



PUBLIC DISCLOSURE

December 31, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Stearns Bank Upsala National Association
Charter Number 23458

105 Main Street
Upsala, MN 56384

Office of the Comptroller of the Currency

222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3371

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.

Factors contributing to this rating include the following:

- The loan-to-deposit ratio is reasonable.
- A substantial majority of loan originations are made inside the bank's assessment area.
- The distribution of loans reflects reasonable penetration among borrowers from different income levels.
- The distribution of loans reflects poor dispersion throughout the different income level census tracts.

SCOPE OF EXAMINATION

We completed an evaluation of Stearns Bank Upsala, National Association's Community Reinvestment Act (CRA) performance from the previous CRA examination as of June 1, 2010 to December 31, 2015. In order to identify the bank's primarily lending products, we reviewed the bank's lending activity from January 1, 2014 to December 31, 2015 (analysis period). We determined consumer loans to be the primary lending product as these loans represented 64 percent by number and 24 percent by dollar volume of loan originations and purchases during the analysis period. We tested a random sample of consumer loans in order to complete our analysis.

DESCRIPTION OF INSTITUTION

Stearns Bank Upsala is a \$75.3 million bank chartered in Upsala, Minnesota (MN). Stearns Bank Upsala has one office location and one, non-deposit taking Automatic Teller Machine (ATM). The bank is wholly-owned by Stearns Financial Services Inc., a three-bank holding company. The holding company is headquartered in St. Cloud, MN and, as of September 30, 2015, had total assets of \$1.92 billion. Affiliate banks are located in St. Cloud and Holdingford, MN. This evaluation does not include consideration of these affiliate activities in evaluating Stearns Upsala's CRA performance.

Stearns Bank Upsala is a full-service bank that offers a variety of banking products designed to meet the needs of the assessment area. As of September 30, 2015, net loans comprised of 72.13 percent of total assets. As of this date, the bank's \$55.2 million loan portfolio consisted of 81 percent commercial, 17 percent real estate, 1 percent agriculture, and 1 percent consumer loans. The bank's investment portfolio, as of September 30, 2015, totaled \$19 million, or 26.16 percent of total assets, and the bank's Tier 1 leverage capital was 12.88 percent.

There are no legal, financial, or other factors that impede Stearns Bank Upsala's ability to help meet the credit needs in the assessment area. At the last CRA examination, dated June 1, 2010, the bank received a Satisfactory rating.

DESCRIPTION OF ASSESSMENT AREA(S)

Stearns Bank Upsala’s assessment area (AA) consists of seven contiguous census tracts (CT) located in Morrison and Todd Counties, which includes one moderate-income CT and six middle-income CTs. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Unemployment levels in Morrison and Todd Counties are higher than statewide averages. According to the U.S. Bureau of Labor Statistics, the average unemployment level in the state of Minnesota during 2014 was 4.10 percent compared to 4.55 percent in Todd County and 6.15 percent in Morrison County. Local employers in Upsala consist mainly of the public school system, trucking, agriculture, and small manufacturing. Many members of the community commute to Little Falls, Long Prairie, and St. Cloud, MN for employment purposes.

Competition amongst financial institutions is moderate within the AA. There are 13 financial institutions within Todd and Morrison Counties. According to the June 30, 2015 FDIC market share report, Stearns Bank Upsala ranked 4th among the 13 banks, with 8.16 percent of deposit market share. See the chart below for demographic and economic information about the bank’s AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE UPSALA AA	
Population	
Number of Families	7,550
Number of Households	11,072
% of Low-Income Families	21.25%
% of Moderate-Income Families	17.01%
% of Middle-Income Families	25.26%
% of Upper-Income Families	36.49%
Geographies	
Number of Census Tracts	7
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	14.29%
% Middle-Income Census Tracts	85.71%
% Upper-Income Census Tracts	0.00%
Median Family Income (MFI)	
2010 MFI for AA	\$57,183
2014 HUD-Adjusted MFI/2015 HUD-Adjusted MFI	\$61,700/63,100
Economic Indicators	
2014 Unemployment Rate	Morrison County 6.15% Todd Country 4.55%
2014 Median Housing Value	\$160,286
% of Households Below Poverty Level	13.89%

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

We contacted a member of the community to gain an understanding of the local community, including area credit needs and involvement of local financial institutions. According to our community contact at the Community Development Center of Morrison County, there are opportunities for financial institutions to provide financing to local businesses for startup and expansion purposes, and, overall, local banks have done a good job lending to their local communities. The contact also noted that, while unemployment levels continue to improve, lower agriculture prices have slowed consumer spending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) is reasonable given the bank’s size, financial condition, and lending opportunities within its AA. The quarterly LTD ratio averaged 68.05 percent in the 22 quarters since the previous examination and ranged from a low of 41.31 percent as of the third quarter of 2013 to a high of 93.67 percent as of the fourth quarter of 2014. There is one similarly situated bank in the Stearns Upsala’s AA. This bank has an asset size of \$37 million and, like Stearns Upsala, has one office location in the AA. As detailed below, Stearns Upsala’s LTD ratio is comparable to that of its similarly situated bank

LOAN-TO-DEPOSIT RATIO		
Institution (Headquarters)	Assets as of 9/30/2015 (\$000s)	Average LTD Ratio (%)
Randall State Bank (Randall, MN)	\$37,332	72.05%
Stearns Bank Upsala NA (Upsala, MN)	\$75,845	68.05%

Source: Call Report Data

Lending in Assessment Area

Stearns Bank Upsala originated a substantial majority of consumer loans inside its AA, exceeding the standard for satisfactory performance. Based on our sample of 20 loans, 18 loans or 90 percent by number and 88 percent by dollar volume were made to individuals within the bank’s AA.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	18	90	2	10	20	\$176.7	88.00%	\$24.6	12.00%	100%
Totals	18	90	2	10	20	\$176.7	88.00%	\$24.6	12.00%	100%

Source: Consumer loan sample

Lending to Borrowers of Different Incomes

Stearns Bank Upsala has reasonable penetration of consumer lending to borrowers of different income levels. While lending to low-income borrowers falls below the AA demographics, AA households below the poverty level is significant at nearly 14 percent, which may make it difficult for these borrowers to qualify for credit. The overall distribution of lending to moderate-income borrowers significantly exceeds the percentage of moderate-income households in the AA.

Borrower Distribution of Consumer Loans in Upsala AA								
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	25.30%	15.63%	14.29%	21.88%	19.58%	31.25%	40.83%	31.35%

Source: Loan Sample; 2010 US Census Data

Geographic Distribution of Loans

Stearns Bank Upsala’s geographic distribution of consumer loans reflects poor dispersion throughout the different income level census tracts. Consumer lending in the one moderate-income CT does not meet the comparable demographics of the AA. However, the bank’s ability to lend in this CT is constrained by a number of factors including a high volume of competing financial institutions concentrated in and around the moderate-income CT; the distance of the moderate-income CT from the bank’s one location; the lack of major highway access between the moderate-income CT and the bank’s location; and the significant poverty rate in the AA.

Borrower Distribution of Consumer Loans in Upsala AA								
Census Tract 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	0.0%	0.0%	23.19%	0.0%	76.81%	100.00%	0.0%	0.0%

Source: Loan Sample; 2010 US Census Data

Responses to Complaints

The bank has not had any CRA-related complaints since the last evaluation.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s CRA rating, the

OCC considers evidence of discriminatory or other illegal credit practices in any geography of the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

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