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Comptroller of the Currency  
Administrator of National Banks

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Small  
Bank

## **PUBLIC DISCLOSURE**

October 13, 1998

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First Minnesota Bank, National Association  
Charter Number 2571**

**606 East 11th Street  
Glencoe, Minnesota 55336**

**Comptroller of the Currency  
Minneapolis North Field Office  
920 Second Avenue South, Suite 800  
Minneapolis, Minnesota 55402**

**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.**

## 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 **First Minnesota Bank, National Association**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of October 13, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C. F. R. Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory. Consistent with its resources and capabilities, First Minnesota Bank, National Association is meeting the credit needs of its assessment area in a reasonable manner. This is demonstrated by the following:

- A reasonable loan-to-deposit ratio.
- Number and dollar volume of loans granted within the designated assessment area.
- Dollar volume of loans granted to small businesses and small farms as defined by the CRA regulation.
- The variety of products and services offered by the bank.

## DESCRIPTION OF INSTITUTION

First Minnesota Bank, National Association (FMB) has its main headquarters in Glencoe, Minnesota. It is a subsidiary of McLeod Bancshares, Inc., the bank's holding company.

The bank has six locations. The main bank and drive-up facility are located in Glencoe, with branch and drive-up facilities at Hutchinson, Mayer, Minnetonka, Stewart (walk-up facility), and a Loan Production Office (LPO) in Monticello. Automatic teller machines (ATMs) are located at the Glencoe, Hutchinson, Mayer, and Minnetonka locations. Extended hours are offered at drive-up facilities to meet the banking needs of the people working and conducting business in the area. FMB's primary focus is to serve commercial, agriculture, and consumer customers in the designated assessment area. FMB meets these needs by providing a wide variety of loan and deposit products, as well as financial services.

As of June 30, 1998, FMB's total assets equaled \$133,673,000. Outstanding loans totaled \$61,527,000 and were comprised of \$26,136,000 in real estate loans (42%), \$19,685,000 in commercial loans (32%), \$9,112,000 in individual loans (15%), and \$6,213,000 in other loans (11%). In addition to the loans originated directly by FMB, the mortgage department originates long-term mortgage loans through secondary market investors. Through 1997 and 1998, the bank closed over \$4,000,000 in mortgage loans on the secondary market.

Other types of credit offered include SBA loans, FSA loans, credit card loans, home improvement loans, home equity loans, and home equity lines of credit. FMB also works with local development corporations and housing authorities to meet various community credit needs.

Efforts specifically targeting low-and moderate-income individuals include granting home improvement loans through the Minnesota Housing Finance Agency. These loans are included in the analysis of the bank's real estate lending and are reported on its Home Mortgage Disclosure Act Loan Application Register. The bank also participated in local municipal bonds, which provide for construction and rehabilitation of affordable housing in the Glencoe area.

The Glencoe office has been proactive for years in providing support to the Hispanic community. The bank has extended hours to meet the seasonal employees' needs of the Seneca Foods Corporation, of which a high percentage of employees are of Hispanic origin. Other services which target the Hispanic community include radio advertisements in Spanish, loan documents in Spanish, and a Spanish speaking employee.

Community officials contacted by examiners stated the stable local economy results from the diversified employment base. The concentration of middle- and high-income households creates a strong market for residential real estate. As such, the contacts report a shortage of affordable housing.

**DESCRIPTION OF THE ASSESSMENT AREA:**

The assessment area adopted by FMB’s board of directors meets the requirements of the regulation. It does not arbitrarily exclude any low-or moderate-income geographies. The assessment area includes the geographies in which the bank has its main office, branches, and ATMs. The assessment area is described in more detail below.

**First Minnesota Bank Assessment Area**

The assessment area includes the Carver, Hennepin, Sherburne, and Wright counties, which are in Metropolitan Statistical Area #5120 (MSA), and McLeod County, which is adjacent to the MSA. The Glencoe, Hutchinson, and Stewart facilities are located in McLeod County. The Mayer branch is located in Carver County and the Minnetonka branch is located southwest of Minneapolis in Hennepin County. A Loan Production Office (LPO) in Monticello, which opened June 1998, is located in Wright County.

FMB’s assessment area consists of 334 census tracts. Based on 1990 census data, 37 tracts are low-income, 52 are moderate-income, 163 are middle-income, 80 are upper-income, and 2 are reported as not applicable. McLeod, Carver, and Sherburne counties have no low- or moderate-income tracts. Wright County has no low-income tracts but 6 moderate-income tracts. Hennepin County contains all 37 low-income tracts and 46 of the 52 moderate-income tracts.

United States Census Bureau information as of 1990 reflects a total population of 1,223,031 in the assessment area. The area contains 514,740 housing units with 317,669 or 62% owner-occupied. Additionally, there are 309,968 families and 484,107 households in the area. The area employment is diversified, including a variety of manufacturing and service industries. Eighty-two percent of the households derive their income from wages or salaries. Per the 1990 census, the households and families are divided among the following income categories:

<b>Income Categories within the Assessment Area</b>				
Description	Low-income (< 50% of Median)	Moderate-income (50-80% of Median)	Middle-income (80-120% of Median)	Upper-income (>120% of Median)
% of Families	16.97%	18.26%	26.40%	38.37%

The 1998 MSA median family income is \$60,800. In 1997, it was \$57,300. The 1998 median family income for non-MSAs in the State of Minnesota is \$40,500. In 1997, it was \$38,400.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

FMB's loan distribution reflects a good penetration of loans originated to low- and moderate-income borrowers and a \_\_\_\_\_ penetration of loans to businesses of various revenue sizes within the assessment area. The following table relied upon income data collected from 60 residential real estate loans reported on Home Mortgage Disclosure Act - Loan Application Register (HMDA-LAR) and originated between January 1, 1998 and September 30, 1998. Examiners verified the accuracy of the 1998 HMDA-LAR and found the data to be reliable. The number of loans to each income category compares well to the distribution of families by income level illustrated on page four of this evaluation.

<b>Percentage of Loans to Different Income Levels</b>				
Description	% to Low-income Borrowers	% to Moderate-income Borrowers	% to Middle-income Borrowers	% to Upper-income Borrowers
Number of Loans (60)	18.34%	20.00%	33.33%	28.33%
Dollars of Loans (\$2,461,000)	11.05%	11.54%	34.26%	43.15%

The level of lending to small farm and small businesses was calculated as of September 30, 1998. A sample of 8 commercial loans and 16 agriculture loans reflect that 96??????% of those loans were made to small businesses and farms with annual gross revenues of less than \$500,000. This compares favorably to demographic information as of 1997 which reflects that 64% of the businesses in the bank's assessment area reported gross annual revenues of less than \$500,000.

### Geographic Distribution of Loans

Since the bank does not perform a geographic distribution analysis of originated loans, a sample was taken from HMDA-LARs for 1996, 1997, 1998 through September 30, 1998. This sample comprised 33 loans originated within the bank's assessment area that were coded with a census tract number. The distribution of the 33 loans reflects a weak penetration to low- and moderate-income tracts, but a good penetration to the middle- and upper-income tracts. The results of this analysis are further depicted in the following table.

<b>Distribution of Loans by Census Tract Characteristic</b>				
Description	Percentage of Total Tracts	Percentage and Number of Loans by Census Tract	Percentage of Census Tracts Penetrated	Percentage of Population in Tracts
Low-income Tracts (37)	11.08%	0.00% (0 loans)	0.00%	5.17%
Moderate-income Tracts (52)	15.57%	3.03% (1 loans)	1.92% (1 of 52)	11.53%
Middle-income Tracts (163)	48.80%	57.58% (19 loans)	9.82% (16 of 163)	54.90%
Upper-income Tracts (80)	23.95%	39.39% (13 loans)	13.75% (11 of 80)	28.40%
N/A (2 Tracts)	.60%	N/A	N/A	N/A
Total Tracts (334)	100.00%	100.00%	8.38%	100.00%

There are several reasons for the lack of penetration to low- and moderate-income tracts in the Minneapolis area. A majority of the bank's loans, particularly consumer real estate loans, have been from the Glencoe and Hutchinson locations. These were the main bank locations for First National Bank of Glencoe and First Bank of Minnesota, respectively, before the two banks were merged October 1995 to form FMB. These locations are in McLeod County, which does not have any low- and moderate-income tracts. The two locations in the Minneapolis area (Monticello LPO and the Minnetonka branch) are understaffed and not yet in permanent facilities. Plans to construct permanent buildings are underway. Once these branches are better established within their communities, management will more formally develop strategies to penetrate low- and moderate-income census tracts in Hennepin and Wright Counties.

Management's commitment to meeting the lending needs of their communities was further demonstrated in September 1998, with the implementation of a mortgage loan division at the Minnetonka branch. Management stated the mortgage division will help to better meet not only the housing needs in the area, but allow them to better reach the housing needs in low- and moderate-income geographies in the Minneapolis area.

### **Lending in the Assessment Area**

The majority of credit originated by FMB is within its designated assessment area. An analysis of a random sample of 10 commercial and 20 agriculture loans and the 81 residential real estate loans from the 1998 HMDA-LAR noted the following results. No residential real estate loans from

1996 or 1997 were included in this analysis because the bank elected not to report the property location for loans originated outside the MSA during this time period.

<b>Number and Dollar Volume of Loans Inside Assessment Area</b>				
<b>Loan Product</b>	<b>% of Loans by Number Inside Assessment Area</b>	<b>% of Loans by Number Outside Assessment Area</b>	<b>% of Loans by Dollar Inside Area</b>	<b>% of Loans by Dollar Outside Area</b>
Residential Real Estate	74.07%	25.93%	79.62%	20.38%
Commercial	80.00%	20.00%	70.36%	29.64%
Agriculture	90.00%	10.00%	88.73%	11.27%

**Loan-to-Deposit Ratio**

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the credit needs of the assessment area. FMB's average quarterly loan-to-deposit ratio from March 31, 1996 through June 30, 1998 was 54%. The ratio as of June 30, 1998 was 50.6%. This represents the low ratio for the ten quarter period reviewed.

FMB's ratio compares reasonably to the average loan-to-deposit ratio for the 30 community banks chartered in the bank's 5 county assessment area with assets greater than \$60 million but less than \$250 million. The average quarterly ratio of this group for the 10 quarter period reviewed was 80.7%. The lowest average quarterly ratio was 47.9% and the highest was 342%.

**Response to Complaints**

No complaints concerning the Community Reinvestment Act have been received.

**Fair Lending Matters**

No practices were noted which were intended to discourage types of credit offered. Management solicits credit applications from all segments of the community, including low- and moderate-income neighborhoods. National bank examiners reviewed the loan terms of home improvement loans originated between January 1, 1998 and September 30, 1998 and revealed substantial compliance with the provisions of the antidiscrimination laws and regulations. The Board and management have developed adequate policies, procedures, and training programs to prevent discriminatory or other illegal credit practices.