

PUBLIC DISCLOSURE

May 6, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**United Prairie Bank - Madison
Certificate Number: 10580**

**303 6th Avenue
P.O. Box 96
Madison, Minnesota 56256-0096**

**Federal Deposit Insurance Corporation
2345 Grand Boulevard, Suite 1500
Kansas City, Missouri 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 **United Prairie Bank - Madison (UPB)** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 6, 2002**. 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 Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. Support for this rating is summarized below.

- The institution's average net loan-to-deposit ratio of 70 percent demonstrates a reasonable willingness to lend given the institution's financial condition and size, the external economic factors, and the comparisons to similarly situated lenders.
- Using statistically valid sampling procedures, it was determined that the bank has originated a majority of its agricultural and commercial loans within the bank's designated assessment area. This performance demonstrates a reasonable record of lending within the assessment area.
- UPB is originating loans to farm and business operators of varying size. Lending performance data evidences that a reasonable number and dollar volume of loans were originated to small farm and small business operators.
- Based on a sample of agricultural and commercial loans, it was determined that the bank is lending throughout its assessment area.

DESCRIPTION OF INSTITUTION

UPB is owned by Farmers State Corporation, a multi-bank holding company. The bank's main office is located in Madison, Minnesota, with branches located in Dawson and Boyd, Minnesota. The institution operates one automated teller machine in Dawson, Minnesota. As of the December 31, 2001, Report of Condition, UPB had total assets of \$33,995,000 and total loans of \$22,204,000. As shown in Table 1 on the following page, the primary lending focus of the bank is agricultural and commercial credit. According to a member of the community contacted in conjunction with this evaluation, the lending emphasis of the bank is generally consistent with the credit needs of the communities being served.

According to Report of Condition data, the institution's net loans increased approximately 69 percent from June 30, 1997, to December 31, 2001. This increase is partially attributed to the institution's dollar volume of purchased commercial loans. Management indicated that there is limited commercial credit demand in the rural areas located around its branches. As a result, the bank has engaged in purchasing commercial loans from outside of the area. Purchasing these commercial loans has provided the bank with more diversification, as well as additional income opportunities.

The general loan and deposit products offered by this bank are well suited to the banking needs of the local area. Loan officers are knowledgeable of, and participate in, government guaranteed loan programs sponsored by the Farm Service Agency (FSA), Small Business Administration (SBA), and Minnesota Housing Finance Agency. The bank also offers in-house residential real estate financing along with a selection of secondary market residential real estate housing products available through a special referral arrangement with another lender.

Aside from statutory lending limits, the bank does not have any legal impediments that restrict its ability to meet the credit needs of the assessment area. According to management, the institution's largest competitors are The Klein National Bank of Madison and Farm Credit Services, both located in Madison, and Minnwest Bank Central and Dawson Co-op Credit Union, located in Dawson.

Table 1 – Loan Distribution as of December 31, 2001*

Loan Type	Dollar Amount	Percent of Total Loans
Real estate loans:		
Secured by farmland	\$6,158,000	28%
Secured by first liens (1-4 family)	\$2,012,000	9%
Secured by junior liens (1-4 family)	\$44,000	Nominal
Secured by nonfarm nonresidential	\$3,320,000	15%
<i>Total real estate loans</i>	<i>\$11,534,000</i>	<i>52%</i>
Non-real estate loans:		
Agricultural loans	\$6,362,000	29%
Commercial and industrial loans	\$2,644,000	12%
Other revolving credit plans	\$28,000	Nominal
Other consumer loans	\$1,630,000	7%
All other loans	\$6,000	Nominal
<i>Total non-real estate loans</i>	<i>10,670,000</i>	<i>48%</i>
Total of real estate and non-real estate loans	\$22,204,000	100%

*Source: Report of Condition

DESCRIPTION OF THE ASSESSMENT AREA FOR UNITED PRAIRIE BANK - MADISON

The Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901) as amended requires institutions to identify one or more “assessment areas” within which its regulatory agency will evaluate the institution’s performance. In most cases, an institution’s assessment area will be the towns, counties, or some other political sub-divisions in which its branches are located and a substantial portion of its loans are made. Assessment areas always consist of one or more whole block numbering areas (BNAs) or census tracts (CTs), which are statistical subdivisions of a county. BNAs are generally used in non-metropolitan areas, while CTs are generally used in metropolitan areas.

UPB has designated their assessment area as Lac Qui Parle County, which is located in western Minnesota. The assessment area includes BNAs 9801, 9802, and 9803, and is comprised solely of middle-income geographies.¹ The assessment area extends approximately 33 miles north to south and 36 miles east to west at its widest points. The bank’s main office is located on the southern edge of BNA 9801; the Dawson branch is located along the western edge of BNA 9803; and the Boyd branch is located on the southern edge of BNA 9803.

¹ A BNA’s income level is determined by comparing the 1990 median family income (MFI) for the BNA with the 1990 non-metropolitan MFI for the State of Minnesota, which was \$28,933. The breakdown is as follows: low income – less than 50 percent of the MFI; moderate income – 50 to less than 80 percent of the MFI; middle income – 80 to less than 120 percent of the MFI; upper income – 120 percent or more of the MFI.

According to management and a member of the community contacted during the evaluation, the overall economy for the area is stable. However, the area business economy has slowed over the last couple of years. The number of commercial entities within the area has declined, including many smaller businesses. The assessment area is heavily dependent on agricultural production, namely corn, soybeans, and wheat. Management and a member of the community stated that, over the last couple of years, crop yields and quality have been good; however, commodity prices have been low. In addition, since the last evaluation, large farm operators have been buying out smaller farm operators, and cash rents for agricultural land has substantially increased. These factors appear to have decreased the number of farm operators earning less than \$50,000 annually.

Due to the variables inherent in agricultural production, management indicated that a substantial majority of farm families supplement their income by outside sources. A majority of farm operators rely heavily upon government subsidy programs. In addition, according to the 1997 Census of Agriculture, 25 percent of the farmers in the assessment area do not report their principal occupation as farming.

Dun & Bradstreet data as of July 18, 2001, lists large employers in the area as Madison Lutheran Home Corporation – Lac Qui Parle Clinic, Madison; Dawson Area Hospital District – Johnson Memorial Health, Dawson; Associated Milk Producers Inc.- North Central Region, Dawson; and area school districts. Unemployment information from the Bureau of Labor Statistics for the fourth quarter of 2001 lists the unemployment rate for Lac Qui Parle County at approximately 3.1 percent. The comparable figure for Minnesota is 3.4 percent. The 1990 Census lists the assessment area's population as 8,924, while preliminary 2000 Census lists the total population as 8,067. Management indicated that the decrease in population is primarily due to the lack of new residents moving into the area and the growing age of the existing population base.

Management indicated there is a housing shortage in Madison. Houses available for sale range in price from \$25,000 to \$85,000, with a limited number of homes in the \$50,000 to \$60,000 price range. Management also stated that there is a similar housing market in Dawson.

Based on statements made by a member of the community contacted during this evaluation, area financial institutions have responded to local credit needs in a reasonable manner. No derogatory comments or substantive recommendations for improvement were offered.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Five criteria are utilized in evaluating a bank's effectiveness in meeting the financing needs of consumers, agricultural borrowers, and commercial entities within the assessment area. Four of the criteria relate to lending performance, and one addresses responsiveness to CRA-related complaints. The findings for each criterion are evaluated and result in an overall rating for Community Reinvestment Act performance. Comments supporting the conclusions for each criterion are detailed on the following pages.

I. LOAN-TO-DEPOSIT RATIO

UPB's loan-to-deposit ratio demonstrates a reasonable willingness to lend given the institution's financial condition and size, external economic factors, and comparisons to similarly situated lenders.²

The institution's 19-quarter net loan-to-deposit ratio average from June 30, 1997, to December 31, 2001, is 70 percent. Since the last evaluation, the bank's quarterly net loan-to-deposit ratio has fluctuated between 57 and 80 percent. According to Report of Condition data, net loans increased by approximately 69 percent between June 30, 1997, to December 31, 2001. Total assets and total deposits have increased 22 percent and 25 percent, respectively, over the same timeframe.

Table 2 below displays that UPB's average net loan-to-deposit ratio from June 30, 1997, to December 31, 2001, is comparable to institutions that are similarly situated.

<i>Table 2 – Loan-to-Deposit Ratios for UPB and Other Similarly Situated Institutions</i>		
Institution City, State	Total Assets (12/30/01)	Average Net Loan-to- Deposit Ratio (06/30/97 – 12/31/01)
Farmers and Merchants State Bank Appleton, Minnesota	\$37,877,000	66%
State Bank of Danvers Danvers, Minnesota	\$45,222,000	71%
The Klein National Bank of Madison Madison, Minnesota	\$63,438,000	74%
<i>United Prairie Bank – Madison Madison, Minnesota</i>	<i>\$33,995,000</i>	<i>70%</i>
Prairie State Bank Milan, Minnesota	\$28,415,000	58%

Institutions listed alphabetically by city

II. LENDING WITHIN THE ASSESSMENT AREA

Based on an evaluation of samples of agricultural and commercial loans, it was determined that the bank has originated a majority of loans to farm and business entities operating within the bank's designated assessment area. This performance demonstrates an adequate record of lending within the assessment area. Agricultural and commercial loans were selected, because, as previously mentioned, they represent the major lending emphasis of the bank and account for the majority of loans by dollar volume.

² Similarly situated lenders were chosen based on similarities in the market served, loan portfolio composition, product offering, asset size, and/or number of offices.

A sample of 40 agricultural loans was taken from a universe of 230 loans originated between January 1, 2001, and March 22, 2002. A similar sample of 23 commercial loans was taken from a universe of 46 loans originated during the same timeframe. Statistically valid sampling procedures were used in the selection of loans for each analysis. This timeframe was chosen in order to encompass a normal business cycle, as well as any recent trends.

A review of the sampled loans is provided in Table 3 below. The sampled agricultural loans reflect a reasonable volume of lending within the assessment area, with 75 percent by number and 83 percent by dollar volume located inside the assessment area. A substantial majority of the agricultural loans located outside of the assessment area were originated to farm operators bordering the assessment area.

The analysis of sampled commercial loans reflects that 61 percent by number and 8 percent by dollar volume were located inside the assessment area. All of the sampled loans that were located outside of the assessment area were loans purchased from other lending institutions. The institution's location in a small community provides a limited lending base, particularly for commercial lending. This fact is supported by comments made by a member of the community who, as mentioned previously, indicated that the number of commercial entities within the area has been declining. As a result, the institution has purchased commercial loans from outside the assessment area to become more diversified and to provide additional income opportunities.

As indicated earlier, statements made by a member of the community contacted during this evaluation affirmed that area financial institutions have responded to local credit needs in a satisfactory manner. The number and dollar volume of commercial loans originated outside of the assessment area does not appear to evidence reluctance, on the part of bank management, to address the local credit needs of the assessment area. Based on the above factors, the volume of commercial lending within the assessment area appears reasonable.

The bank's self analysis of all loans originated in 2001 reflected that 87 percent by number and 61 percent by dollar volume were originated in the assessment area. This evidences the institution's overall commitment to address the credit needs within the assessment area.

Table 3 – Lending Within the Assessment Area

Loan Type	Number Sampled	Number in AA	Percent by Number in AA	Dollar Volume Sampled	Dollar Volume in AA	Percent by Dollar in AA
Agricultural	40	30	75%	\$1,860,716	\$1,539,241	83%
Commercial	23	14	61%	\$2,672,992	\$221,628	8%
Bank 2001 Self Analysis	660	577	87%	\$20,174,134	\$12,335,143	61%

AA = assessment area

III. LENDING TO FARMS AND BUSINESSES OF DIFFERENT SIZES

Loans in the aforementioned analysis that were originated to borrowers located within the assessment area were further analyzed to determine UPB's record of lending to farm and business operators of varied size. Annual gross revenues were used as a determinant of size. Revenue and income data were obtained from loan files or from discussions with bank management.

UPB is originating loans to farm and business operators of different sizes. The analysis reveals that a reasonable number and dollar volume of loans were originated to small farm and business operators. In addition, as mentioned previously, the bank offers guaranteed and subordinate loan programs sponsored by FSA and SBA. Specifically, the bank has originated 15 FSA loans since the last evaluation, totaling approximately \$1,800,000. The institution's involvement in these programs reflects their effort to meet the credit needs of smaller farm and business operators.

Agricultural Loans

The analysis of agricultural loans, detailed in Table 4 on the following page, reveals that the bank is reasonably lending to farm operations of different revenue sizes, including small farm operators. The findings reveal 17 percent by number and 3 percent by dollar volume of the sampled agricultural loans originated in the assessment area were extended to farm operators with annual gross revenues below \$50,000. The 1997 Census of Agriculture indicates that 43 percent of the farm operators in the assessment area had gross annual revenues below \$50,000. However, as stated previously, management indicated that since the previous evaluation large farm operators have been buying out smaller farm operators, and cash rents for agricultural land have increased substantially. These factors would appear to have decreased the number of farm operators earning less than \$50,000 since the 1997 Census of Agriculture. In addition, the 1997 Census of Agriculture shows that 25 percent of the farmers in the assessment area do not report their principal occupation as farming. This would also appear to limit the number of farm operators with revenues under \$50,000 that would apply for credit.

The evaluation findings also revealed that 40 percent by number and 27 percent by dollar volume of the sampled agricultural loans that were originated within the bank's assessment area were extended to farm operators with annual gross revenues between \$50,000 and \$100,000. These findings compare reasonably to the 1997 Census of Agriculture, which indicates that 19 percent of the farm operators in the assessment area have similar gross annual revenues.

Annual Gross Revenue	\$0 to \$50M	\$50M to \$100M	\$100M to \$250M	\$250M to \$500M	\$500M and greater
<i>Percentage of Farms by Gross Revenues*</i>	43%	19%	24%	12%	2%
Number of Loans	5	12	7	5	1
Percentage by Number	17%	40%	23%	17%	3%
Dollar Amount of Loans	\$46,537	\$410,662	\$566,327	\$311,700	\$204,015
Percentage by Dollar	3%	27%	37%	20%	13%

*Source: 1997 Census of Agriculture, M = 1,000

Commercial Loans

The analysis of commercial loans, detailed in Table 5 below, reveals that the bank is reasonably lending to business operators of different revenue levels, including small business operators. The findings reveal that 1 loan, which represents 7 percent by number and 1 percent by dollar amount of the 14 sampled commercial loans originated within the bank’s assessment area, was extended to a business operator with an annual gross revenue below \$50,000. The 1999 Dun & Bradstreet data indicates that 22 percent of the business operators in the assessment area have annual gross revenues below \$50,000. The percentage of loans originated to businesses with annual gross revenues below \$50,000 is reasonable, however, because business operations of this revenue size typically do not need, request, or qualify for loans at the same volume as businesses with larger annual gross revenues. In addition, the number of commercial entities in the area, including many smaller businesses, has declined in recent years. This would appear to further limit the number of businesses with gross annual revenues below \$50,000 that would request credit.

The evaluation findings also revealed that 50 percent by number and 52 percent by dollar volume of the sampled commercial loans that were originated within the bank’s assessment area were extended to business operators with annual gross revenues between \$50,000 and \$100,000. These findings compare reasonably to the 1999 Dun & Bradstreet data, which indicates that 35 percent of the business operators in the assessment area have gross annual revenues between \$50,000 and \$100,000.

Annual Gross Revenue	\$0 to \$50M	\$50M to \$100M	\$100M to \$250M	\$250M and greater
<i>Percentage of Businesses by Gross Revenues*</i>	22%	35%	28%	15%
Number of Loans	1	7	4	2
Percentage by Number	7%	50%	29%	14%
Dollar Amount of Loans	\$2,000	\$115,503	\$88,075	\$16,050
Percentage by Dollar	1%	52%	40%	7%

*Source: June 1999 Dun & Bradstreet data, M = 1,000

IV. GEOGRAPHIC DISTRIBUTION OF LOANS

All of the BNAs within the assessment area are considered middle-income geographies. The bank has extended loans throughout its assessment area. As shown by Tables 6 and 7 below, the sampled agricultural and commercial loans evidenced a reasonable amount of lending activity in the three geographies within the bank's assessment area.

Geographic Location	9801	9802	9803
<i>Percentage of Population*</i>	33%	29%	38%
Number of Loans	12	12	6
- Percentage by Number	40%	40%	20%
Dollar amount of Loans	\$892,840	\$432,374	\$214,027
- Percentage by Dollar	58%	28%	14%

**Source: 1990 Census*

Geographic Location	9801	9802	9803
<i>Percentage of Population*</i>	33%	29%	38%
Number of Loans	4	4	6
- Percentage by Number	29%	29%	42%
Dollar amount of Loans	\$34,100	\$84,428	\$103,100
- Percentage by Dollar	15%	38%	47%

**Source: 1990 Census*

V. RESPONSE TO CRA-RELATED COMPLAINTS

The institution has not received any CRA-related complaints since the previous evaluation.

VI. COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS

Examiners did not identify any substantive violations of anti-discrimination laws and regulations during the evaluation.