



Small Bank Performance Evaluation

PUBLIC DISCLOSURE

August 18, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Klein National Bank of Madison
Charter # 13561**

**220 6th Avenue
Madison, MN 56526**

Office of the Comptroller of the Currency

**920 Second Ave. S. Suite 800
Minneapolis, MN 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 Community Reinvestment Act (CRA) performance of **The Klein National Bank of Madison** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 7, 1997. 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 **Satisfactory**.

Klein National Bank extends a substantial majority of its loans within its assessment area, given the available lending opportunities. The distribution of borrowers represents good penetration to individuals of different income levels. The bank lends to agricultural and commercial businesses with a broad range of revenue sizes. The bank has a reasonable loan-to-deposit ratio.

The following table indicates the performance level of **The Klein National Bank of Madison** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE KLEIN NATIONAL BANK OF MADISON</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans	No analysis of geographic distribution was conducted at this examination, as all block numbering areas in the bank's assessment area are middle income.		
Response to Complaints	No CRA related complaints were received since the last evaluation.		

DESCRIPTION OF INSTITUTION

The Klein National Bank of Madison (KNB) is a \$54 million bank located in west central Minnesota, ten miles from the South Dakota border. KNB has no branches and operates two automated teller machines, one of which is located at its main office in Madison, Minnesota. The other ATM is housed at a grocery store, also in the town of Madison. The bank's multi-bank holding company, Klein Financial, is located in Chaska, Minnesota. The holding company has total assets in excess of \$700 million and controls 100 percent of the bank.

KNB offers a wide variety of loan and deposit products. The bank is a full service financial center with an onsite insurance agency subsidiary and salesperson offering nondeposit investment products. The lending focus is in agricultural production and real estate comprising 51 percent of the loan portfolio. The remainder of the portfolio includes 27 percent commercial business loans and 22 percent consumer real estate and individual loans. Primary competition includes one state bank, also in the city of Madison, and several banks in surrounding rural towns. There are no legal or financial impediments limiting KNB's ability to meet community credit needs.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area consists of five contiguous Bank Numbering Areas (BNAs) within Lac Qui Parle County and the north-western half of Yellow Medicine County. The assessment area meets the requirements of CRA.

The population of the area is approximately 14,400. The 1990 census median family income of the area is \$38,400. All BNA's within the assessment area are considered middle-income areas. The income profile of families within the assessment area are: 20 percent low-income; 22 percent moderate-income; 27 percent middle-income and 31 percent upper-income. Area demographics may limit loan growth opportunity. The declining area population and current age mix of the community may decrease the need for credit, in general. 50% of the population is under the age of 17 or over the age of 65 and have a traditionally limited need for credit.

The area economy is stable with the main sources of employment provided by farming operations and agricultural related businesses, the health care industry and city and county governments. While unemployment statistics are low, community members remarked that some people are unemployed or underemployed but may not be reported as such. Community contacts also identified a need for new home construction to replace an aging housing stock. Also identified, was a need for housing specifically targeted to empty-nesters and young seniors who want a home-like residence, but who do not want the upkeep of a single family home.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan to Deposit Analysis

The bank's average loan-to-deposit ratio over the last 11 quarters, of 66 percent, is reasonable given the bank's size, financial condition and lending opportunities within its assessment area. Nine banks of varying sizes, in and around KNB's assessment area, have average loan-to deposit ratios ranging from 52 percent to 77 percent from September 30, 1994 to March 31, 1997.

The following table illustrates the average loan-to-deposit ratios from September 30, 1994 to March 31, 1997 for financial institutions operating in the bank's trade area. Total asset figures are from the March 31, 1997 Reports of Condition.

Loan-to-Deposit Ratios for Subject Bank and Comparable Banks			
Name of Bank Location	County	Total Assets (000's)	LTD Ratio**
Prairie State Bank Milan, MN	Chippewa Outside AA*	\$26,595	52%
United Prairie Bank - Madison Madison, MN	Lac Qui Parle	\$27,658	56%
Farmers & Merchants State Bank Appleton, MN	Swift Outside AA*	\$34,186	65%
The Klein National Bank of Madison Madison, MN	Lac Qui Parle	\$53,832	66%
National Bank of Canby Canby, MN	Yellow Medicine Outside AA*	\$60,226	67%
State Bank of Marietta	Lac Qui Parle	\$7,050	70%
Minnwest Bank Ortonville Ortonville, MN	Big Stone	\$47,928	74%
State Bank of Bellingham Bellingham, MN	Lac Qui Parle	\$9,284	74%
Minnwest Bank Dawson	Lac Qui Parle	\$33,469	77%

*AA= Assessment Area **LTD= Average Net Loan-to-Deposit Ratios from 9/94-3/97

Lending Inside the Assessment Area

The Klein National Bank of Madison originates a substantial majority of its loans to borrowers located inside of its assessment area. A bank report revealed that 85 percent of the dollar volume and 82 percent of all loan accounts outstanding were originated to consumers and businesses located within BNA's inside of the bank's assessment area. Bank personnel coded all loan customer locations by BNA. Bank generated data was sampled and verified for accuracy.

Lending opportunities in the bank's assessment area may be limited by the demographics of the assessment area population and competition present in the bank's trade area. The normal borrowing population, those between the ages of 17 and 65, represent only 50% of the declining area population of 14,400. Thus, loan participations with local area banks and out of area affiliated financial institutions become necessary to maintain loan growth. As a result, we see the amount of loans KNB generates inside of its assessment area as exceeding the standards for satisfactory performance in relation to the bank's lending environment.

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

The bank has good lending penetration to individuals with different incomes. In particular, lending penetration to low- and moderate-income borrowers is proportionate to the amount of those individuals represented in the bank's assessment area.

The following table illustrates the income profiles of the bank's loan customers in comparison to the income profiles of the individuals residing in the bank's assessment area. Conclusions were reached by sampling 31 loans, totaling \$976 thousand. This sample represented 31 percent of the dollar volume of the bank's outstanding home purchase residential real estate loan portfolio as of June 30, 1997. Residential real estate products were sampled due to increased housing being identified as a need of the community. All loans sampled were originated since the last CRA evaluation in July 1994, with the majority originated in the last 18 months.

The sample illustrates the bank's good penetration of residential real estate lending among low- and moderate-income individuals. Individuals in these income categories represent 42 percent of the population within the bank's assessment area. The bank has originated 62 percent by number and 46 percent by dollar volume of their home purchase residential real estate loans to low- and moderate-income individuals.

Lending Distribution Based on Borrower Income			
Income Category	Income Profile of Individuals in the Bank's Assessment Area	Income Profile of Bank Borrowers by Number	Income Profile of Bank Borrowers by Dollar Volume
Low Income	20%	23%	17%
Moderate Income	22%	39%	29%
Middle Income	27%	32%	36%
High Income	31%	6%	18%

Agricultural Loans

The bank makes loans to farming operations of varying sizes. Our sample exhibited originations of loans to farm operations with revenues ranging from \$21 thousand to \$302 thousand, annually.

The sample taken of 13 agricultural credits, totaled \$3.5 million, with all loans originated in the last 18 months. The sample represents 24 percent of outstanding agriculture related loans as of June 30, 1997. The sample appears to be a fair representation of the bank's agricultural loan portfolio.

Lending Distribution Based on Revenue Size of Farm Operations		
Annual Revenues	Outstanding Loans by Number	Outstanding Loans by Dollar Volume
\$0-\$150,000	15%	12%
\$150,001-\$250,000	46%	54%
> \$250,000	39%	34%

Business Loans

The bank makes loans to businesses of different sizes with a broad range of revenue volumes. Our sample exhibited originations of commercial loans to businesses with revenue streams ranging from \$44 thousand to \$4 million, annually. KNB makes a comparable number of loans to small businesses in relation to the number of these types of businesses represented in their community. As shown in the table below, 72 percent by number, of business loans were to customers with annual revenues of less than \$500 thousand. This favorably compares to 69 percent of commercial businesses in the bank's assessment area, by number, falling into the small business category, according to 1990 census information.

We sampled 11 loans, totaling \$4.5 million. The sample represents 14 percent of commercial credit balances outstanding as of March 31, 1997, with all loans originated in the last 18 months. This sample appears to be representative of the bank's commercial loan portfolio.

Lending Distribution Based on Revenue Size of Businesses					
Annual Revenues of the Bank's Commercial Loan Customers	Outstanding Loans by Number		Percentage of Businesses in each Revenue Category (based on census information)	Outstanding Loans by Dollar Volume	
Less than \$150,000	36%	72%	69%	15%	44%
\$150,001-\$500,000	36%			29%	
\$500,001-\$1,000,000	0%	28%	13%	0%	56%
Greater than \$1,000,001	28%			56%	
Percentage of Businesses in Assessment that did not Report Sales Volumes			17%		

Community Development Loans

KNB has helped meet the identified community credit need of providing housing for the retired population in transition. The bank was the primary financier for two projects targeted to providing housing to retired persons who wish to remain independent but avoid the upkeep of single-family homes. These projects totaled \$576,800 in financing and provide housing for approximately 45 residents.

Geographic Distribution of Loans

All BNA's in the assessment area are middle income. Therefore, specific analysis of geographic distribution is not meaningful. We note, from observation, that the bank's loans are distributed in proportion to the population and business concentrations within the entire assessment area.

Response to CRA Related Complaints

The bank has not received any complaints since the previous evaluation.

Compliance with Antidiscrimination Laws

The Klein National Bank of Madison is in compliance with applicable antidiscrimination laws and regulations. We found no evidence of apparent disparate treatment during our fair lending review.