates the bank is primarily an agricultural lender with approximately 62% of its loan portfolio comprised of agricultural or agricultural-related loans. The balance of the bank's lending portfolio is composed of 17% commercial, 7% consumer real estate, 7% consumer, and 7% other loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of loans in the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of the residents and businesses within its assessment area. First, it extends conventional purchase and refinance real estate loans for residential, commercial, and farm uses. Second, agricultural loans are offered for operating expenses and for the purchase of machinery, equipment, and livestock. Third, loans for commercial or business purposes are available on a secured or unsecured basis. Finally, consumer purpose loans are available for home equity lines of credit, overdraft protection, the purchase of automobiles, and other personal uses.

The bank offers government-guaranteed loan programs sponsored by the Small Business Administration, Department of Veterans Affairs, Federal Housing Administration, Rural Finance Authority, Farm Service Agency, and Minnesota Housing Finance Agency ("MHFA"). The bank also offers government-guaranteed student loans.

DESCRIPTION OF PIONEER BANK'S ASSESSMENT AREA

The bank has defined its assessment area as Blue Earth and Faribault counties in Minnesota and the northern portion of Kossuth County in Iowa. Blue Earth County is composed of moderate-income block numbering areas ("BNA") 9707 and 9712; middle-income BNAs 9703, 9705, 9706, 9709, 9710, 9711, 9714, and 9715; and upper-income BNAs 9701, 9702, 9704, 9708, and 9713. Faribault County is composed of BNAs 9601, 9602, 9603, 9604, 9605, and 9606. The northern portion of Kossuth County is represented by BNA 9501. All the assessment area BNAs in Faribault and Kossuth counties are classified as middle income. Approximately 68% of the assessment area's population lives in the middle-income BNAs, 9% of the population lives in the moderate-income BNAs, and 23% of the population lives in the upper-income BNAs. The town of Mapleton and the bank's main office are located in Blue Earth County's BNA 9714. The other banking offices in Delavan and Elmore are located in Faribault County's BNAs 9602 and 9603, respectively. The Elmore office is located near the Iowa border.

Based on 1990 U.S. Census data, the assessment area has a population of 74,227. Mapleton, which is located 18 miles south of Mankato, has a population of 1,526. Delavan and Elmore have populations of

roughly 245 and 709, respectively. Minnesota communities in the assessment area include Mankato, North Mankato, Eagle Lake, Minnesota Lake, Wells, Blue Earth, Good Thunder, Winnebago, and Lake Crystal. Communities located in Iowa include Ledyard, Lakota, and Swea City.

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 incomes 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. According to 1990 census data, the statewide nonmetropolitan median family incomes in Minnesota and Iowa are \$28,933 and \$29,303, respectively. The 1990 statewide average income is used to classify the income level of BNAs in the assessment area. According to the 1996 updated census data, the statewide nonmetropolitan median family incomes in Minnesota and Iowa are \$36,200 and \$37,000, respectively. The updated census information is used to classify borrower income levels.

According to 1990 census data, the assessment area's median family income is \$30,840, while its median household income is \$24,324. There are 17,772 families and 27,378 households in the assessment area. Approximately 9% of the families and 16% of the households in the assessment area have incomes below the poverty level. The distribution of family and household incomes for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Household Income	22%	16%	19%	43%
Families Compared to Median Family Income	17%	17%	24%	42%

Examiners contacted a local government official and a representative of a local business association who is also a businessowner as part of this evaluation. Information obtained from these contacts were used to help evaluate the bank's CRA performance.

According to community contacts as well as information from bank management, the economy around Mapleton is agriculture-based and stable. Grain is raised primarily for feed, and there are sizable hog, cattle, and turkey operations in the area. One community contact described the area as an old, conservative farming community that is becoming a bedroom community for Mankato. Property values in Mapleton have increased by about 30% in the last few years; however, housing and general living costs remain relatively low.

The community contact stated that a major obstacle for the development of business in the area is the lack of easy access to major transportation networks. Mapleton's largest employer is a nursing home, which employs about 100 individuals. The public schools in Mapleton employ about 80 individuals. The school district in Elmore has about 20 employees.

As subsequently discussed, the bank's assessment area includes a number of financial institutions. As such, there is much competition for banking business in the area particularly in the Mankato area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment area is rated satisfactory. Much of the analysis in the following sections is based on a statistical sample of 136 consumer and 106 agricultural loans originated by the bank in the 12 months preceding the evaluation. The criteria detailed below were reviewed to determine the rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. Based on quarterly ROC data, the bank's average net loan-to-deposit ratio since becoming an FRS member bank is 79%. The following chart, based on quarterly ROC data since March 1996, shows the bank's net loan-to-deposit ratio has ranged from 73% to 84%. According to the December 31, 1996, Uniform Bank Performance Report ("UBPR"), the bank's net loan-to-deposit ratio was 78.76%, which places the institution in the 78th percentile of its national peer group.

QUARTER ENDING DATE	NET LOANS (IN THOUSANDS)	DEPOSITS (IN THOUSANDS)	NET LOAN-TO- DEPOSIT RATIO
December 31, 1996	\$37,398	\$47,482	79%
September 30, 1996	\$34,744	\$47,578	73%
June 30, 1996	\$20,054	\$23,754	84%
March 31, 1996	\$18,791	\$23,751	79%

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

In July 1996, the bank acquired an independent bank with offices in Elmore and Delavan. As a result, an analysis of any fluctuations in the bank's overall loan-to-deposit ratio would be difficult because of the effect of the combination of two banking organizations. Since the acquisition, the bank's net loans and deposits have increased approximately \$17 million and \$24 million, respectively.

The bank does not compete with many similarly sized institutions in its assessment area, though its average loan-to-deposit ratio compares favorably with the average ratios of many of its assessment area competitors. Based on the quarterly ROC data from March 31, 1996, to December 31, 1996, the following table identifies the asset size and quarterly average loan-to-deposit ratios for the bank and its competitors in the assessment area.

BANK & LOCATION	TOTAL ASSETS (AS OF DECEMBER 31, 1996) (IN THOUSANDS)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
Pioneer Bank Mapleton, MN	\$ 54,898	79%
MidAmerica Bank South Mankato, MN	\$117,640	81%
First National Bank of Blue Earth Blue Earth, MN	\$ 96,373	64%
Security State Bank of Mankato Mankato, MN	\$ 56,023	84%
Bank Plus Swea City, IA	\$ 54,467	58%
Community Bank Vernon Center Vernon Center, MN	\$ 51,457	70%
First National Bank in Winnebago Winnebago, MN	\$ 37,856	50%
State Bank Ledyard Ledyard, IA	\$ 22,094	72%
Peoples State Bank of Wells Wells, MN	\$ 18,308	59%
Security State Bank of Wells Wells, MN	\$ 18,283	77%
Farmers Bank Minnesota Lake, MN	\$ 14,062	80%
Frost State Bank Frost, MN	\$ 6,814	64%

The large number of financial institutions operating within the bank's assessment area creates a very competitive credit market for the types of loans offered by the bank. The city of Makato, located on the northern edge of the assessment area, has about 10 financial institutions, including branches of several large regional banks, branches of smaller local banks, and a credit union. As reflected in the competitor data, it appears the demand for credit in the assessment area is strong. It is also apparent that local banks are willing to extend credit to fulfill the needs of local residents, farms, and businesses.

The bank's loan-to-deposit ratio is reasonable considering its lending capabilities and competition. The bank's ratio meets the standards for a satisfactory performance rating.

DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

The bank's level of lending within its assessment area is reasonable and meets the standards for satisfactory performance. A review of a statistical sample of loans originated by the bank in the 12 months preceding the evaluation reveals that a substantial majority of its agricultural loans are made inside the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA

Loan Product	Total Number of Loans	Total Amount of Loans
Consumer	46	68
Agriculture	89	83

The percentage of consumer loans originated in the assessment area is low. The explanation for this low percentage is that the bank funds numerous loans from an indirect source outside the assessment area. These indirect loans are concentrated in the Elmore office. Although these loans constitute a relatively large number of loans, they generally have small dollar amounts. Further analysis of the consumer loan sample showed the bank originates 68% of the total amount of consumer loans in its assessment area. As noted earlier, consumer loans make up a small percentage of the total dollar amount of the bank's lending portfolio.

As also noted in the table, a substantial percentage of the bank's agricultural loans are within the assessment area. As previously discussed, the bank's loan portfolio is primarily composed of agricultural loans. Based on the level of the bank's agricultural loans in the assessment area, the bank's lending in its assessment area meets the 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 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	21%	38%	24%	18%
Percentage of Total Loan Amount	17%	35%	22%	26%
*Income level is determined relative to Minnesota and Iowa's 1996 nonmetropolitan median family incomes of \$36,200 and \$37,000 respectively.				

The data in the table indicate the bank provided 59% of the sampled consumer loans to low- and moderate-income individuals who live in the assessment area. However, the statistical significance of this percentage is somewhat limited because borrower income information was available for slightly more than half the loans sampled. As previously mentioned, approximately 38% of the assessment area's households are classified as low and moderate income. Moreover, consumer loans represent only 7% of the bank's portfolio. Accordingly, limited weight is placed on the distribution of these loans in assigning the rating to this category.

The agricultural loans reviewed during the evaluation were made nearly exclusively to borrowers with gross annual revenues of \$1 million or less. Specifically, 98% of the sampled agricultural loans were made to borrowers with gross annual revenues of \$1 million or less. Due to the nature of local demographics, the majority of the bank's farm borrowers would be classified as small farms.

Further loan sample analysis revealed that 84% of the loans to these borrowers had amounts less than or equal to \$100,000. Additionally, 13% of the sampled loans had amounts greater than \$100,000 but less than or equal to \$250,000. The remaining 3% percent of loans were for amounts greater than \$250,000. This distribution of small farm loans is consistent with the bank's asset size, legal lending limit, and overall assessment area economic conditions.

The bank participates in several government-guaranteed loan programs designed to provide loans to low- and moderate-income borrowers. Since January 1996, the bank has made several loans under the MHFA Home Improvement and Home Energy programs.

Given the bank's level of lending to low- and moderate-income consumers and to small farms, its distribution of loans by income level meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans in the assessment area's geographies of different income levels is reasonable and meets the standards for satisfactory performance. The following table shows the bank's loan penetration in the assessment area's moderate-, middle-, and upper-income geographies.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA BY BNA INCOME LEVEL*			
Type of Loan	Moderate Income	Middle Income	Upper Income
CONSUMER			
Total Number of Loans	0%	98%	2%
Total Amount of Loans	0%	98%	2%
AGRICULTURAL			
Total Number of Loans	0%	99%	1%
Total Amount of Loans	0%	98%	2%
*The bank's assessment area does not contain any low-income BNAs.			

As previously discussed, the bank's assessment area includes 2 moderate-income BNAs, 15 middle-income BNAs, and 5 upper-income BNAs. The two moderate-income BNAs are located in Mankato, which is in the northern portion of the assessment area. According to the 1990 census data, the population of these areas represent roughly 9% of the assessment area's residents. The upper-income BNAs are also located in or near Mankato and contain about 23% of the assessment area population.

The table above shows that the bank made almost all of its consumer and agricultural loans in middle-income BNAs. The middle-income BNAs contain about 68% of the assessment area's residents. Several reasons explain why the bank has few loans in the moderate- and upper-income BNAs. As mentioned earlier, there are several banking institutions in Mankato. As such, it is less likely that the subject bank will have much, if any, penetration in the moderate- and upper-income areas because of the closer proximity of competitor banks. In particular, borrowers living in the moderate-income areas are unlikely to travel approximately 20 miles to Mapleton to obtain credit when there are 10 financial institutions in Mankato. In addition, the bank is primarily an agricultural lender. The assessment area's moderate- and upper-income areas are located in or near Mankato, where there is less demand for agricultural loans. Given the number of competitors in Mankato, it seems reasonable that the bank would also have few of its small number of consumer borrowers in that area. Finally, because the locations of the subject bank's offices are in and surrounded by middle-income BNAs, it is not surprising that the majority of its customers would come from these middle-income areas.

The bank made most of its loans in the BNAs closest to its offices. The distribution of loans is reasonable given the bank's size and the number of competitors in the other portions of the assessment area.

According to community members contacted during the evaluation, there are no unmet credit needs in the assessment area. The bank provides most of its loans in the areas closest to its offices. As such, most of its lending occurs in middle-income BNAs. Overall, the level of lending in the assessment area's geographies is reasonable and meets the standards for satisfactory performance.

GENERAL

The evaluation did not find any evidence of violations of the substantive provisions of the fair housing and fair lending laws and regulations. The evaluation revealed one violation of the technical aspects of Regulation B--Equal Credit Opportunity Act. The bank has not received any CRA complaints since January 1996, when it became an FRS member bank.

PUBLIC DISCLOSURE

April 7, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Pioneer Bank

Name of Depository Institution

092738100000

Identification Number of Institution

Mapleton, 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.