

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 CornerStone State Bank, Le Sueur, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of May 26, 1998. 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, based on a sample of the bank’s loans, the bank makes loans to individuals and businesses of different income levels. Second, the bank maintains a loan-to-deposit ratio that is reasonable in comparison to competitors and for the loan demand in its assessment area. Finally, the bank has made a significant number of loans within its assessment area.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its two assessment areas effectively. The bank was rated satisfactory in helping to meet the credit needs of its community at its previous CRA evaluation. The bank operates a full-service office in Le Sueur and has recently acquired a full-service branch office in Cloquet, Minnesota. The Cloquet office was a previously existing branch office of another financial institution. The bank also owns and operates two automated teller machines ("ATM"). One is located at the Holiday convenience store in Le Sueur, and the other is located at a Holiday convenience store in Cloquet. Users of these ATMs can withdraw funds; however, the Le Sueur ATM is the only one that accepts deposits. In addition, that ATM only accepts deposits from Shazam System members or TCF Bank Minnesota, FSB, customers. The bank has not closed any branches since the last evaluation.

According to the bank's March 31, 1998, Report of Condition ("ROC"), the bank's assets totaled approximately \$40.5 million. Its March 31, 1998, ROC indicates the bank's major loan category is consumer real estate lending, which constituted approximately 45% of its loan portfolio. The balance of the bank's loan portfolio is 40% commercial, 8% agricultural, and 7% consumer loans. The composition of the bank's loan portfolio appears to reflect the level of demand for the specific types of loans in the assessment area.

The bank offers a variety of loan products to meet the needs of residents, businesses, and farms within its assessment area. Its loan products include conventional agricultural, commercial, consumer, and residential real estate loans. With respect to the latter loan category, the bank has referral arrangements with two other institutions to provide applicants with residential real estate loan products it is unable to effectively offer on its own.

In addition to offering conventional loan products, the bank participates in federal loan programs sponsored by the Federal Housing Administration, Rural Economic Community Development, Federal Home Loan Mortgage Corporation, Department of Veterans Affairs, and the Small Business Administration. The bank also participates in state programs sponsored by the Minnesota Housing Finance Agency ("MHFA") and the Minnesota Department of Agriculture Rural Finance Authority.

The bank's loan products appear appropriate to fulfill the credit needs of residents, businesses, and farms in its assessment area.

DESCRIPTION OF CORNERSTONE STATE BANK'S TWO ASSESSMENT AREAS

The bank operates two offices in two widely separated geographic assessment areas. For purposes of this section of the evaluation, these two assessment areas will be described separately. The following area descriptions will include an analysis of the demographics of individuals and geographies that are categorized by factors based on their income level.

The CRA divides income levels into four categories: low, moderate, middle, and upper. Because neither of the bank's assessment areas are located in a metropolitan statistical area, the categorization of a borrower or area's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to CRA's definitions, low-income individuals have incomes 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 greater than 120% of the statewide nonmetropolitan median family income are defined as upper income by the regulation. According to 1997 data, the statewide nonmetropolitan median family income in Minnesota is \$38,400; this figure is used to classify income levels of borrowers. Block numbering areas (“BNA”) are classified using similar categories based on the level of the median family income in the geography compared with the 1990 statewide nonmetropolitan median family income of \$28,993.

LE SUEUR ASSESSMENT AREA

The bank has defined this assessment area as portions of Le Sueur, Nicollet, and Sibley counties in south-central Minnesota, located southwest of the Minneapolis metropolitan area. Based on 1990 U.S. Census data, the population for this assessment area is approximately 24,817. This assessment area is composed of middle- and upper-income BNAs. There are no low- or moderate-income BNAs in this assessment area. The following table shows the BNAs for this assessment area with their associated county and income classification.

COUNTY	BNA	INCOME CLASSIFICATION
Le Sueur County	9501	Upper
	9502	Middle
Nicollet County	9802	Upper
	9803	Upper
Sibley County	9701.98	Middle
	9704	Middle

The bank’s main office is in Le Sueur, which is located in BNA 9502, and is approximately 50 miles southwest of Minneapolis. Le Sueur has a population of roughly 3,714 residents. Other communities in and near the assessment area include Arlington, Henderson, Nicollet, New Prague, Le Center, Belle Plaine, and St. Peter.

Based on 1990 census data, there are 8,865 households and 6,778 families in the assessment area. The following table summarizes the distribution of household and family income for the assessment area.

LE SUEUR ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Families Compared to Median Family Income	13.0%	14.8%	22.6%	49.7%
Households Compared to Median Household Income	17.6%	12.0%	18.2%	52.2%

For purposes of comparison, the following table summarizes the distribution of household and family income for the nonmetropolitan areas of Minnesota.

NONMETROPOLITAN MINNESOTA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Families Compared to Median Family Income	18.8%	18.7%	24.4%	38.1%
Households Compared to Median Household Income	24.0%	15.9%	19.4%	40.8%

As shown in the previous two tables, the percentages of this assessment area's low- and moderate-income households and families are considerably lower than the representation of such households and families in Minnesota's nonmetropolitan areas. In contrast, the percentages of middle- and upper-income families and households in this assessment area are generally higher than the state's nonmetropolitan areas.

The following table shows the percentages of households and families that have incomes below the poverty level.

	HOUSEHOLDS WITH INCOMES BELOW POVERTY LEVEL	FAMILIES WITH INCOMES BELOW POVERTY LEVEL
Le Sueur Office Assessment Area	10.2%	7.0%
Minnesota Nonmetropolitan Areas	14.4%	9.6%

The assessment area's percentages for household and family incomes that fall below the poverty level are considerably lower than those of the state's nonmetropolitan areas. According to the 1990 census, the unemployment rate for the assessment area was 4.1%, which is slightly lower than the state's nonmetropolitan area unemployment rate of 5.9%.

As mentioned previously, there are three middle-income and three upper-income geographies. The following table shows the median family incomes for each of these BNAs.

BNA	INCOME CLASSIFICATION	FAMILY MEDIAN INCOME
9701.98	Middle	\$31,402
9704	Middle	\$32,486
9502	Middle	\$33,378
9802	Upper	\$35,536
9501	Upper	\$36,500
9803	Upper	\$36,959
Statewide Nonmetropolitan Median Family Income		\$28,933

As shown in the table, the median family incomes vary within the two income classifications. BNA 9708.98 has the lowest median family income in this assessment area, whereas BNA 9803 has the highest median family income. According to 1990 U.S. Census data, the Le Sueur assessment area's median family income is \$34,559, which is considerably higher than the statewide nonmetropolitan median family income of \$28,933. The data suggest that more assessment area residents have the opportunity to enjoy a better living standard than people residing in other parts of rural Minnesota.

Bank management and a member of the community were contacted during the CRA evaluation. They characterized the area's economy as being fair to good with a large industrial base that is so successful that most of the larger establishments have problems hiring enough workers to meet production and sales demands. Some manufacturing businesses have resorted to mandatory overtime for employees to complete their production orders.

Based on 1990 census data, this assessment area reported 1,425 business establishments. The vast majority of these establishments, 1,361, had 49 or fewer employees. Sixty establishments had between 50 and 499 employees and two establishments had more than 500 employees. The larger employers are in the manufacturing and services industries.

The area's diversified manufacturing base includes an aluminum die casting firm that employs 500 people, an electrical component producer that employs 450 people, a cheese and whey producer that employs 110 people, and a grocery product distributor that employs 115. Many of these companies have established international customers.

According to the community contact, the success of the area's businesses has created a housing problem. There is not enough housing in Le Sueur to accommodate the number of employees and their families. Many people who work in Le Sueur must commute from surrounding communities such as Mankato, St. Peter, and Jordan. The contact said two housing developments (Knoll View East and Barony Hills) are intended to help solve the housing problem. One of these projects, the Barony Hills housing development, which is currently in the planning stage, is intended to provide affordable housing through the construction of two-family housing units or duplexes. The price range for one of these units is expected to be below \$100,000.

Based on the 1990 census, 81% of the assessment area's homes are one-unit structures. Dwellings consisting of two to four units accounted for 5% of the assessment area's housing units. Likewise, a dwelling consisting of five or more units accounted for 7% of the assessment area's housing units. Finally, mobile homes represented 6% of this assessment area's housing structures.

The following table shows median values for housing and rent in this assessment area and for statewide nonmetropolitan areas based on 1990 census data.

	Median Housing Value	Median Gross Rent
Le Sueur Assessment Area	\$61,395	\$318/month
Statewide Nonmetropolitan	\$47,281	\$295/month

As shown above, the median housing value is 30% higher than the comparable figure for nonmetropolitan areas of the state. Gross rent is also 8% higher than other rural areas of the state. These figures indicate that rental housing is more affordable than home ownership and show the need for affordable housing in this area. As a percentage of housing units in the assessment area, 77% are owner-occupied, 19% are rental, and 4% are vacant. Finally, approximately 40% of the housing was built before 1950.

Examiners contacted a representative of a local business association as part of the bank's CRA evaluation. The community contact provided information regarding the local business and housing conditions. Examiners used information from this contact as well as information from bank management to evaluate the bank's CRA performance.

CLOQUET ASSESSMENT AREA

The bank has defined this assessment area as portions of Carlton County in east-central Minnesota. Based on the 1990 U.S. Census, the population for the assessment area is approximately 21,444. Carlton County is composed of middle-income BNAs 9701, 9702, 9704, and 9707 and upper-income BNA 9703. The branch office is located in Cloquet, which has a population of roughly 10,885 residents. This branch office is located in BNA 9701. Cloquet is approximately 15 miles southwest of Duluth, Minnesota. Other communities in and near the assessment area include Esko, Carlton, Wrenshall, Barnum, and Scanlon, Minnesota.

Based on 1990 census data, there are 8,061 households and 5,903 families in this assessment area. The following table summarizes the distribution of family and household income for the Cloquet office assessment area.

CLOQUET ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Families Compared to Median Family Income	17.7%	17.2%	20.1%	45.0 %
Households Compared to Median Household Income	22.6%	14.7%	16.2%	46.6%

Again, for purposes of comparison, the following table summarizes the distribution of family and household income for the nonmetropolitan areas of Minnesota.

NONMETROPOLITAN MINNESOTA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Families Compared to Median Family Income	18.8%	18.7%	24.4%	38.1%
Households Compared to Median Household Income	24.0%	15.9%	19.4%	40.8%

As shown in the two tables, the percentages of this assessment area's low-, moderate-, and middle-income households and families are below the representation of such families and households in Minnesota's nonmetropolitan areas. In contrast, the percentages of upper-income households and families in this assessment area are higher in comparison with Minnesota's nonmetropolitan areas. These data indicate the assessment area's population income level is somewhat higher than the rest of rural Minnesota.

The following table shows the percentages of households and families in the assessment area with incomes below the poverty level.

	HOUSEHOLDS WITH INCOMES BELOW POVERTY LEVEL	FAMILIES WITH INCOMES BELOW POVERTY LEVEL
Cloquet Office Assessment Area	11.4%	8.7%
Minnesota Nonmetropolitan Areas	14.4%	9.6%

The assessment area's percentages for household and family incomes that fall below the poverty level are lower than those of the state's nonmetropolitan areas. According to the 1990 census, the unemployment rate for the assessment area was 8.6%, which is higher than the state's nonmetropolitan area unemployment rate of 5.9%.

The assessment area BNAs are designated a middle- or upper-income geography based on comparison with the relevant state median family income. There is only one upper-income geography, BNA 9703, in this assessment area, which has a median family income of \$38,718.

All the remaining geographies are classified as middle income, and the median family income varies significantly among them. BNA 9707 has the lowest median family income in this assessment area of \$24,412, whereas BNA 9704 has the highest median family income of \$32,436.

According to 1990 U.S. Census data, the Cloquet office assessment area's overall median family income is \$31,592, which is higher than the statewide nonmetropolitan median family income of \$28,933. The data suggest more assessment area residents have the opportunity to enjoy a better living standard than people residing in other parts of rural Minnesota.

The Fond du Lac Band of Chippewa Indians ("Tribe") owns two casinos in or near the assessment area, Fond du Luth in Duluth and Black Bear in Carlton. The Tribe is the largest employer in Carlton County and about 60% of its employees are non-Indian. The tribal chairman has made it a policy that any tribal member who wants a job at the casino has one.

Since gaming began, the Tribe has made considerable investments on the portion of the Fond du Lac Indian Reservation located in the assessment area, including land purchases. Other projects in progress include a community center, a Head Start center, and a nursing home. In addition, the Tribe plans to expand Black Bear Casino and Hotel, adding a recreational vehicle area, an 18-hole golf course, and a convention center. To make the casino a "family destination," the band also has plans for an outlet mall and miniature golf course.

Bank management and a member of the community were contacted during the CRA evaluation. In addition, contact with the Reservation was made in April 1998. The contacts characterized the current economic conditions as good. The largest employer in the county is the Tribe. Significant employment is also provided by a paper mill, a match and popsicle stick plant, an acoustical products manufacturing plant, and the school district. One contact stated the overall unemployment rate is low, with only about 4.5% of the work force without jobs. The tribal contact stated unemployment for tribal members living on the Reservation once stood at 36%. However, since gaming started, the unemployment rate has fallen to 13%. Total employment in Carlton County has been increasing. In 1991, all industries reported 13,752 employees. By 1995, the numbers of those employed rose to 15,104 (an increase of 9.8%).

In 1994, there were 635 business establishments reported in this assessment area. The majority of those businesses (612) employed fewer than 50 employees. Of the remaining businesses, 22 employed between 50 and 499 workers and one employed more than 500. In this assessment area, services, manufacturing,

and retail industries reported the highest levels of employment. Exceptional growth was noted in the construction industry, which had a 56% increase in employment between 1991 and 1995. Other significant percentage increases in employment were noted in agricultural services (up 29%) and wholesale trade and services (up 19%).

Based on 1990 census data, 79% of the assessment area's homes are one-unit structures. Dwellings consisting of two to four units accounted for 5% of the assessment area's housing units. Likewise, a dwelling consisting of five or more units accounted for 7% of the assessment area's housing units. Finally, mobile homes represented 8% of this assessment area's housing structures.

The following table shows median values for housing and rent in both this assessment area and the statewide nonmetropolitan areas based on 1990 census data.

	Median Housing Value	Median Gross Rent
Cloquet Assessment Area	\$46,093	\$297/month
Statewide Nonmetropolitan	\$47,281	\$295/month

As shown above, the median housing value is 3% lower than the comparable figure for nonmetropolitan areas of the state. Gross rent is comparable to other rural areas of the state. This fact indicates that housing is generally affordable for both home ownership and rental housing. As a percentage of housing units in the assessment area, 75% are owner-occupied, 18% are rental, and 7% are vacant. Finally, roughly 35% of the housing was built before 1950.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. Much of the analysis on the following pages was based on a statistical sample of 112 consumer, 48 residential real estate, and 51 commercial/agricultural loans originated in the six months preceding the examination. These loan types were sampled because they represent the greatest percentages of the bank's loan portfolio based on the number of loans originated since the evaluation and the dollar amount of outstanding loans. For purposes of CRA sampling, commercial and agricultural loans were grouped together because of the low percentage of agriculture loans in the portfolio.

The criteria discussed below were reviewed in determining this rating. In assigning the overall rating, greatest weight was placed on the level of lending to borrowers of different income levels and to businesses of different sizes and lending to geographies of different income levels. These criteria most closely measure the bank's effectiveness in serving all segments of its assessment area, including low- and moderate-income people.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio meets the standards for satisfactory performance. Based on quarterly ROC data, the bank's average net loan-to-deposit ratio since the previous evaluation is 73%. In comparison, the bank's quarterly average net loan-to-deposit ratio at the previous evaluation was 70%.

The following table based on quarterly ROC data since the previous evaluation shows that the bank's net loan-to-deposit ratio has ranged from 66% to 78%.

DATE	NET LOANS (IN THOUSANDS)	DEPOSITS (IN THOUSANDS)	NET LOAN-TO-DEPOSIT RATIO
September 30, 1996	\$15,305	\$23,241	66%
December 31, 1996	\$15,786	\$23,646	67%
March 31, 1997	\$16,997	\$21,689	78%
June 30, 1997	\$19,371	\$25,597	76%
September 30, 1997	\$19,659	\$25,442	77%
December 31, 1997	\$24,816	\$36,738	68%
March 31, 1998	\$26,671	\$34,818	77%

Since September 30, 1996, the bank's net loans and deposits have been showing a relatively steady increase. A further comparison of net loans and deposit levels between September 30, 1996, and September 30, 1997, show that net loans increased approximately 28%, while deposits had an increase of 9%. In October 1997, the bank acquired a new branch in Cloquet, which created another increase in deposits and net loans.

According to the March 31, 1998, Uniform Bank Performance Report, the bank's net loan-to-deposit ratio was 76%, which ranked the institution in the 79th percentile of its national peer group. As of the same date, the bank's net loan-to-assets ratio was 66%. The average net loan-to-assets ratio for Minnesota banks with total assets over \$25 million and below \$100 million was 63%. This data indicate the bank dedicates a higher percentage of its assets to net loans as similarly sized banks operating in the state.

Until the acquisition of the new branch office, the bank was one of the smaller financial institutions operating in its assessment area. Compared with two of its closest competitors, the bank's average net loan-to-deposit ratio is slightly lower than one and slightly higher than the other. Nonetheless, the bank's ratio appears reasonable in light of the ratios for banks operating in the assessment area. Based on the quarterly ROC data from September 30, 1996, to March 31, 1998, the following table identifies the asset size and quarterly average net loan-to-deposit ratio for the bank and a couple of its competitors.

BANK AND LOCATION	TOTAL ASSETS (AS OF MARCH 31, 1998) (IN THOUSANDS)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
CornerStone State Bank Le Sueur, Minnesota	\$40,587	73%
First Farmers & Merchants National Bank Le Sueur, Minnesota	\$42,792	79%
Norwest Bank Cloquet, N.A.* Cloquet, Minnesota	\$64,907	68%
*Formerly known as City National Bank of Cloquet		

Bank management stated that the competitors mentioned in the table and two credit unions in Cloquet are the bank's most direct competitors. In addition to these institutions, competition is provided by financial institutions in the communities of Le Center and St. Peter that are located just outside the bank's Le Sueur assessment area.

As reflected in the table, it appears the demand for credit in the assessment areas is reasonably strong. This conclusion is based on the loan-to-deposit level of the listed banks. The financial market is very competitive, and local banks are willing to extend credit to fulfill the needs of local residents, farms, and

businesses. The community contacts confirmed that there are no unmet credit needs in the assessment areas.

Therefore, based on the bank's net loan-to-deposit ratio relative to local competitors as well as its statewide and national peers, the bank's net loan-to-deposit ratio is reasonable and meets the standards for a satisfactory rating.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The concentration of the bank's loans in the assessment area is reasonable. A review of the statistical sample of consumer, residential real estate, and commercial/agricultural loans originated by the bank reveals that it extends a majority of its loans inside the assessment area.

The bank's residential real estate loans are highly concentrated in the assessment area, which is particularly significant because 45% of the bank's loan portfolio is composed of these loans. The following table shows the percentage of loans within the assessment area based on total number and dollar amount in each major loan category.

LOANS IN THE ASSESSMENT AREA		
Major Loan Product Line	Total Number of Loans	Total Amount of Loans
All Consumer Loans	79%	72%
Commercial/Agricultural Loans	73%	56%
Home Purchase – All	79%	81%

As shown in the table, the bank extends a majority of its loans for consumer, residential real estate, and commercial/agricultural loans within its two assessment areas. The data reveal that the bank extends many consumer loans to borrowers who reside outside the assessment area. Bank management attributed this situation to customers who have moved from the area but continue to maintain a borrowing relationship with the bank or have moved and still have relatives in the area.

As shown in the table, the percentage of the total amount of commercial/agricultural loans is low in relation to the other loan categories. This percentage was affected by a small number of large dollar amount loans made outside the assessment area. Since the last evaluation, the bank had acquired a new branch office. Therefore, a comparison of loan concentrations from the last evaluation would have little significance.

Based on the concentrations of loans within the bank's two assessment areas, its lending performance meets this category's standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different incomes and to businesses and farms of different sizes meets the standards for satisfactory performance. As discussed previously, CRA classifies borrower income levels into four categories: low, moderate, middle, and upper.

The data used to evaluate the bank's CRA performance are based on a statistical sample of consumer, commercial/agricultural, and residential real estate loans originated before the evaluation. Income data

for the bank's consumer and residential real estate loan borrowers were available for 82% and 84%, respectively, of the sampled loans. Information derived from a review of these loans provides a good indicator of the bank's performance in those categories.

As mentioned previously, the dollar amounts of commercial/agricultural loans constitute approximately 47% of the bank's total loan portfolio. Consumer and residential real estate loans comprise roughly 7% and 45%, respectively, of the bank's loan portfolio. However, in terms of number of loans originated, consumer loans represent the majority, representing 66% of the loans originated in the sample period. Therefore, the bank's performance for this category will be evaluated based primarily on the small business/farm and residential real estate loan data, with lesser consideration given to the consumer loans.

The following table shows the percentages of consumer and residential real estate loans to borrowers of different income levels in the Le Sueur assessment area.

LE SUEUR ASSESSMENT AREA								
DISTRIBUTION OF LOANS BY BORROWER INCOME*								
Loan Type	Low Income		Moderate Income		Middle Income		Upper Income	
	Number of Loans	Amount of Loans						
Consumer	26%	20%	34%	27%	21%	25%	19%	29%
Residential Real Estate	5%	1%	15%	10%	25%	25%	55%	64%

*Income level is determined based on the 1997 Minnesota nonmetropolitan median family income of \$38,400.

The consumer loan data for the Le Sueur assessment area reveal that the bank extends a high percentage of consumer loans to low- and moderate-income borrowers. The Le Sueur assessment area is 28% low- and moderate-income families, 23% middle-income families, and 50% upper-income families. The sample indicates the bank's level of consumer lending is heavily concentrated with low- and moderate-income borrowers. In addition, community contacts did not indicate there were unmet consumer credit needs in the assessment area.

The residential lending data in the table indicate that a large majority of the bank's loans are made to middle- and upper-income borrowers. This is not surprising given the demographics of the assessment areas. As mentioned previously, the assessment area's median housing value is 30% higher than the same figure for the nonmetropolitan areas of the state. This factor contributes to the higher lending levels to upper-income borrowers. Low-income borrowers have incomes below \$19,200 in 1997 while median housing values in the assessment area were over \$61,300 in 1990. Increases in housing values in the assessment area coupled with the lack of affordable housing limits the ability of low-income borrowers to purchase housing in this assessment area. Loans to moderate-income borrowers represent 15% of the total loans in this assessment area. This level of lending is adequate in view of demographics, the cost of housing in the assessment area, and the availability of affordable housing.

CLOQUET ASSESSMENT AREA								
DISTRIBUTION OF LOANS BY BORROWER INCOME*								
Loan Type	Low Income		Moderate Income		Middle Income		Upper Income	
	Number of Loans	Amount of Loans						
Consumer	25%	29%	29%	23%	25%	27%	21%	22%
Residential Real Estate	17%	6%	8%	8%	58%	65%	17%	21%

*Income level is determined based on the 1997 Minnesota nonmetropolitan median family income of \$38,400.

The consumer loan data for the Cloquet assessment area reveal that the bank extends a high percentage of consumer loans to low- and moderate-income borrowers. The assessment area is 35% low- and moderate-income families, 20% are middle income, and 45% are upper income. The sample indicates that the bank's level of consumer lending is heavily concentrated with low- and moderate-income borrowers. As previously mentioned, community contacts did not indicate there were unmet consumer credit needs in the assessment area.

The residential lending data for the Cloquet assessment area, however, show that 58% of the lending is to middle-income borrowers. Of the balance, 25% of residential lending is to low- and moderate-income borrowers and 17% is to upper-income borrowers. The concentration of lending to middle-income borrowers is higher than expected given the assessment area demographics. Real estate lending to low-income borrowers in this assessment area is good in light of the low incomes of these borrowers, the limited availability of affordable housing, and relatively low rents in the assessment area. Lending to moderate-income borrowers is below the representation of these borrowers in the assessment area. It is not clear why loan requests are concentrated in other income categories.

Tribal contacts noted that the Reservation needs housing. The Tribe is working with its own five-year housing plan. The plan includes the construction of 20 to 30 housing units. According to the contacts, tribal members like the MHFA MN Chippewa program because it is more flexible than the Housing and Urban Development Section 184 program.

The sample of commercial/agricultural loans reviewed during the evaluation shows that the bank originates loans to small businesses and farms, defined as entities with gross annual revenues of \$1 million or less. Combined sample data from both assessment areas show the bank made 100% of its loans to small businesses and small farms. Of the loans to these entities, 84% of those loans were for dollar amounts of \$100,000 or less, 14% were for loans more than \$100,000 and less than \$250,000, and the balance were for loan amounts from \$250,000 to \$1 million. These figures indicate the bank is willing to make small-dollar loans to small businesses and farms.

The bank's lending performance to small businesses and farms is generally strong but reflects the concentration of such entities in the assessment area. The bank's performance with respect to consumer loans extended to low- and moderate-income people is very good given the demographics and loan demand characteristics of the assessment area. In contrast, the bank's residential real estate lending performance to low-income people in the Le Sueur assessment area is less than expected based on area demographics. Nevertheless, in light of the cost of housing in this assessment area, this performance is reasonable. Lending to moderate-income borrowers in the Cloquet assessment area also appears low. However, limited affordable housing and low rents may limit demand. In addition, the level of lending to low-income borrowers in this assessment area indicates the bank is willing to lend to borrowers of all

income levels. For the reasons detailed above, the bank's lending to individuals of different incomes and to businesses of different sizes meets this category's standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans in its two assessment areas is considered reasonable and meets the standards for satisfactory performance. As previously discussed, the bank's assessment areas are composed of middle- and upper-income BNAs; they do not have any low- or moderate-income geographies.

The following table shows the percentage of loan penetration in the assessment area BNAs serviced by the Le Sueur office.

LE SUEUR ASSESSMENT AREA LENDING ACTIVITY BY GEOGRAPHY						
BNA	All Consumer Loans		Commercial/ Agricultural Loans		Home Purchase Loans	
	Number	Amount	Number	Amount	Number	Amount
9501	0%	0%	0%	0%	0%	0%
9502	90%	96%	87%	89%	96%	91%
9802	0%	0%	0%	0%	0%	0%
9803	0%	0%	10%	9%	0%	0%
9701.98	10%	4%	3%	2%	4%	9%
9704	0%	0%	0%	0%	0%	0%
TOTALS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The loan data indicate the bank extends almost all of its loans in BNA 9502. This BNA is the location of the bank's main office in Le Sueur. Approximately 17% of this assessment area's population resides in BNA 9502. The assessment area includes a number of larger communities that serve as trade centers for the residents of the assessment area. These larger population centers have several financial institutions so residents are unlikely to travel to Le Sueur for banking services. This assessment area's median family income in the middle-income geographies (as a percentage of the relevant nonmetropolitan median family income) varies between 108.5% and 115.4%. The geography with the lowest median family income percentage is BNA 9704.

The following table shows the percentage of loan penetration in the assessment area BNAs serviced by the Cloquet office.

CLOQUET ASSESSMENT AREA LENDING ACTIVITY BY GEOGRAPHY						
BNA	All Consumer Loans		Commercial/ Agricultural Loans		Home Purchase Loans	
	Number	Amount	Number	Amount	Number	Amount
9701	27%	31%	33%	31%	23%	8%
9702	8%	4%	17%	9%	31%	33%
9703	23%	18%	0%	0%	8%	2%
9704	38%	27%	33%	60%	23%	49%
9707	4%	20%	17%	0%	15%	8%
TOTALS	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The loan data indicate the branch office extends a significant portion of its consumer, commercial/agriculture, and home purchase loans in BNA 9704. BNA 9704 also represents the largest BNA in terms of population and geographic area. The area with the second highest level of loan penetration is in BNA 9701, which is the location of bank's branch office in Cloquet. This assessment area's median family income in the middle-income geographies (as a percentage of the relevant nonmetropolitan median family income) varies between 84.4% and 112.1%. The geography with the lowest median family income percentage is BNA 9707. Approximately 11% of this assessment area's population resides in BNA 9707.

Overall, the bank made loans in the majority of BNAs located in its two assessment areas. Lending activity is spread reasonably throughout with activity heaviest in the BNAs closest to the bank's offices and lightest in the areas more distant from the bank or served by other financial institutions. Based on the preceding discussion of the assessment area and the bank's lending activity, the distribution of the bank's loans among geographies of different income levels 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-related complaints since its last evaluation.

PUBLIC DISCLOSURE

May 26, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CornerStone State Bank
Name of Depository Institution

092734360000
Identification Number of Institution

Le Sueur, Minnesota
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

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.