



PUBLIC DISCLOSURE

May 19, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

St James FS & LA
Charter Number 706335

501 1st Ave S
Saint James, MN 56081-1727

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3393

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 Outstanding.

- The institution’s average loan-to-deposit ratio is reasonable.
- The thrift originates a majority of loans within its designated assessment area.
- The institution has an excellent penetration of loans to individuals of different income levels.
- The institution has an excellent penetration of loans to farms of different sizes.

SCOPE OF EXAMINATION

We evaluated St. James Federal Savings and Loan’s (St. James FS & LA) Community Reinvestment Act (CRA) performance using small bank procedures. This performance evaluation covered the review period from September 30, 2008 to May 19, 2014. We assessed the thrift’s lending performance by reviewing primary loan products based on loan originations from January 1, 2012 to December 31, 2013. We determined that agricultural loans and consumer loans were the primary products based on both number and dollar amount of loans. We selected a random sample of 20 loans from each primary product type in order to evaluate lending activities within the assessment area (AA). The following table shows the thrift’s primary products as determined by loan originations and purchases.

Loan Originations and Purchases in 2012 and 2013		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	59.57%	17.18%
Agricultural	19.86%	48.26%
Real Estate	9.21%	16.02%
Commercial	11.37%	18.54%

Source: Thrift loan origination report for 2012 and 2013

DESCRIPTION OF INSTITUTION

St. James FS & LA is a \$29 million mutual thrift with one branch located in St. James, MN. St. James is located in Watonwan County, approximately 40 miles southwest of Mankato, MN. The institution has one non-deposit taking ATM located on-site.

The institution offers traditional banking products and services. As of the March 31, 2014 call report, the loan portfolio totaled \$18.7 million and accounted for approximately 63.49 percent of total assets. Agricultural loans made up \$7.2 million (38.82%) of the loan portfolio, followed by real estate loans at \$6.4 million (34.35%), commercial loans at \$2.7 million (14.69%), and finally consumer loans at \$2.2 million (12.14%).

There are no known financial or legal impediments that would affect St. James FS & LA's ability to meet the credit needs within its communities. The last CRA performance evaluation was conducted as of September 30, 2008 and resulted in an outstanding rating.

DESCRIPTION OF ASSESSMENT AREA(S)

St. James FS & LA identified their AA as all of Watonwan County, a non-Metropolitan Statistical Area county in south-central MN. The AA consists of 12 townships, eight cities, and three middle-income census tracts (CTs). The thrift's AA meets regulatory requirements and does not reflect discrimination. The following table shows demographic information for the Watonwan County AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE WATONWAN COUNTY AA	
Population	
Number of Families	2,837
Number of Households	4,399
% of Low-Income Families	18.33%
% of Moderate-Income Families	19.21%
% of Middle-Income Families	27.6%
% of Upper-Income Families	34.86%
Geographies	
Number of Census Tracts	3
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
Median Family Income (MFI)	
2010 MFI for AA	\$58,153
2013 HUD-Adjusted MFI	\$61,700
Economic Indicators	
2013 Unemployment Rate	5.7%
2010 Median Housing Value	\$90,972
% of Households Below Poverty Level	12.28%

Source: 2010 U.S. Census data with updated information when available

Unemployment levels in Watonwan County are slightly higher than the state average. According to the U.S. Bureau of Labor Statistics, the 2013 annual unemployment rate for Watonwan County was 5.7 percent, while the MN state unemployment rate was 5.1 percent for the same period.

Competition in the market is moderate. There are eight financial institutions with a presence in St. James FS & LA's AA according to the FDIC market share report as of

June 30, 2013. St. James FS & LA ranks seventh out of eight deposit-taking institutions, with approximately \$25 million in deposits representing 7.61 percent of the market share.

The top industries providing employment in Watonwan County are services (36.75%) and agriculture, forestry, and fishing (22.63%). Major employers in the county are Butterfield Foods, ST Industries, Swift-Eckrich, Inc., and School District #840. The population of the AA is 11,211 people per the 2010 U.S. Census.

We contacted a member of the MN Valley Action council, which is active in the AA, to discuss the local economy and credit needs of the community. Our community contact stated that financial institutions have demonstrated willingness to assist low- and moderate-income families and individuals. He noted that many of the area financial institution’s employees are active in the community. He stated that the primary credit needs are helping families stay in their homes, and providing food to children whose families cannot afford to feed them, especially on the weekends when free or reduced lunches from schools are unavailable. Our contact indicated that the economy is stable and the primary industry is the food industry.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan to deposit ratio (LTD) is reasonable given the institution’s size, financial condition and AA’s credit needs. The thrift’s quarterly average LTD ratio is 80.39 percent over the last 22 quarters since the last CRA evaluation. The ratio ranged from a high of 104.74 percent during the fourth quarter of 2008 to a low of 68.10 percent during the first quarter of 2013. The following table shows St. James FS & LA’s LTD ratio compared to similarly situated financial institutions. Similarly situated institutions operate within Watonwan County and have assets ranging from \$32 million to \$65 million.

Loan-to-deposit Ratio Institution (Headquarters)	Assets as of 3/31/14 (\$000s)	Average LTD Ratio (%)
First National Bank at St. James (St. James, MN)	\$32,263	70.48%
Odin State Bank (Odin, MN)	\$41,195	71.43%
Triumph State Bank (Trimont, MN)	\$64,742	71.81%
St. James Federal Savings and Loan (St. James, MN)	\$28,850	80.39%

Source: Call Report data as of March 31, 2014

Lending in Assessment Area

The institution originates a majority of loans within their AA based on the number of loans. A majority of the loans by dollar amount are outside of the AA, which we attributed to several large dollar agricultural loans. The loan sample was randomly selected from loan originations between January 1, 2012 and December 31, 2013. The following table shows loans originated inside and outside of Watonwan County, based on product type.

Lending in Watonwan County										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	19	95.00%	1	5.00%	20	\$156	86.19%	\$25	13.81%	\$181
Agriculture	12	60.00%	8	40.00%	20	\$1,007	31.25%	\$2,215	68.75%	\$3,222
Total	31	77.50%	9	22.50%	40	\$1,163	34.18%	\$2,240	65.82%	\$3,403

Source: Home mortgage, commercial and consumer loan samples.

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

The distribution of consumer loans reflects excellent penetration among individuals of different income levels when compared to the AA’s demographics. The percentage of loans to low-income individuals significantly exceeds the percentage of households that are low-income in the AA. Additionally, the percentage of loans to moderate-income individuals exceeds the percentage of AA households who are moderate-income. The following table compares the institution’s consumer lending activity to demographics within the AA.

2012-2013 Borrower Distribution of Consumer Loans in Watonwan County								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	23.37%	45.00%	18.30%	25.00%	22.57%	15.00%	35.76%	15.00%

Source: Loan Sample; 2010 US Census Data

St. James FS & LA has excellent penetration of lending to farms of different sizes. The percentage of loans to small farms significantly exceeds the performance of the peer group lenders and is near the percentage of AA farms with revenues less than \$1 million in the AA. The following table compares the institution’s business lending activity to the peer group and the AA demographics.

2012-2013 Borrower Distribution of Loans to Farms in Watonwan County				
Farm Revenues (or Sales)	<\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.27%	0.73%	0.00%	100%
Aggregate Lending data	58.16%	41.84%	0.00%	100%
% of Thrift Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Thrift Loans in AA by \$	81.05%	18.95%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet Data 2012-2013

Geographic Distribution of Loans

The geographic distribution of loans did not provide a meaningful analysis as the AA consists entirely of middle-income CTs.

Responses to Complaints

There have been no CRA-related complaints since the previous CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 195.28(c), in determining Federal savings association's (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA's lending performance.

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