



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

October 9, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Olmsted National Bank  
Charter Number: 22997

975-34<sup>th</sup> Avenue NW  
Rochester, MN 55901

Office of the Comptroller of the Currency

Minneapolis Field Office  
920 Second Avenue South, Suite 800  
Minneapolis, MN 55402

**NOTE:** This document is an evaluation of this 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. 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

## **INSTITUTION'S CRA RATING:**

### **This institution is rated Satisfactory.**

- The bank's average loan-to-deposit ratio is more than reasonable.
- The bank originates a majority of its loans by number and dollar within its assessment area.
- The bank has reasonable distribution of credit among commercial borrowers of different sizes.
- The geographic distribution of commercial loans reflects reasonable dispersion throughout the assessment area.

## **SCOPE OF EXAMINATION**

We evaluated Olmsted National Bank Community Reinvestment Act performance under the Lending Test. In evaluating the bank's lending performance we reviewed the lending data for the bank's primary loan product, commercial loans. We reviewed commercial loans for the period January 1, 2005 through September 30, 2007. Commercial loans comprised 66% of loan originations by dollar and 57% of loan originations by number during that timeframe.

## **DESCRIPTION OF INSTITUTION**

Olmsted National Bank (ONB) is a \$68 million financial institution located in south eastern Minnesota. The main location is located in Rochester, Minnesota, a city of approximately 98,650 people. Since the previous CRA exam, ONB relocated their main office within Rochester and converted the former main office into a branch. Both offices are located in middle-income census tracts in Rochester, Minnesota.

ONB is a full service bank owned by Olmsted Holding Company. In addition to the main location and a branch in Rochester, the bank has two cash-only ATMs. One ATM is adjacent to the main location and the other is located at McGoon's Pub & Restaurant/Goonie's Comedy Club in Rochester.

ONB offers telephone and Internet banking services to their customers. These services provide customers with 24-hour access to deposit and loan account information. It also allows customers to make transfers between accounts and make loan payments. Internet banking is offered to both consumer and business customers and includes bill payment services.

ONB offers a variety of loan and deposit products designed to meet the community's needs. As of June 30, 2007, the bank's \$52.2 million loan portfolio consisted of 73% commercial loans, 14% residential real estate loans, 10% consumer loans, and 3% agricultural loans. Net loans made up 76% of total assets. The bank's primary lending focus is commercial loans.

There are no financial, legal or other factors that impede ONB's ability to meet its CRA obligations. The bank's last CRA evaluation was rated Satisfactory on February 28, 2002.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

ONB's assessment area (AA) complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. The bank has one AA, Olmsted County, which consists of 34 census tracts (CTs). Olmsted County is situated in the Rochester Metropolitan Statistical Area (MSA). Based on the 2000 U.S. Census data, the AA includes 5 moderate-income CTs (15%), 18 middle-income CTs (53%), and 10 upper-income CTs (29%). Olmsted County has 1 CT (3%) that does not have a designated income level due to the location of the federal prison and juvenile facility. There are no low-income CTs in the bank's AA. Cities in the AA include: Byron, Chatfield, Dover, Eyota, Oronoco, Pine Island, Rochester, and Stewartville. The bank and its branch are both located in the City of Rochester.

According to 2000 U.S. Census data, the bank's AA has a total population of 124,277. Within this AA, 15% of the families are AA low-income, 18% moderate-income, 27% middle-income and 40% upper-income. Based on the Department of Housing and Urban Development 2007 estimate, the updated median family income for the bank's AA is \$72,600.

According to the Minnesota Department of Employment & Economic Development, unemployment levels in the State of Minnesota in 2006 averaged 4.0%, compared to 3.4% in Olmsted County. The nationwide unemployment rate averaged 4.6% in 2006. The largest employers in the area include Mayo Clinic (medical/hospital) and IBM Corporation (electronics/computers). According to the U.S. Department of Housing and Urban Development, the Mayo Clinic and IBM, together account for nearly 40% of employment in Olmsted County.

Competition among financial institutions in the bank's AA is strong. There are 13 other full-service financial institutions with a presence in the bank's AA. ONB is ranked 8<sup>th</sup> in deposit market share with 2.36% of the market share based on June 30, 2007 deposit information obtained from the Federal Deposit Insurance Corporation. Home Federal Savings Bank, Wells Fargo and U.S. Bank, collectively control over 65% of the deposit market share.

A community contact was used in conjunction with this evaluation. The contact indicated the Rochester area economy is based on health care and technology and that the economy is strong and growing. The main economic development strategy going forward is to protect the economic base as it pertains to health care and technology through recruitment, growth and expansion initiatives. In addition, a new biotechnology partnership between Mayo Clinic and the University of Minnesota is expected to strengthen Rochester's economic future. The contact stated that local financial institutions meet area credit needs and are active in the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition and local credit needs. The bank's quarterly average loan-to-deposit ratio for the past 21 quarters is 112.26%. Similarly situated banks with a presence in the AA are state and nationally chartered banks with total assets between \$25 and \$150 million. Quarterly average loan-to-deposit ratios for similarly situated banks range from 37.54% to 129.32% over the same time frame.

Institution	Assets (as of 6/30/06)	Average Loan-to-Deposit Ratio 2Q02-2Q07
Minnwest Bank Metro	\$50 million	37.54
F&M Community Bank, NA	\$79 million	82.12
First Farmers & Merchants Bank of Grand Meadow	\$27 million	82.54
First Security Bank	\$44 million	89.14
Premier Bank	\$145 million	89.66
<b>Olmsted National Bank</b>	<b>\$68 million</b>	<b>112.26</b>
Minnesota First Credit and Savings, Inc.	\$26 million	129.32

### Lending in Assessment Area

ONB originates a majority of its loans to borrowers located within its defined AA. Based on a random sample of 20 commercial loans originated between January 1, 2005 and September 30, 2007, ONB originated 85% of loans by number and 81% of loans by dollar inside of their defined AA. The following table shows loans originated inside and outside their AA by number and dollar volume:

	Number of Loans				Dollar of Loans			
	Inside		Outside		Inside		Outside	
Loan Type	#	%	#	%	\$	%	#	%
Commercial	17	85%	3	15%	2,776,746	81%	651,839	19%
<b>TOTALS:</b>	<b>17</b>	<b>85%</b>	<b>3</b>	<b>15%</b>	<b>2,776,746</b>	<b>81%</b>	<b>651,839</b>	<b>19%</b>

### Lending to Businesses of Different Sizes

ONB distribution of credit among businesses of different sizes is reasonable compared to community demographics. Commercial borrower's annual gross revenue levels range from a few thousand to well over a million dollars. We did not identify any financial needs within the community that were not being met. A random sample of 60 commercial files indicates the following breakdown of annual revenues compared to community demographics:

<b>Borrower Distribution of Loans to Businesses</b>		
<b>Business Revenues</b>	<b>&lt; \$1,000,000</b>	<b>&gt; \$1,000,000</b>
% of AA Businesses*	66%	5%
% of Bank Loans in AA by #	70%	30%
% of Bank Loans in AA by \$	65%	35%

\*2006 Business Geodemographic Data; 29% of businesses did not report revenues.

## **Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the AA. There are no low-income CT in the bank's AA. The following table reflects the demographics of the area to the bank's actual lending, based on a random sample of 20 commercial loans originated between January 1, 2005 and September 30, 2007:

<b>Geographic Distribution of Loans to Businesses in Assessment Area</b>								
<b>Census Tract Income Level*</b>	<b>Low 0%</b>		<b>Moderate 15%</b>		<b>Middle 53%</b>		<b>Upper 29%</b>	
<b>Loan Type</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>
Commercial	0%	0%	19%	15%	57%	50%	24%	35%

\*2006 Business Geodemographic Data.

## **Responses to Complaints**

ONB has not received any complaints about its performance in helping meet AA credit needs during this evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.