



PUBLIC DISCLOSURE

November 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Chaska
Charter Number 8378**

**301 Chestnut Street
Chaska, Minnesota 55318**

**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 National Bank of Chaska** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 30, 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**.

First National Bank of Chaska (FNB) has demonstrated satisfactory responsiveness to the community's credit needs as illustrated by the following:

- The bank's loan-to-deposit ratio is reasonable in comparison to other institutions of similar size within the bank's assessment area.
- The majority of the number and dollar amount of loans originated during the evaluation period are within the bank's assessment area.
- The distribution of the bank's loan portfolio reflects reasonable penetration to low- and moderate-income borrowers.
- FNB's record of serving the credit needs of low- and moderate-income individuals is consistent with safe and sound banking practices.
- The bank has not received any complaints concerning its CRA performance since the previous examination.

DESCRIPTION OF INSTITUTION

FNB is a small community bank located approximately 20 miles southwest of the Minneapolis/St. Paul metropolitan area and is part of the Minneapolis/St. Paul Metropolitan Statistical Area (MSA) as defined by the U.S. Census Bureau.

FNB is a subsidiary of Klein Financial, Inc. (KFI), a multi-bank holding company based in Chaska, Minnesota. KFI owns 100% of FNB and seven other Minnesota banks. As of September 30, 1998, KFI reported total assets of approximately \$812 million.

In addition to the main office, FNB has two other branch offices within its assessment area. One is located within the city of Chaska at the Chaska Commons shopping center. The other is located in the city of Shakopee, Minnesota in Scott County. FNB operates proprietary automated teller machines (ATMs) at the main office and the branch locations. Competition in Chaska consists of a Norwest branch and a state bank branch. Shakopee also contains numerous branches of larger banks.

As of September 30, 1998, FNB reported total assets of \$124 million. FNB's primary business focus is consumer and residential real estate lending and commercial lending. The bank offers a variety of retail products including mortgage loans and consumer loans. As of September 30, 1998, gross loans approximated \$72 million. The loan portfolio is centered in residential real estate (30%), commercial loans (20%), and consumer loans (14%).

Bank management has taken a leadership role in the community and is involved in many local service-oriented organizations.

There are no financial impediments which would hamper FNB's ability to help meet the credit needs of its assessment area. FNB's CRA performance was last evaluated as of January 6, 1994. At that time, FNB's overall performance was rated "satisfactory".

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area meets the requirements of the regulation and is identified as Carver, Scott, and parts of Hennepin county. All counties are located within the Minneapolis/St. Paul MSA. According to 1990 U.S. Census data, the assessment area has a total population of 127,866. Carver county experienced the second highest

growth rate in the state between 1990 and 1997 at 32%. Unemployment is very low at 2%.

According to HUD, the 1998 updated median family income for the metropolitan statistical area is \$60,800. This is the figure used to determine the income category of families residing in the assessment area. The following table shows the income characteristics of the assessment area by geography and family.

Assessment Area Composition				
Income Level	Geographies		Families	
	#	%	#	%
Low-Income	0	0%	4,007	12%
Moderate-Income	0	0%	5,728	16%
Middle-Income	19	68%	9,708	28%
Upper-Income	9	32%	15,179	44%

Source: CRA Wiz® Demographic Data

Approximately 95% of the housing units in the assessment area are occupied, with 80% of those being owner occupied. The median housing value is \$104,426. The median year built is 1975. One-to-four family homes comprise 81% of the total housing units in the assessment area.

The local economy is strong and growing. Chaska contains an industrial park located in the northern part of the city providing a diverse group of businesses with a national scope. Their presence has spurred impressive economic growth that has been experienced over the last 15 years. This growth has enhanced and stabilized the local economy. Future commercial development is limited due to scarcity of commercial land within the city limits. However, a critical \$9 million flood control project has been completed that will allow for the redevelopment of land previous impeded by flood zone restrictions.

Major industries include retail trade, services, manufacturing, and construction. Business demographic data indicate the assessment area contains 214 farms and 6,005 businesses. Of the farms, 190 (89%) have gross annual revenues under \$1 million. Of the businesses, 4,393 (73%) have gross annual revenues under \$1 million. Due to a significant business presence in the Chaska area, the area reaps the benefits of quality

paying jobs for both management and skill positions.

Community contacts were conducted by our Office with representatives of the local county government. Our discussions revealed a need for low-cost housing, due to the high cost of housing in the county, and low-cost home financing. These contacts spoke favorably of FNB's involvement in this aspect of community development.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The distribution of retail loans reflects a reasonable penetration to borrowers of different income levels. Overall, lending has been consistent with safe and sound banking practices. The table below illustrates the distribution of home loans to borrowers of all income levels relative to the income demographics of the assessment area:

Distribution of Home Mortgage Loan Originations in 1996, 1997, and YTD 1998 Within Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
Characteristics of Families	4,007	12%	5,728	17%	9,705	28%	15,179	44%
Loan Product by Year	#	%	#	%	#	%	#	%
Home Purchase/Refinance	12	17%	17	24%	18	25%	25	35%
Home Improvement	3	12%	1	4%	16	64%	5	20%
Total Loans in 1996	15	15%	18	19%	34	35%	30	31%
Home Purchase/Refinance	3	6%	8	15%	17	31%	26	48%
Home Improvement	3	18%	3	18%	5	29%	6	35%
Total Loans in 1997	6	8%	11	15%	22	31%	32	45%
Home Purchase/Refinance	4	4%	24	23%	42	41%	33	32%
Home Improvement	0	0%	2	13%	9	60%	4	27%
Total Loans YTD 1998	4	3%	26	22%	51	43%	37	31%
GRAND TOTAL	25	9%	55	19%	107	37%	99	35%

Source: CRA Wiz® Demographic Data and HMDA Loan Application Registers

We also reviewed a sample of 53 consumer loans to determine the distribution to borrowers of different incomes. The sample consisted of loans originated within the assessment area from June 30, 1998 to November 30, 1998. Of the loans originated during this time period, 19% by number and 18% by dollar amount were originated to low-income borrowers and 25% by number and 12% by dollar amount were originated to moderate-income borrowers.

FNB does a satisfactory job of meeting the needs of small businesses. We reviewed the available data for 1997 and year-to-date 1998 to ascertain FNB's performance in lending to small businesses within the assessment area. During this time period, 76% by number and 66% by dollar amount of commercial loans originated within the assessment area were to businesses with gross annual revenues of \$1 million or less. In addition, a review of 1998 loans revealed that 75% of the loans originated were under \$100,000.

Loan-to-Deposit Ratio

Since June 30, 1995, FNB's quarterly loan-to-deposit ratio has remained relatively stable with an average of 70% over the past 13 quarters. This compares favorably to other competing financial institutions' loan-to-deposit ratios. FNB ranks twelfth among the 25 state and nationally chartered banks within its assessment area which report assets between \$50 and \$250 million. The average quarterly loan-to-deposit ratio of these banks is 69% and ranges from 45% to 87%.

Lending within the Assessment Area

Based on bank prepared reports, FNB originated a majority of its home and consumer loans within its assessment area. The bank originated 2,151 consumer and home loans totaling approximately \$59 million in 1996, 1997, and year-to-date 1998. This level of total loan originations reflects a satisfactory responsiveness to the assessment area's credit needs. In order to verify the accuracy of the bank's internal reports, we sampled approximately 13% of the 1998 consumer and home loan portfolios.

The following table illustrates the volume of originations within the assessment area by number and dollar:

Volume of Home Mortgage and Consumer Loan Originations in 1996, 1997, and YTD 1998 Within the Assessment Area						
Year	Total Originations		Originations Within the Assessment Area			
	#	\$ (000s)	#	%	\$ (000s)	%
Total Loans in 1996	509	\$14,960	426	84%	\$11,936	80%
Total Loans in 1997	867	\$18,954	702	81%	\$14,522	77%
Total Loans YTD 1998	775	\$24,923	440	57%	\$17,107	69%
GRAND TOTAL	2,151	\$58,837	1,568	73%	\$43,565	74%

Source: HMDA Loan Application Registers for 1996, 1997 and 1998 and Bank-generated Reports

Response to Complaints

FNB received no complaints from the public regarding the bank's CRA performance.

Geographic Distribution of Loans

This analysis is not meaningful as all geographies are categorized as middle- or upper-income.

Fair Lending

Our review of fair lending regulations revealed no evidence of discriminatory practices and no substantive violations of the provisions of antidiscrimination laws. We compared loan terms of single male and female borrowers on direct auto loans originated between June 1, 1998 and November 30, 1998.