

# **PUBLIC DISCLOSURE**

**July 8, 2004**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**United Prairie Bank—Jackson  
9350**

**202 Grant Street  
Jackson, Minnesota 56143**

**Federal Deposit Insurance Corporation  
2345 Grand Boulevard, Suite 1200  
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—Jackson, Jackson, Minnesota**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **July 8, 2004**. 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**. A CRA rating of “Satisfactory” is assigned. 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. The following supports this rating:

- The bank’s average quarterly net loan-to-deposit ratio of 75 percent reflects a reasonable responsiveness to community credit needs given the bank’s operating environment.
- The bank has a reasonable level of lending within its assessment area with a majority of its loans extended to borrowers located within the assessment area.
- The lending analysis also shows that the bank has a reasonable record of lending to farms of different revenue levels.
- No substantive violations of the anti-discrimination laws and regulations were identified during this evaluation.
- The bank has not received any CRA-related complaints.

## DESCRIPTION OF INSTITUTION

United Prairie Bank—Jackson operates from its full-service office located in Jackson, Minnesota. The bank primarily serves Jackson County, Minnesota. A total of 7 financial institutions operate within the bank's assessment area.<sup>1</sup> The bank is owned by Farmers State Corporation, a multi-bank holding company. The institution was rated "Satisfactory" at the last CRA evaluation.

As of the March 31, 2004, Report of Condition (Call Report), the bank reported total assets of \$36,062,000, total loans of \$21,279,000, and total deposits of \$31,743,000. Agricultural loans (*Secured by Farmland and Agricultural*) represent \$11,479,000 or 54 percent of the bank's total loans. Agricultural loans have been the bank's primary business focus for several years, and management indicated that it would continue as such.

## DESCRIPTION OF UNITED PRAIRIE BANK—JACKSON'S ASSESSMENT AREA

*The Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901) requires financial institutions to identify one or more assessment areas within which its regulating agency will evaluate the bank's performance. An institution delineates its assessment area to include the geographies in which the bank has its main office, branches, and other deposit taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. Assessment areas must consist of one or more census tracts (CTs), which are subdivisions of a county designated by the United States Bureau of the Census.*

*Each geography (CT) is designated as low-, moderate-, middle-, or upper-income by comparing the 2000 Census Bureau median family income (MFI) of the geography to the appropriate MFI for the area. The applicable figure used to determine the income categories for this institution's assessment area is the 2000 Census Bureau MFI of \$46,023 for the non-metropolitan area of the State of Minnesota.*

Bank officials delineated their assessment area to include the eastern two-thirds of Jackson County, Minnesota. The assessment area is specifically defined to include CTs 9801, 9803, and 9804. All three CTs are considered middle-income. Management indicated that a majority of the bank's customers are located in these CTs. The bank's main office is located in CT 9804. The assessment area has a population of 8,878 according to 2000 U.S. Census Bureau data and includes four communities. According to 1990 U.S. Census Bureau data, the total assessment area population was 9,120, which results in a population decrease of approximately 3 percent from 1990 to 2000. The four communities in the assessment area are Jackson (3,501), Lakefield (1,721), Alpha (126), and Wilder (69).

The assessment area has an agricultural base, and its economy is dependent on agricultural market conditions. As a result, agricultural-related credit continues to be one of the primary

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<sup>1</sup> U.S. Census Bureau Data (2000)

credits needs in the bank's assessment area. Information obtained from a community contact also indicates that agricultural loans are the primary credit need of the area. The contact further indicated that area residents need consumer, commercial, and residential loans as well. *(To better understand the credit needs and current demographic information of local neighborhoods, cities, or counties, confidential community contacts are conducted by all financial institution regulatory agencies.)*

The assessment area's farm economy has been good the last few years, based on conversations with management and a community contact. Agricultural operators in the area mostly engage in row crop and hog feeding operations. There are some small cow-calf operations in the area as well. Hog production is now primarily limited to operations with custom feeding under long-term contracts. The long-term contact arrangements have largely insulated the farmers' profits against market price fluctuations. Grain farmers in the area have seen average or above average yields and reasonable profits throughout the last few years. On a long-term basis, profits generated by this group of farmers continue to get pressured as operating expenses such as fuel and land rent continue increasing at a faster pace than commodity prices. Presently, near-term prospects look favorable for improved farmer profitability as grain commodities are at historically high levels entering the 2004 growing season.

According to the 1997 Agricultural Census data, the trend in the assessment area continues toward fewer, larger farming operations. Between 1992 and 1997 the number of full-time farms in Jackson County decreased 15 percent, while the average farm size increased 2 percent. This trend was also experienced statewide where the number of full-time farms decreased 14 percent, and the average farm size increased 4 percent.

Of the households in the assessment area, 41 percent are considered low- or moderate-income according to 2000 U.S. Census Bureau data. The housing stock of the assessment area has a median value of \$64,373, and 70 percent of the housing units are owner-occupied. Jackson County had a 35 percent decrease in the number of personal bankruptcy filings, while the State of Minnesota had a 10 percent increase in the number of filings and the United States had a 4 percent increase in the number of filings, according to the Administrative Office of the U.S. Courts (Economy.com). The unemployment rate for Jackson County is 4.0 percent, while the unemployment rate for the State of Minnesota is 5.4 percent, and the United States is 6.1 percent according to the Bureau of Labor Statistics (Haver Analytics – May 6, 2004). The unemployment rate for Jackson County compares favorably to the state and nation's unemployment rates. The favorable unemployment rate is attributable to employment opportunities in Jackson and nearby cities including Windom and Worthington, Minnesota, and Spirit Lake, Iowa.

As mentioned earlier, a community contact was utilized to gauge the public's impression of United Prairie Bank—Jackson's lending performance locally and to identify potential community development needs. Overall, the individual was satisfied with the bank's willingness to lend locally. No specific community development opportunities were identified.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

*Examiners reviewed the bank's average quarterly net loan-to-deposit (LTD) ratio in order to evaluate the bank's performance for this criterion. A small bank's net LTD ratio is calculated by dividing the institution's net loans and leases by its total deposits. The bank's net LTD ratio is then averaged for all quarter-ends since the last evaluation. Each small institution's ratio is evaluated and analyzed using performance context, including the bank's capacity to lend, demographic, and economic factors present in the assessment area, and the lending opportunities available in the bank's assessment area. Detailed below is an analysis of this performance criterion for the bank.*

The bank's average net LTD ratio since the last evaluation indicates a reasonable willingness to extend credit. The bank's average net LTD ratio, based on 19 quarter-ends since the last evaluation, is 75 percent and reflects satisfactory performance of reinvesting the bank's deposits as loans.

### **Selection of Loan Product Samples**

The evaluation of the bank's lending performance is based upon the review of sampled agricultural loans that were originated or purchased in the period from December 14, 2003, to June 14, 2004. The sample consisted of 44 agricultural loans totaling \$2,778,000, from a potential universe of 88 loans totaling \$5,989,000. The sample size is based on a 90 percent confidence interval, with a plus or minus 15 percent level of precision. In other words, there is a 90 percent chance that the results from the sample will be within 15 percent of the true population.

### **Assessment Area Concentration**

*Examiners reviewed the bank's assessment area lending concentration in order to evaluate its performance under the CRA small bank criteria. Examiners typically sample loans and complete a comparative analysis that details loans extended inside and outside of the bank's assessment area. Detailed below is an analysis of this performance criterion for this bank.*

Based on the results of the loan review displayed in Table 1, the bank originates a majority of its loans locally and is appropriately extending loan resources within its assessment area. Additionally, the bank conducts an internal assessment area concentration analysis of its entire loan portfolio which revealed that as of February 4, 2004, 87 percent of the bank's loans by number and 77 percent by dollar volume (using the current balance of the outstanding loans) were located in the assessment area. Examiners verified the bank's calculations. Overall, the bank's assessment area concentration reflects reasonable lending performance.

<b>Table 1 – Distribution of Loans Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>					<b>Dollar Volume of Loans</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total (000s)</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	
Agricultural Loans	41	93	3	7	44	2,417	87	361	13	2,778

Source: Examiner Sampling

### **Borrower Profile**

*For this criterion, examiners determine the distribution of loans that the bank originated inside its assessment area by borrower income (residential real estate) or by business gross annual revenues (commercial and agricultural), as applicable.*

The bank achieved an appropriate penetration of loans among farms of different revenue levels, based on gross annual revenues. Examiners used the agricultural loan sample described previously under the heading “Selection of Loan Product Samples” to evaluate the bank’s performance of lending to farms of various sizes. Of the agricultural sample, all of the loans that were located in the assessment area were analyzed.

Gross annual revenue information for each borrower was obtained from bank records or personnel. Examiners categorized each agricultural borrower based on this information. Table 2 shows the results and a comparison to available demographic data from D&B Corporation.

**Table 2 – Distribution of Agricultural Loans by Gross Annual Revenues**

Gross Annual Revenues	Farms in the Assessment Area	Distribution of Agricultural Loans Sampled			
	%	#	%	\$ (000s)	%
< \$100,000	61	27	66	1,003	42
\$100,000 - < \$250,000	34	12	29	954	39
\$250,000 - < \$500,000	4	2	5	460	19
\$500,000 - < \$1,000,000	<1	0	0	0	0
≥ \$1,000,000	1	0	0	0	0
<b>Total</b>	<b>100</b>	<b>41</b>	<b>100</b>	<b>2,417</b>	<b>100</b>

*Source: Examiner Sampling and 2003 D&B Corporation Data. 2 of the 252 farms in the assessment area did not report revenue levels.*

Table 2 indicates that the bank’s agricultural lending compares closely to the D&B Corporation demographic data of the assessment area. All of the sampled loans were extended to farms that grossed less than \$500,000. This comparison reveals that the distribution is reasonable and that the bank is extending credit to farms of varying sizes, especially small operations.

**Geographic Distribution of Lending**

*Examiners analyze the bank’s performance under this criterion to determine if the bank is lending throughout its assessment area including the low- and moderate-income areas or geographies within the assessment area.*

Because the assessment area does not include any low- or moderate-income geographies, review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

**Response to CRA-Related Complaints**

*Examiners are required to review the bank’s response to any substantiated complaints. If the bank receives any written comments from the public relating to its CRA performance, they will be found in its CRA public file along with the bank’s response. Comments and responses for the preceding two calendar years will be maintained in the bank’s CRA public file, except for those comments that reflect adversely on the good name or reputation of any persons other than the bank.*

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

## **Compliance with Anti-Discrimination Laws and Regulations**

*Examiners are required to take into consideration the bank's compliance with fair lending laws when assigning a CRA rating.*

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

## **Community Development Investments and Services**

*Community development investments and services are investments or services made by the bank with the primary purpose of community development. Community development means:*

- 1. Affordable housing (including multi-family rental housing) for low- or moderate-income individuals;*
- 2. Community services targeted to low- or moderate-income individuals;*
- 3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards or have gross annual revenues of \$1 million or less;*  
*or*
- 4. Activities that revitalize or stabilize low- or moderate-income geographies.*

The bank participates in its local community through various types of investments and services. The below listing of services is limited to only those that are considered community development according to the above definition. In other words, the below listed services are primarily undertaken by the bank with the intention to benefit low- and moderate-income individuals or small businesses within the assessment area. These services show that the bank is reinvesting in its local communities.

- The bank participates in a program that provides downpayment or closing cost assistance grants to low- or moderate-income first-time homebuyers.
- President Kent Bargfrede actively participates with the Jackson Development Corporation to promote small business development.