

PUBLIC DISCLOSURE

April 6, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**State Bank of Young America
19513**

**800 Faxon Road, P.O. Box 97
Norwood Young America, MN 55397**

**Federal Deposit Insurance Corporation
Division of Compliance and Consumer Affairs
2345 Grand Avenue, Suite 1500
Kansas City, MO 64108**

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.

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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 **State Bank of Young America** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **April 6, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The bank's CRA performance is outstanding for the following reasons:

- The average loan-to-deposit ratio reflects a strong responsiveness to community credit needs.
- An analysis of the bank's commercial loan originations in the assessment area revealed a substantial majority of its business loans were to small businesses.
- The Bank originated a substantial majority of its loans in the assessment area.

DESCRIPTION OF INSTITUTION

State Bank of Young America is in Norwood Young America, Minnesota. The bank operates an attached drive-up facility and customers have 24-hour access to an ATM in the bank's front vestibule. As of December 31, 1998, the bank had total assets of approximately \$101 million with gross loans of \$74 million. The bank offers a full line of financial products with its primary business being commercial loans that comprise 46 percent of gross loans. State Bank of Young America is owned by Klein Bancorporation, Inc., a multi-bank holding company based in Chaska, Minnesota.

As part of its relationship with the holding company, the bank as the only approved Small Business Administration (SBA) lender in the group of holding company banks processes all SBA loan requests. State Bank of Young America is a "preferred" SBA lender. Preferred lenders can process directly and approve SBA loans, whereas other lenders must obtain prior approval from the SBA. As of March 31, 1999, 78 SBA loans totaling approximately \$5,053,000 were outstanding. This figure excludes approximately \$15,160,000 sold on the secondary market: The bank typically sells the SBA guaranteed portions. In fiscal 1998, the SBA ranked the bank 15th of 498 for originations in Minnesota.

No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area has a total population of approximately 64,290 and encompasses all of Carver County and portions of McLeod and Sibley Counties. Carver County is in the Minneapolis/St. Paul Metropolitan Statistical Area (MSA) and includes twelve census tracts (901 through 912). According to 1990 census data, all but two of these census tracts are designated as middle-income:¹ Census tracts 905 and 907 are upper-income.

McLeod and Sibley Counties are outside the Minneapolis/St. Paul MSA and are therefore divided into block numbering areas (BNAs) by the Census Bureau. In McLeod County, the assessment area captures BNAs 9506 and 9507. These BNAs are designated as middle-income and encompass the following three cities: Lester Prairie, Plato, and Glencoe. In Sibley County, the assessment area captures BNAs 9701.98 and 9704. Both BNAs are designated as middle-income and include the following four cities: New Auburn, Henderson, Green Isle, and Arlington.

¹ Low-income is defined as less than 50% of the area median income. Moderate-income is defined as at least 50% and less than 80% of the area median income. Middle-income is defined as at least 80% and less than 120% of the area median income. Upper-income is defined as 120% or more of the area median income.

Since 1996, the labor force has grown slightly in Carver and McLeod Counties while the smaller Sibley County has declined. The unemployment rate in Carver County has remained low at approximately 2 percent over the last three years. McLeod and Sibley Counties have been experiencing declining unemployment and are currently at 3 and 5 percent, respectively. The bulk of the employment is in light industry and services. Recently, a larger employer, NordicTrack, closed. The existing businesses absorbed many employees. Besides local employment opportunities many residents commute to the Twin Cities.

The assessment area has a highly competitive financial services market with twenty-one banks in the area. Larger financial institutions from the metropolitan area also compete to serve the financial needs of the assessment area. Besides traditional banks, many alternative financial service providers are available.

To determine principal credit needs within the assessment area and perceptions of area financial institutions, the examiner interviewed a local city official and consulted previous interviews with community members. Those interviewed indicated that area financial institutions are sufficiently active in the community meeting the credit needs. However, the area has experienced rapid growth in light industry creating the need for affordable housing, particularly multi-family and rental housing, to accommodate workers migrating to the area. The City of Norwood Young America's growth is hampered by much of the land around the city being in an agricultural preserve program. The agricultural preserve program prevents the land from being developed while in the program.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-To-Deposit Ratio

Overall, the ratio of loans-to-deposits is exceptional given the institution's size and financial condition, assessment area credit needs, and competitive market forces. The eleven quarter average of 83 percent would be higher if the sold portions of the SBA loans referred to on page 2 were included in the loan totals. The bank's level of lending exceeds other institutions in the assessment area with similar loan product emphasis. The following table provides financial information for State Bank of Young America and other comparable institutions.

FINANCIAL INFORMATION REGARDING SUBJECT BANK AND SIMILARLY-SITUATED INSTITUTIONS								
Bank and Location (Banks are listed alphabetically by city.)	Total Assets as of 12/31/98 (000)	12/31/98 Net LTD Ratio	Average Quarterly Net LTD Ratio since 6/30/96	Loan Mix Percentage				
				Comm'l	Real Estate	Ag	Consumer	Other
<i>State Bank of Young America, Norwood Young America, MN</i>	<i>\$101,145</i>	<i>85%</i>	<i>83%</i>	<i>46%</i>	<i>24%</i>	<i>20%</i>	<i>10%</i>	<i>0%</i>
State Bank of Chanhassen Chanhassen, MN	\$91,534	60%	64%	53%	18%	0%	10%	19%
First National Bank of Chaska Chaska, MN	\$130,699	63%	69%	56%	30%	1%	12%	1%
First Minnesota Bank, National Association Glencoe, MN	\$147,182	54%	53%	46%	22%	12%	13%	7%
Security Bank & Trust Company Glencoe, MN	\$142,083	63%	64%	49%	20%	18%	6%	7%
Security Bank of Waconia Waconia, MN	\$80,902	63%	72%	55%	25%	9%	8%	3%
The First National Bank of Waconia Waconia, MN	\$148,898	71%	75%	50%	33%	4%	11%	2%
Community Bank Winsted Winsted, MN	\$45,089	68%	66%	32%	31%	20%	15%	2%

Lending to Businesses of Different Sizes

The bank has a commendable record of lending to smaller businesses in its community. A substantial majority of its borrowers are small business owners. The bank's performance is similar to the composition of businesses in the assessment area. According to Dun & Bradstreet's July 1998 information, 70 percent of the businesses in the community have gross annual revenues less than \$250,000. The bank's performance is comparable to the community when considering businesses with smaller revenues tend to use consumer lines of credit such as credit cards or home equity loans to finance operating costs or start-up costs of business.

Since the previous evaluation on May 20, 1996, the bank originated 124 loans to sixty-eight borrowers. The loans to all sixty-eight borrowers were analyzed for this criteria. The table below details the results of the analysis.

Gross Annual Revenues (\$000)	# of Loans*	%	\$ Volume of Loans (\$000)	%
\$0-\$99	19	28%	\$821,159	7%
\$100-\$249	15	22%	\$1,594,883	14%
\$250-\$999	19	28%	\$3,520,559	31%
\$1,000+	15	22%	\$5,588,272	48%
Total	68	100%	\$11,524,773	100%

*Based on sixty-eight borrowers, the examiner aggregated loans by borrower.

Lending in the Assessment Area

The bank originates a substantial majority of its loans within the assessment area. Specifically, they made 82 percent of the number and 60 percent of the dollar volume of loans within the assessment area. The lower dollar volume is attributed somewhat to the relationship (detailed on page 2) the bank has with the other holding company banks for SBA loans. The percentages were derived from all types of loans on the loan trial originated since the last evaluation. A total of 3,037 loans originated for \$107 million were included in the analysis for lending in the assessment area.

Geographic Distribution of Loans

The examiners did not evaluate the geographic distribution of loans, since there are no identifiable low- and moderate-income geographies in the assessment area.

Response to Complaints

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

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation.