

Public Disclosure

February 14, 2000

Community Reinvestment Act Performance Evaluation

**The Goodhue County National Bank
Charter Number 7307
222 Bush Street
Red Wing, Minnesota 55066**

**Comptroller of the Currency
Minneapolis Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

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.

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 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 The Goodhue County National Bank (GCNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of February 14, 2000. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **Outstanding**. We assigned the rating based on the following information:

- Given the bank's size and resources, it made a very strong level of community development investments during the evaluation period. These investments total \$681,309. Similarly, it has a very strong level of community development services. Bank personnel represent the bank in numerous organizations that promote community development, particularly regarding economic development and housing issues. These strong levels of investments and services help to enhance credit availability within the assessment areas and are not typical for banks subject to small bank CRA examinations.
- The bank's loan-to-deposit ratio is more than reasonable. In fact, the bank had the highest quarterly average ratio of all banks with headquarters in GCNB's assessment areas.
- The majority of the bank's business and farm loan originations and purchases were from within its assessment areas. For business loans, 80 percent by number and 40 percent by dollar were from within the assessment areas. For farm loans, 92 percent by number and 96 percent by dollar were from within the assessment areas.
- The bank's distribution of loans to businesses and farms of different sizes, particularly to small businesses and farms, is reasonable. In the Red Wing assessment area, for example, 78 percent of the bank's business loans by number and 53 percent by dollar were to businesses with revenues of \$1 million or less. This is less than area demographics, as 91 percent of the businesses with known revenues have revenues of \$1 million or less.

Description of Institution

GCNB has its main office in Red Wing, Minnesota. The bank also operates four branch offices, all in Minnesota. Two of the branch offices are in Red Wing, one is in Lanesboro, and the other is in Rushford. The bank owns ATMs that are located at the two of its Red Wing branches and at three other locations within Red Wing. The bank also has an ATM at its Lanesboro branch. The bank has not opened or closed any branches or ATMs since the last CRA examination.

GCNB is a subsidiary of Signal Financial Corporation (SFC), which changed its name from United Community Bancshares, Inc. during January 2000. SFC has total assets of \$884 million and is located in Eagan, Minnesota. In addition to GCNB, SFC's bank subsidiaries consist of Signal Bank National Association of Eagan, Minnesota and Park National Bank of St. Louis Park, Minnesota. Other subsidiaries of SFC are United Credit Services, Inc., an industrial loan and Thrift Company and Unitech Services, the data processor for SFC and its subsidiaries.

As of December 31, 1999, the bank's assets totaled \$290 million, of which loans comprise 65 percent. Based on outstandings, the bank's primary loan type is commercial, followed by agricultural and residential real estate. The composition of the bank's loan and lease portfolio was as follows:

LOANS OUTSTANDING ON DECEMBER 31, 1999		
LOAN TYPE	DOLLAR AMOUNT (000'S)	PERCENT
Commercial and Commercial Real Estate	73,812	39
Agriculture and Agricultural Real Estate	35,383	19
Residential Real Estate	34,286	18
Leases	22,679	12
Consumer	21,449	11
Other	1,556	1
Total Loans and Leases	189,165	100

There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment areas. The most recent examination of the bank's CRA performance was conducted as of September 6, 1996 and the bank was rated Outstanding. For the current examination, the evaluation period went back to the 1996 examination for the bank's community development activities. For other loan origination activities, the evaluation period covered calendar years 1997, 1998, and 1999. Also for the current examination, the bank remained subject to small bank CRA performance standards. Banks with total assets of \$250 million or greater or that are affiliates of holding companies with total banking or thrift assets of \$1 billion or greater at the two most recent year ends are subject to large bank CRA performance standards. To date, the only year end at which GCNB had total assets greater than \$250 million has been 1999.

Description of Assessment Areas

The bank has two assessment areas. The bank extends more loans in its Red Wing assessment area. During the evaluation period, the bank generated 72 percent of its loans by number and 87 percent by dollar within the Red Wing assessment area. As a result, we placed more weight on the bank's performance in its Red Wing assessment area than in its Lanesboro/Rushford assessment area.

The Red Wing assessment area consists of the northeastern half of Goodhue County, Minnesota, specifically block-numbering areas (BNAs) 9801, 9802, 9803, and 9804 and census tract (CT) 9606 of Pierce County, Wisconsin. This Pierce County CT is contiguous to the bank's Goodhue County BNAs, although is separated from them by the Mississippi River. The Minnesota portion of the assessment area is designated as a nonmetropolitan portion of the state and its 1998 Department of Housing and Urban Development (HUD) updated median family income was \$41,600. The Wisconsin portion of the assessment area is part of the Minneapolis/St. Paul Metropolitan Statistical Area. Its 1998 HUD updated median family income was \$63,600. Fourteen percent of the families in the assessment area are designated low-income, 16 percent moderate-income, 24 percent middle-income, and 46 percent upper-income. Three or 60 percent of the assessment area's BNAs/CTs are middle-income and two or 40 percent are upper-income. BNA 9802 includes the Prairie Island reservation. The major employers in the assessment area are the Treasure Island Casino on the Prairie Island reservation, the Red Wing Shoe Company, and Northern States Power Company. Unemployment is low at 2.5 percent.

The Lanesboro/Rushford assessment area is entirely in Minnesota and consists of most of Fillmore County (BNAs 9601, 9602, 9604, and 9606), approximately half of Winona County (BNAs 9708 and 9709), and CT 0203 of Houston County. The Fillmore and Winona County BNAs are also part of the designated nonmetropolitan portion of the state with HUD updated median family income of \$41,600. The Houston County CT is part of the La Crosse/La Crescent Metropolitan Statistical Area with 1998 HUD updated median family income of \$47,200. Seventeen percent of the families in the assessment area are designated low-income, 18 percent moderate-income, 24 percent middle-income, and 41 percent upper-income. Six or 86 percent of the assessment area's BNAs/CTs are middle-income and one or 14 percent is upper-income. The major employer in the area is Lucas SEI Electronics, LLC. Unemployment ranges from 2.2 to 3.0 percent in the tri-county area.

During the examination, we conducted one new community contact and reviewed information from three others that had been conducted by this and other bank regulatory agencies. The contacts were with representatives of local government, a chamber of commerce, and the University of Minnesota Extension Service. The contacts for the Red Wing assessment area noted the economy is good and growing. One of the contacts said there is a shortage of labor in the area and a strong need for affordable housing stock to help resolve the shortage. The contact also said continued efforts are needed toward the redevelopment and maintenance of Red Wing's business district. The contacts for the Lanesboro/Rushford assessment area described the economy as stable, although said the agricultural sector is weakened due to low commodity prices. The contacts said there is a need for increased housing stock in this assessment area as well. The contacts in both of the assessment areas believed that all bankable projects are able to obtain financing.

Competition in the assessment areas is strong. There are nine other state- or nationally-chartered banks that have headquarters in the assessment areas, as well as other banks that have branch offices within the assessment areas. GCNB is the largest of all of the locally headquartered banks. The next largest bank is Norwest Bank Red Wing, National Association, which has total assets of \$125 million and provides keen competition for GCNB.

GCNB's branches are located centrally within both of its assessment areas. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low-or moderate-income geographies.

Conclusions with Respect to Performance Criteria

To reach our conclusions about the bank's CRA performance, we focused on the loan product(s) that were most significant in terms of new loans originated and purchased during 1997, 1998, and 1999. For the Red Wing assessment area, business loans were most significant, as they represented 19 percent by number and 65 percent by dollar of the new loans originated and purchased during those years. For the Lanesboro/Rushford assessment area, we considered both farm and business loans to be of the greatest significance. Farm loans represented 30 percent of the originations and purchases by number and 49 percent by dollar. Business loans represented 21 percent of the originations and purchases by number and 33 percent by dollar. To draw conclusions for this examination, we sampled 45 business loans originated by the bank's Red Wing office and 25 business and 26 farm loans originated by its Lanesboro/Rushford office.

Net Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable. Competition in the assessment areas is strong, particularly in the Red Wing assessment area. Despite this, the bank has the highest average quarterly loan-to-deposit ratio of any bank with a main office in GCNB's assessment areas. For the twelve quarters since the last examination, the bank's average loan-to-deposit ratio is 83 percent. The nine other banks with headquarters in the assessment areas had average quarterly loan-to-deposit ratios ranging from 42 percent to 82 percent. The average ratio of those other nine banks was 67 percent.

Lending in Assessment Area

The bank originated or purchased a majority of its business and farm loans within its assessment areas. For business loans, 80 percent by number and 40 percent by dollar were from within the assessment areas. This difference in percentages for number versus dollar of business loans is attributable to larger dollar loans the bank purchases from its affiliates in the Minneapolis/St. Paul area. For farm loans, 92 percent by number and 96 percent by dollar were from within the assessment areas.

Lending to Businesses and Farms of Different Sizes within the Assessment Areas

The distribution of borrowers reflects, given the demographics of the assessment areas, reasonable penetration among businesses and farms of different sizes. Under the Community Reinvestment Act, greater emphasis is placed on lending to small businesses and farms, those with revenues of \$1 million or less.

In the Red Wing assessment area, the bank's record of lending to small businesses was good. As displayed in the following table, demographic information is available for 82 percent of the businesses in the assessment area and is unavailable for the remaining 18 percent. Of those businesses with known revenues, 91 percent had revenues of \$1 million or less. By comparison, 78 percent of the bank's loans by number and 53 percent by dollar were to businesses with revenues of \$1 million or less.

RED WING ASSESSMENT AREA					
	Demographic Information: Percentage of Businesses	Loans to Businesses by Business Revenue Size			
		Number of Loans In The Assessment Area	Percentage Based on Number of Loans	Dollars of Loans	Percentage Based on Dollars of Loans
Revenues of \$1 Million or Less	75	25	78	952,587	53
Revenues of Greater Than \$1 Million	7	7	22	845,437	47
Revenues Unknown or Not Available	18	0	0	0	0
Total	100	32	100	1,798,024	100

In the Lanesboro/Rushford assessment area, the bank's record of lending to small farms was excellent. As displayed in the following table, demographic information is available for virtually all of the farms in the assessment area and all farms are small. As expected, all farm loans we sampled from this assessment area were to farms with revenues of \$1 million or less.

LANESBORO/RUSHFORD ASSESSMENT AREA					
	Demographic Information: Percentage of Farms	Loans to Farms by Farm Revenue Size			
		Number of Loans In The Assessment Area	Percentage Based on Number of Loans	Dollars of Loans	Percentage Based on Dollars of Loans
Revenues of \$1 Million or Less	99	24	100	740,895	100
Revenues of Greater Than \$1 Million	< 1	0	0	0	0
Revenues Unknown or Not Available	1	0	0	0	0
Total	100	24	100	740,895	100

In the Lanesboro/Rushford assessment area, the bank’s record of lending to small businesses was good. As displayed in the following table, demographic information is available for 87 percent of the businesses in the assessment area and is unavailable for the remaining 13 percent. Of those businesses with known revenues, 92 percent had revenues of \$1 million or less. By comparison, 83 percent of the bank’s loans by number and 69 percent by dollar were to businesses with revenues of \$1 million or less.

LANESBORO/RUSHFORD ASSESSMENT AREA					
	Demographic Information: Percentage of Businesses	Loans to Businesses by Business Revenue Size			
		Number of Loans In The Assessment Area	Percentage Based on Number of Loans	Dollars of Loans	Percentage Based on Dollars of Loans
Revenues of \$1 Million or Less	80	20	83	250,062	69
Revenues of Greater Than \$1 Million	7	4	17	110,922	31
Revenues Unknown or Not Available	13	0	0	0	0
Total	100	24	100	360,984	100

The bank continues to help finance storefront renovations for small businesses in downtown Red Wing. This has helped with the overall redevelopment of the city’s downtown, which was one of the credit needs identified through our community contacts.

Community Development Loans

The bank made a \$250,000 community development loan since the last Community Reinvestment Act examination. The loan provided temporary financing to the Red Wing Port Authority while it awaited a grant to assist with local small business development projects.

Geographic Distribution of Loans within the Assessment Areas

Not a meaningful analysis since there are no low- or moderate-income geographies in the bank’s assessment areas.

Record of Providing Qualified Investments

The bank made a very strong level of qualified investments since the last Community Reinvestment Act examination. Its qualified investments total \$681,309. This level of investments is especially strong for banks subject to small bank CRA examinations, which do not typically take a bank's investment activities into account.

The significant majority of the bank's qualified investments relate to Convergent Capital Partners I, Inc., which was established during 1999 under the Small Business Administration's Small Business Investment Company (SBIC) program. The bank has a \$666,000 binding commitment to invest in the company and to date has funded \$136,612 of that commitment. The SBIC was established to provide venture capital to businesses located primarily in several Midwestern states including Minnesota and potentially in the bank's assessment areas.

The bank also made qualified investments totaling \$15,309 with three local charitable organizations. The organizations provide various community services including housing, food, and educational programs targeted to low- and moderate-income individuals within the bank's assessment areas.

Record of Providing Services

The bank has provided a very strong level of community development services within its assessment areas. Bank personnel are very involved in the bank's communities. They represent the bank in numerous organizations that promote community development, particularly regarding economic development and housing issues. In addition to this community involvement, the bank's community development services include its offering of low-cost deposit accounts that help make deposit accounts available throughout its communities, regardless of household income.

Bank personnel were involved in 12 different organizations that focus on economic development. Bank personnel serve on the boards of local economic development organizations, including Red Wing 2020, Pierce County Economic Development Corporation, Southeastern Minnesota's Small Business Administration 504 Development Corporation, Lanesboro Economic Development Authority, and Rushford Economic Development Authority. These organizations focus on economic development through working with existing businesses and farms and attracting new businesses and farms to the area.

Bank personnel also work through several organizations that promote economic development by supporting small farms. In the Red Wing assessment area, for example, a bank employee is on the agricultural committee of the Chamber of Commerce, which focuses on education and economic development. He has also made presentations to farmers regarding financial planning and secondary market financing alternatives. In the Lanesboro/Rushford assessment area, two bank employees participate in the Dairy Farm Advisory Team Project, through which they meet with dairy farmers to discuss options to improve the profitability of their operations.

The bank's involvement in housing issues includes working with the local Habitat for Humanity which constructs and finances housing for low-income families, conducting homebuyer workshops geared toward low- and moderate-income homebuyers, and serving on the Lanesboro Housing Authority, which operates 38 units of low-income housing. The bank is particularly involved with the Red Wing Habitat for Humanity. The bank and its personnel review the creditworthiness of applicants and provide counseling to help them qualify for Habitat's program, perform loan servicing for the loans made by the organization, serve as Treasurer, and are involved in long-term planning for the organization. Through this involvement in the Habitat for Humanity and other housing-related activities, the bank helps to address needs mentioned by community contacts in both of the bank's assessment areas.

The bank makes ongoing efforts to help meet the financial services needs of the Prairie Island reservation and its members. An example of the bank's efforts is a monthly presence at the reservation on its monthly Per Capita Payment Day, during which tribal members receive stipends from gaming receipts of the tribe-owned casino. On those days, bank personnel are available to discuss the accounts and services the bank offers. Bank personnel have also met with the tribal council to discuss financial services needs of the tribe and how the bank could address those needs. During 1999, bank personnel attended a three-day conference on Native American economic development and housing opportunities.

The bank offers low-cost deposit accounts, including a checking account with a \$50 opening deposit and no minimum balance or monthly service charges.

Response to CRA Complaints

The bank did not receive any complaints related to the Community Reinvestment Act since the last examination.

Compliance with Antidiscrimination Laws

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

To draw this conclusion, we reviewed the relative qualifications of all denied female applicants and a sample of approved male applicants for used automobile loans from 1999. We determined the applicants had not been treated differently based on gender.