



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 22, 2009**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

American Heritage National Bank  
Charter Number 15037

24 2nd Street South  
Long Prairie, MN 56347-0000

Office of the Comptroller of the Currency

NORTH DAKOTA & NW MINNESOTA (F  
1309 Highway 29 North Suite 102  
Alexandria, MN 56308-0849

**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

An institution in this group has a satisfactory record of helping to meet the credit needs of the assessment area in a manner that is consistent with its resources and capabilities. The bank's performance criteria are satisfactory for both the St. Cloud Metropolitan Statistical Area (MSA) and non-MSA portions of the assessment area (AA).

- American Heritage National Bank's (AHNB) average net loan-to-deposit ratio of 85% demonstrates a reasonable willingness to lend given the bank's financial condition, size, and comparison with other lenders within the assessment area.
- A substantial majority of the bank's loans are made within the AA.
- The bank's record of lending to individuals of different income levels and agriculture and business borrowers of different sizes meets the standard for satisfactory performance.
- The bank's geographic distribution of loans throughout the AA is reasonable when considering demographic information, the location of the bank's offices and competition from other lenders.

## SCOPE OF EXAMINATION

The examination focused on reviewing loans to determine the institution's performance in meeting the credit needs of the assessment area. Specifically, loans were analyzed to determine the amount of lending in the assessment area, the distribution of lending among businesses of different sizes and borrowers of different incomes, and the distribution of lending among different income geographies. The bank's loan-to-deposit performance was also evaluated to help determine the bank's willingness to extend credit.

The period of time addressed in this evaluation is January 1, 2006 through December 31, 2008.

The bank's primary loan types were determined by taking all originated and purchased loans for the period since January 1, 2006 with an outstanding balance on December 31, 2008.

For the purpose of this evaluation, the primary loan types for the MSA portion of the AA are commercial loans. Commercial loans account for 89% of the volume of loans originated and represents 59% of the number of all originations. The following chart depicts loan originations in the MSA portion of the Assessment Area (AA).

Loan Products – MSA	#	%	\$(000's)	%
Agriculture Loans	21	5	2,128	3
Commercial Loans	263	<b>59</b>	54,700	<b>89</b>
Consumer Loans	49	11	623	1
Residential Real Estate Loans	111	25	4,393	7
Total	444	100	61,844	100

The primary loan types by dollar volume in the non-MSA portion of the AA are agriculture loans (41%) and commercial loans (34%). Primary products by number of loan originations are agriculture loans (38%). The following chart depicts loan originations in the non-MSA portion of the AA.

<b>Loan Products – Non MSA</b>	<b>#</b>	<b>%</b>	<b>\$(000's)</b>	<b>%</b>
Agriculture Loans	144	<b>38</b>	4,088	<b>41</b>
Commercial Loans	76	20	3,386	<b>34</b>
Consumer Loans	108	29	460	5
Residential Real Estate Loans	48	13	1,969	20
Total	376	100	9,903	100

Based on further analysis and community contacts made, commercial loans are the primary product of the MSA and consumer and agriculture loans are the primary products of the non-MSA.

To conduct our analysis we performed statistically valid sampling techniques selecting a sample of 20 commercial loans each in the MSA and non-MSA portions of the AA and 20 agriculture loans in the non-MSA portion of the AA. After initial sampling to determine the bank's lending within the AA, additional files were selected so that all loans in the sample were made within the AA. This resulted in a final sample of 40 commercial loans and 20 agriculture loans.

## **DESCRIPTION OF INSTITUTION**

AHNB is a \$209 million financial institution with its main office located in Long Prairie which is located in Todd County in central Minnesota. The bank has a branch office located in Browerville in Todd County and two branches located in St. Cloud in Stearns County. The bank operates cash dispensing automatic teller machines at each St. Cloud branch and at the main bank office in Long Prairie, MN. The bank is family owned, there is no holding company. There have been no acquisitions or mergers since the previous CRA examination.

The bank's loan portfolio is diverse. As of December 31, 2008, the composition of the portfolio is as follows:

<b>Loan Portfolio Composition</b>	<b>\$(000)*</b>	<b>%</b>
Commercial (including Real Estate)	113,434	79.8
Residential Real Estate	11,079	7.8
Agricultural (including Real Estate)	9,229	6.5
Individual	1,350	.9
Construction	6,777	4.8
All Other Loans	149	.1
Obligations of State & Political Subdivisions	95	.1
<b>Total</b>	<b>142,113</b>	<b>100.0</b>

Source: December 31, 2008 Call Report

AHNB offers a variety of financial products and services including checking, savings, and

certificates of deposits and IRA certificate of deposits. In addition to traditional banking services, customers have access to internet and telephone banking, direct deposit and automatic bill pay services.

The bank operates in a competitive market as evidenced by the deposit market share information from the FDIC Summary of Deposits. This information is compiled annually as of June 30 each year. For the three counties comprising the AA, 41 different FDIC-insured banks with 81 banking offices compete for loans and deposits. AHNB ranks fifth in terms of market share representing 4.57% of total deposits.

AHNB also offers a variety of loan products for commercial, residential real estate, consumer and agricultural purposes. Commercial loans include working capital, equipment, commercial real estate loans, and loan programs through the Small Business Administration. Residential real estate loans include mortgages for purchase, construction, refinance or home improvement. Loans for consumer purposes include automobile, recreational vehicle and other personal loans. Agricultural loans include real estate and operating lines. Management stated that the bank's primary lending focus is on commercial lending.

The December 31, 2008 Call Report shows that gross loans represent 68% of total assets. The bank's Tier One Leverage Capital is 9.9% of average assets, or \$20.5 million. There are no legal or financial impediments that would restrict the bank's ability to meet the credit needs of the community. The bank's structure has not changed since the previous examination.

AHNB was rated "Satisfactory" at the last CRA examination dated January 6, 2003.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

AHNB's assessment area includes all of Todd, Benton, and Stearns Counties. The Todd County portion of the AA includes the Long Prairie and Browerville offices. The St. Cloud MSA comprises all of Stearns and Benton counties and includes the two St. Cloud branches. There is one low-income census tract (CT), five moderate-income tracts, thirty-two middle-income tracts and four upper-income tracts in the AA.

The AA meets the requirements of the regulation including only whole CTs that are contiguous. The AA does not arbitrarily exclude low- or moderate-income geographies. Some of the cities in the AA are Long Prairie, Browerville, Staples, Sauk Centre, St. Cloud, Sartell, Saint Joseph, Cold Spring, Sauk Rapids, Rice and Foley.

### ***MSA portion of AA***

CT 212.00 in Benton County is designated moderate-income, the remaining 5 CTs in Benton County are designated middle-income areas. CT 001.00 in the St. Cloud business district in Stearns County is designated as a low-income area and CTs 002.00, 006.01 and 109.00 in Stearns County are designated as moderate-income areas. CTs 004.00, 010.01, 101.00 and 113.04 in Stearns County are designated as upper-income areas. All of the remaining CTs are designated as middle-income areas.

The Stearns and Benton County portions of the AA are largely urban, with an identified need for

business lending. Major employers in the area are St. Cloud Hospital, the State of Minnesota, Electrolux Home Products, and the St. Cloud school district. Population growth is expected to increase when 2010 census data is available.

The demographics of the MSA portion of the AA are illustrated in the table below.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF St. Cloud MSA portion of AA (Stearns and Benton County's)</b>	
<i>Population</i>	
Population	167,392
Number of Families	40,812
Number of Households	60,694
Number of Low-Income Families	6,590
% of Low-Income Families	16.2%
Number of Moderate-Income Families	7,813
% of Moderate-Income Families	19.1%
Number of Middle-Income Families	11,232
% of Middle-Income Families	27.5%
Number of Upper-Income Families	15,177
% of Upper-Income Families	37.2%
% Minority Population	4.70%
<i>Geographies</i>	
Number of Census Tracts	34
% Low-Income Census Tracts	2.94%
% Moderate-Income Census Tracts	11.76%
% Middle-Income Census Tracts	73.54%
% Upper-Income Census Tracts	11.76%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$51,474
2008 HUD-Adjusted MFI	\$64,500
<i>Economic Indicators</i>	
December 2008 Unemployment Rate (Preliminary)	7.0%
Owner-Occupied Housing	68.83%
Median Housing Value	\$101,889
% of Households Below Poverty Level	8.89%

Source: Table is based on 2000 census information with updated information when available.

***Non-MSA portion of AA***

CT 9902 is designated as a moderate-income CT. All of the remaining CTs are designated as middle-income tracts.

The Todd County portion of the AA has an agriculture base but is also supported by several large employers including R R Donelley, Long Prairie Packing Co, Long Prairie Memorial Hospital, Todd County government, Dan's Prize and the local school district. Based on information received from a recent community contact, economic conditions in the City of Long Prairie are declining, noting the need for good employment opportunities.

The demographics of the non-MSA portion of the AA are illustrated in the table below.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF Non-MSA portion of AA (Todd County)</b>	
<i>Population</i>	
Population of Todd County	24,426
Number of Families	6,585
Number of Households	9,363
Number of Low-Income Families	1,470
% of Low-Income Families	22.3%
Number of Moderate-Income Families	1,504
% of Moderate-Income Families	22.8%
Number of Middle-Income Families	1,686
% of Middle-Income Families	25.7%
Number of Upper-Income Families	1,925
% of Upper-Income Families	29.2%
% Minority Population	3.4%
<i>Geographies</i>	
Number of Census Tracts	8
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	12.5%
% Middle-Income Census Tracts	87.5%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$45,925
2008 HUD-Adjusted MFI	\$56,700
<i>Economic Indicators</i>	
December 2008 Unemployment Rate (Preliminary)	8.7%
2008 Owner-Occupied Housing	65.08%
2008 Median Housing Value	\$72,060
% of Households Below Poverty Level	13.7%

Source: Table is based on 2000 census information with updated information when available.

During our evaluation, we contacted a community organization and relied on a recent community contact on file to better understand the primary credit needs of the AA. Based on this information, we determined that agriculture and commercial lending in the Todd County portion of the AA and business lending in the St. Cloud MSA are important credit needs of each of the respective portions of the AA.

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

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

AHNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance given the size, financial condition, assessment area needs, and local economic conditions. Since the last CRA evaluation, the bank's average quarterly LTD ratio is 85%.

A comparison to eight similarly situated banks in the AA shows AHNB is ranked fifth out of the nine banks. These banks have similar asset sizes ranging from \$80 to \$225 million. The quarterly LTD ratios range from 57% to 102%. The following table illustrates the total assets and LTD ratios for these banks.

Institution	Assets 12/31/2008	Average Quarterly LTD Ratio
BankVista	\$89 Million	102.4%
North American State Bank	\$117 Million	97.6%
Plaza Park State Bank	\$141 Million	86.4%
The First National Bank of Cold Spring	\$96 Million	85.8%
<b>American Heritage National Bank</b>	<b>\$209 Million</b>	<b>85.3%</b>
Avon State Bank	\$100 Million	73.2%
First State Bank of St. Joseph	\$120 Million	69.8%
Minnesota National Bank	\$176 Million	67.4%
First State Bank of Sauk Centre	\$88 Million	57.2%

Source: Reports of Condition (December 31, 2002 through December 31, 2008)

### Lending in Assessment Area

AHNB exceeds the standards for satisfactory performance for lending within the assessment area. A substantial majority of loans are originated within the assessment area. The percentage of agriculture and commercial loans reviewed that were originated within the AA was 95% by number and 94% by volume. The following table illustrates lending activity within the AA during the evaluation period.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ in 000's	%	\$ in 000's	%	
Agriculture Loans	20	100.0	0	0	20	591	100.0	0	0	591
Commercial Loans	37	93	3	7	40	4,042	93	290	7	4,332
Totals	57	95	3	5	60	4,633	94	290	6	4,923

Source: Loan sample

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

Lending to borrowers of different incomes and to businesses and farms of different sizes meets the standard for satisfactory performance.

St. Cloud MSA portion of AA:

Based on our sample of commercial loans, AHNB's record of lending to borrowers of different incomes and borrowers of different sizes is satisfactory. Lending to businesses with revenues

under \$1 million is similar to the demographics of the AA. The following table illustrates that only 50% of the number of loans made in the AA is slightly less than the AA demographics where 59% of the businesses have annual revenues of less than \$1 million. However, 81% of the volume of loans exceeds the AA demographics.

<b>Borrower Distribution of Loans to Businesses in the St. Cloud MSA portion of AA (Stearns and Benton County's)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	59%	5%	36%	100%
% of Bank Loans in AA by #	50%	50%	0%	100%
% of Bank Loans in AA by \$	81%	19%	0%	100%

Source: Loan sample, 2000 U. S. Census Data

Non-MSA portion of AA:

Based on our sample of agriculture and commercial loans, AHNB’s record of lending to borrower’s of different incomes and borrower’s of different sizes exceeds the demographics of the AA.

*Agriculture loans:*

AHNB’s lending to farms with revenues under \$1 million exceeds the demographics of the AA. The following chart illustrates that all of the sampled loans were to farms with revenues under \$1 million where 99% of the farms in the AA have annual revenues of less than \$1 million.

<b>Borrower Distribution of Loans to Farms in the Non-MSA portion of AA (Todd County)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	99%	1%	0%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample, 2000 U. S. Census Data

*Commercial loans*

AHNB’s lending to businesses with revenues under \$1 million exceeds the demographics of the AA. The following chart illustrates that all of the sampled loans by number and 82% by volume were to businesses with revenues under \$1 million. The demographics of the AA are that 47% of the businesses have revenues under \$1 million.

<b>Borrower Distribution of Loans to Businesses in Non-MSA portion of AA (Todd County)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	47%	2%	51%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	82%	18%	0%	100%

Source: Loan sample, 2000 U. S. Census Data



## Geographic Distribution of Loans

The geographic distribution of loans throughout the AA meets the standard for satisfactory performance. The sampled agriculture and commercial loans were further analyzed to determine whether the lending institution’s lending activity is reasonably dispersed throughout the AA. As evidenced by the following analysis, AHNB’s geographic distribution is reasonable given the demographic information, the location of the bank’s offices and competition with other lenders.

St. Cloud MSA portion of AA:

A substantial number of commercial loans were generated in the moderate-income census tracts. The following table shows that 30% of the number of loans in our sample originated in the moderate-income census tracts compared to only 10% of the businesses in the AA.

<b>Geographic Distribution of Loans to Businesses/Farms in the St. Cloud MSA portion of AA (Stearns and Benton County’s)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial loans	4%	0	10%	30%	70%	50%	16%	20%

Source: Loan sample, 2000 U. S. Census Data

Non-MSA portion of AA:

AHNB has no agriculture or business loans in the moderate-income CT of the AA. This is considered reasonable considering the moderate-income CT is at the far end of the AA and financial institutions in the immediate area of the moderate-income geography serve this census tract. The following tables demonstrate that all of the agriculture and commercial lending was generated in the middle-income geographies.

<b>Geographic Distribution of Loans to Farms in Non-MSA portion of AA (Todd County)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agriculture loans	0%	0%	13%	0%	87%	100%	0%	0%
Commercial loans	0%	0%	10%	0%	90%	100%	0%	0%

Source: Loan sample, 2000 U. S. Census Data

## Responses to Complaints

AHNB has received no CRA-related complaints during the assessment period.

### **Fair Lending or Other Illegal Credit Practices Review**

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