



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Hudson
Charter Number 95**

**1835 Radio Drive
Woodbury, MN 55125**

**Comptroller of the Currency
Minneapolis South Field Office
1310 West Clairemont Avenue Suite 100
Eau Claire, WI 54702**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory. We based the conclusions evenly on home purchase loans, home improvement loans, home mortgage refinance loans, and business loans using the bank's outstanding loan portfolio and information provided by management regarding volumes of loan originations. The overall CRA rating is supported by the following:

- The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in the bank's assessment area.
- The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of Hudson (FNB), is a \$300 million interstate bank chartered in Woodbury, Minnesota. FNB is owned by Charter 95 Corporation, a one-bank holding company located in St. Paul, Minnesota.

In addition to the bank's Woodbury office, it has seven full-service branch offices - two in Hudson, Wisconsin, and one each in Baldwin, Hammond, and Ellsworth, Wisconsin and North Branch and Stacy, Minnesota. In addition to these full-service offices, the bank operates a limited-service branch office at a nursing home in Hudson. While the bank is legally headquartered in Woodbury, it conducts the majority of its operations out of its downtown Hudson office. The bank also operates three automated teller machines (ATMs) in Hudson and one ATM each in Woodbury, Ellsworth, Hammond, North Branch, and Stacy. Only the ATM at FNB's downtown Hudson office accepts deposits.

FNB increased in size and scope of operation when it merged with Merchants State Bank of North Branch during July 1999. The two banks had already been affiliated through common ownership. Through the merger, FNB's operations expanded from the eastern portion of the Minneapolis-St. Paul, Minnesota-Wisconsin Metropolitan Statistical Area (MSA) into the northern portion of that MSA. The former Merchants State Bank locations that FNB acquired are its North Branch and Stacy branch offices.

FNB is a full-service bank and offers a wide variety of banking products. The following table shows a recent distribution of the bank's lending portfolio, which largely consists of residential

real estate and commercial loans.

LOAN PORTFOLIO COMPOSITION ON SEPTEMBER 30, 2001	\$ (000)	%
Residential Real Estate	107,499	51
Commercial and Commercial Real Estate	74,619	35
Individual	19,492	9
Agricultural	4,994	2
Other	6,110	3
Total	212,714	100

As of year-end 2001, loans represented 73 percent of FNB's total assets. FNB's Tier I Capital was \$24.3 million. There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its assessment area. The prior Community Reinvestment Act examination of the bank was conducted as of October 9, 1997 and the rating was Satisfactory.

DESCRIPTION OF FNB'S ASSESSMENT AREA

FNB's assessment area consists of the five whole counties of Pierce and St. Croix in Wisconsin and Washington, Chisago, and Isanti in Minnesota. The five counties are all part of the thirteen-county Minneapolis-St. Paul, Minnesota-Wisconsin MSA and comprise the northern and eastern portions of that MSA. The assessment area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

The economy of the area is strong and diverse. The Minneapolis-St. Paul MSA is the fifteenth largest metropolitan area in the United States. It is a center for high-tech electronics, medical instruments, health care, finance, insurance, entertainment and the arts, printing and publishing, as well as the processing and transportation of agricultural products. The area is home to seventeen Fortune 500 companies and several of the world's largest private companies. The portions of the assessment area that comprise the outer areas of the Minneapolis-St. Paul MSA are more rural and agricultural-based, but are experiencing change as the population in the MSA grows and seeks more affordable real estate.

The strong economy, significant population growth, and generally favorably interest rate environment have driven up home prices dramatically throughout the assessment area. The median home price increased almost 10% during 2001. There is a limited supply of affordable housing in some portions of the assessment area.

Bank competition in the assessment area is strong. There are approximately 50 financial institutions with offices in the assessment area. Of those financial institutions, FNB had the second highest volume of deposits and a 6.7% deposit market share. The competition includes offices of large nation-wide and regional banking companies, smaller, locally owned financial institutions, and mortgage companies.

We contacted one person who works with business development within the Hudson area. We also reviewed recent contacts made with people who work in housing and with small businesses in different parts of FNB's assessment area. The contacts mentioned the strong housing market

and increasing housing prices. They said that with the strong market, there has been strong demand for home loans and that area financial institutions are meeting that demand.

The following table shows demographic information on FNB's assessment area. The information is based largely on information from the 1990 census.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Persons	285,354
Number of Households	97,212
Number of Families	75,898
Number / Percent of Low-Income Families	12,156 / 16.02
Number / Percent of Moderate-Income Families	14,705 / 19.37
Number / Percent of Middle-Income Families	21,604 / 28.46
Number / Percent of Upper-Income Families	27,433 / 36.14
<i>Geographies</i>	
Number of Census Tracts	66
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	19.70
% Middle-Income Census Tracts	57.57
% Upper-Income Census Tracts	19.70
% Census Tracts with No Income Designation	3.03
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	43,063
2001 HUD-Adjusted MFI	74,700
<i>Economic Indicators</i>	
Unemployment Rate	2.45
January 2002 Median Housing Sales Price	\$175,000
% of Owner-Occupied Housing	76.06
% of Households Below Poverty Level	6.50

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio since the last examination was 84.04%. Based on this ratio, the bank ranked second compared to five other banks. FNB and the five banks used for comparison are the largest banks headquartered within FNB's assessment area.

INSTITUTION	ASSETS (as of December 31, 2001)	Average LTD Ratio
Central Bank, Stillwater, Minnesota	184,974	89.45
<i>The First National Bank of Hudson, Woodbury, Minnesota</i>	<i>301,826</i>	<i>84.04</i>
Lake Elmo Bank, Lake Elmo, Minnesota	211,114	83.22
Peoples Bank of Commerce, Cambridge, Minnesota	190,546	79.27
S & C Bank, New Richmond, Wisconsin	285,597	78.24
First National Bank of River Falls, River Falls, Wisconsin	216,534	72.25

Lending in Assessment Area

The majority of the bank's loans and other lending-related activities are in the assessment area. Of the 80 loans sampled, 81% by number and 83.68% by dollar were made within FNB's assessment area. Due to the different information systems available for the bank's home mortgage loans and business loans, the loans sampled for this performance evaluation were originated and purchased over different timeframes. The home mortgage loans sampled were originated or purchased during 2000 and 2001 and the business loans sample were originated or purchased between the last CRA examination in October 1997 and year-end 2001.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Purchase	14	70.00	2,083	77.38	6	30.00	609	22.62
Home Improvement	18	90.00	397	93.63	2	10.00	27	6.37
Refinance	15	75.00	2,007	83.14	5	25.00	407	16.86
Small Business	18	90.00	2,093	89.71	2	10.00	240	10.29

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

The distribution of loans reflects, given the demographics of the assessment area, an overall reasonable penetration among individuals of different income levels and businesses of different sizes.

As shown in the following table, FNB's distribution of lending to moderate-income borrowers is excellent, and generally well exceeded the percentage of families within the assessment area with moderate incomes. The bank's level of lending to low-income borrowers is adequate relative to the demographic for home purchase and refinance loans. In the sample of loans reviewed, the bank's lending to low-income borrowers is poor for home improvement loans. This can be attributed, in part, to the strong and increasing housing costs which have limited the affordability of housing, especially for low-income families.

RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16.02		19.37		28.46		36.14	
LOAN TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	10.00	6.66	25.00	16.86	40.00	43.74	25.00	32.74
Home Improvement	0.00	0.00	50.00	52.09	30.00	20.67	20.00	27.24
Refinance	5.00	1.60	35.00	21.15	10.00	12.08	50.00	65.17

The borrower distribution of business loans is adequate. The portion of FNB's business loans to small businesses (those with revenues of \$1 million or less) is below the portion of businesses in the assessment area that are defined as small.

BUSINESS LOANS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	92.46	7.54
% of Bank Loans in AA #	70.00	30.00
% of Bank Loans in AA \$	47.28	52.72

Geographic Distribution of Loans

The geographic distribution of loans reflects an overall excellent dispersion throughout the assessment area. None of the census tracts in FNB's assessment area are designated low-income.

The bank's lending is strong relative to the demographic for both home improvement and refinance loans. Performance for home purchase loans is poor compared to the demographic, especially the percentage of home purchase loans made in moderate-income census tracts based on dollars of loans. This weaker performance for home purchase loans can be partially attributed to the increasing cost of homes within the assessment area, which has impacted the ability of lower income families to afford homes.

RESIDENTIAL REAL ESTATE LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.00		15.33		67.36		17.32	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	-	-	10.00	4.59	55.00	58.89	35.00	36.52
Home Improvement	-	-	25.00	17.69	70.00	78.33	5.00	3.98
Refinance	-	-	25.00	13.80	40.00	39.34	35.00	46.86

The bank's lending to businesses located in moderate-income geographies is excellent. The percentage of the business loans sampled to businesses located in the moderate-income geographies of the assessment area significantly exceeds the percentage of businesses in the assessment area that are located in those census tracts.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00		15.71		64.88		19.41	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
FNB's loans	-	-	20.00	32.56	70.00	45.74	10.00	21.70

The bank has not originated or purchased loans in every census tract with its assessment area. That is not unreasonable, given the large size of the assessment area relative to its branching network and the distance of some of the assessment area from the bank's closest branch offices. In addition, there is strong competition among financial institutions within the assessment area.

Responses to Complaints

FNB was not the subject of any CRA complaints during the evaluation period.

Fair Lending Review

An analysis of recent years' public comments, consumer complaint information, and data collected under the Home Mortgage Disclosure Act was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.