



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 10, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Waconia
Charter Number 11410

53 West Main Street
Waconia, Minnesota 55387

Office of the Comptroller of the Currency

Minneapolis Duty Station
920 Second Ave. South, Suite 800
Minneapolis, MN 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 National Bank of Waconia prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of January 10, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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

The bank has a good record of lending to individuals of different income levels and businesses of different sizes. The bank is active in funding community development projects targeted for low- and moderate-income individuals. The bank's loan-to-deposit ratio is reasonable, with a substantial majority of loans originated within the bank's assessment area.

The following table indicates the performance level of First National Bank of Waconia with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Waconia</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received		

DESCRIPTION OF INSTITUTION

The First National Bank of Waconia is a \$126 million bank which operates a main office in Waconia, Minnesota and two branches in the neighboring Minnesota communities of Cologne and St. Bonifacius. The bank also serves its customers with three ATMs. The bank is owned by Klein Bancorporation, Inc. an eight-bank holding company. The bank offers traditional banking services and lending products, with a concentration in residential and commercial real estate loans. The bank's loan portfolio mix is as follows: residential real estate 33 percent; commercial real estate 30 percent; commercial 16 percent; agriculture 5 percent; and loans to individuals 16 percent.

There are no financial or legal impediments limiting the bank's ability to help meet the credit needs of its assessment area. The bank was rated .Outstanding. at our prior CRA performance review dated December 20, 1993.

DESCRIPTION OF FIRST NATIONAL BANK OF WACONIA'S ASSESSMENT AREA

The bank's assessment area is located in the southwestern portion of the Minneapolis/St. Paul Metropolitan Statistical Area (MSA). The area includes Carver and Scott Counties in their entirety, and the southwestern half of Hennepin County. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Based on 1990 Census data, the population of the assessment area is approximately 320,297. The assessment area contains 77 census tracts of which one is designated as moderate-income, the remaining middle- or upper-income. The Department of Housing and Urban Development's 1995 MSA Median Family Income for the Minneapolis/St. Paul MSA is \$54,600.

Common credit needs throughout the assessment area consist of loans to small businesses and instalment and residential loans to consumers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's average quarterly loan-to-deposit ratio of 76.6 percent during the last two years is reasonable given the bank's size, financial condition, and lending opportunities in the assessment area. In addition to loans originated and held by the bank, the bank has originated and sold approximately \$26.8 million of residential real estate loans during the period January 1, 1994 through September 30, 1996. The bank is in the 67th percentile in net loans to deposits when compared to its national peers. Average loan-to-deposit ratios for banks with total assets of less than \$150 million and located in Hennepin, Carver and Scott Counties ranged from 46 percent to 101 percent on September 30, 1996.

Lending in Assessment Area

The bank originates a substantial majority of its loans to borrowers located inside its assessment area. We reviewed the bank's internal analysis of credit extensions and verified it for accuracy. A listing of all outstanding loans as of December 13, 1996, totaling \$86.2 million, revealed that 76 percent of the bank's loans (by dollar volume) were extended to borrowers located inside the bank's assessment area. Since January 1, 1994, approximately 77 percent of loan originations (by number) were made to borrowers located inside the bank's assessment area.

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

The bank has a good record of lending to individuals of different income levels and businesses of different sizes. In addition, the loan portfolio is well balanced in relation to the demographics of the assessment area, and reflects that the bank is meeting the identified housing and small business needs of community members.

Home Mortgage Disclosure Act data from 1994, 1995, and the first nine months of 1996 shows that the bank originated 389 real estate loans totaling \$25.7 million. Approximately 43.2 percent of these loans (by number) were made to individuals with low- or moderate-income. This compares to 25.8 percent of the assessment area's population that is low- or moderate income.

The following chart depicts the number and dollar percent of those loans by income category of borrowers compared to income level of families located in the bank's assessment area:

Income Category	Families within each Category	Real Estate Loans by Number	Real Estate Loans by Dollar
Low	10.5%	16.2%	12.0%
Moderate	15.3%	27.0%	21.7%
Middle	25.6%	32.6%	35.7%
Upper	48.6%	24.2%	30.6%

The bank funded the development of several housing related projects totaling \$2.4 million that were targeted for individuals with low or moderate incomes. These include the following: three residential lot developments; a 30-unit senior housing development; a 51-bed skilled nursing facility; an assisted living facility; and a group home and sheltered workshop.

The bank has a reasonable distribution of loans to businesses of different revenue size. We sampled 123 commercial and commercial real estate borrowers, which is 50 percent of the total number these loans. As can be seen from the table below, the sample shows that 46 percent of commercial and commercial real estate loans (by number) were to borrowers with annual revenues of less than \$1 million.

Annual Revenues	Commercial Borrowers
Less than \$250,000	18%
\$250,000-\$500,000	14%
\$500,000-\$1,000,000	14%
Greater than \$1,000,000	54%

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and in moderate-income neighborhoods. The bank has originated a reasonable number of loans in census tracts of all income levels, including the one moderate-income census tract. The bank has outstanding loans in approximately 90 percent of census tracts in the bank's assessment area.

Record of Compliance with Antidiscrimination Laws

The bank complies with all applicable antidiscrimination laws and regulations. We found no evidence of apparent disparate treatment during our fair lending review.