

PUBLIC DISCLOSURE

November 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Oakley National Bank of Buffalo
910 Commercial Drive
Buffalo, Minnesota 55313**

Charter # 14311

**Office of the Comptroller of the Currency
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 The Oakley National Bank of Buffalo, Buffalo, Minnesota prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of November 15, 1999. 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: ASatisfactory®

- The bank has a reasonable distribution of lending to businesses of different sizes and consumer borrowers of different income levels in relation to the demographics of the assessment area.
- By number of commercial and residential real estate loans, the bank originates a majority of its loans inside its assessment area.
- The bank's loan-to-deposit ratio has been reasonable during this evaluation period.
- The bank has a strong penetration of loans originated to borrowers located in moderate-income census tracts.

DESCRIPTION OF INSTITUTION:

The Oakley National Bank of Buffalo (Oakley) is a \$118 million institution with a main office and branch located in Buffalo, Minnesota, a suburb 35 miles northwest of Minneapolis. Automated Teller Machines are located at the main office and three local retailers. Drive-up facilities are available at the main office and the branch location. The bank is wholly owned by Klein Financial Inc., an eight-bank holding company headquartered in Chaska, Minnesota.

Oakley's primary focus is residential real estate and commercial lending. As of September 30, 1999, the bank's loan mix consisted of 43% commercial and commercial real estate, 35% residential real estate, 11% consumer, and 11% other. Net loans and leases comprised 67% of the bank's total assets. The bank offers a wide range of credit products and deposit services.

Oakley's last CRA evaluation disclosed a Satisfactory Record of Meeting Community Credit Needs was dated January 24, 1997. There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

DESCRIPTION OF THE ASSESSMENT AREA:

Oakley's assessment area is located in the western suburbs of the Minneapolis - St. Paul Metropolitan Statistical Area. The assessment area includes the cities of Buffalo, St. Michael, Albertville, Monticello, Clearwater, Annandale, South Haven, Cokato, Maple Lake, Howard Lake, Waverly, Montrose, Delano, Rockford, Hanover, and Otsego. Oakley has competition from eleven other similarly situated financial institutions, ranging from \$21 million to \$227 million in assets. In addition, the bank has substantial competition provided by two of the Midwest's largest financial institutions, three mid-sized institutions with large branching networks, and various other independent banks and credit unions throughout the Minneapolis/St. Paul metropolitan area.

The bank's assessment area is Wright County, which consists of 14 census tracts. Six of these census tracts are designated moderate-income, with the remaining 8 designated as middle-income. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low-income census tracts. Wright County is located in the Minneapolis-St Paul Metropolitan Statistical Area #5120 (MSA).

Based on 1990 Census data, the population of the assessment area is approximately 68,710. The updated 1999 median family income for the MSA is \$63,600. A distribution of families by income levels shows 20% are low-income, 25% are moderate-income, 31% are middle-income, and 24% are upper-income. Seven percent of households are below the poverty level, and 72% of the housing units are owner occupied.

The assessment area is economically prosperous. Unemployment is low at 3%, and most cities and townships in the assessment area are experiencing population growth. The local job market is expanding but most individuals still choose to live in this area and commute into the Minneapolis/St. Paul MSA for employment. Major employers in the area consist primarily of local school districts, government offices and hospitals.

Examiners spoke with a government official during this evaluation to obtain information on the special credit needs and characteristics of the area. The contact stated that the credit needs of the Buffalo area consist primarily of small business and residential real estate lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

Conclusions are based on loan samples selected from the commercial and residential real estate loan portfolios. These two products correspond with the significant dollar volume of loans originated during the evaluation period and are consistent with the general composition of the bank's loan portfolio and credit needs of the community. The following table illustrates the origination activity between January 1997 and November 1999. Our sample represents all loan origination activity in this time period. The bank collects income information on nearly all loans originated. National bank examiners sampled several loan files and found that the income information is accurately recorded. Commercial and residential real estate originations accounted for 70.81% of all loan originations since the last CRA evaluation. This percentage does not include originations of home equity loans, as origination amounts for these extensions are not maintained on the bank's computer system.

Loan Origination Activity January 1997 through November 1999				
Type of Loan	Number of Loans	% of Total	Dollar Amount (000's)	% of Total
Commercial Loans	481	15.61%	\$24,062	40.92%
Residential Real Estate Loans **	394	12.79%	\$17,576	29.89%
Home Equity Line	277	8.99%	Unknown	Unknown
Consumer Loans	1,852	60.11%	\$14,212	24.17%
Other	77	2.50%	\$2,954	5.02%
Totals	3,081	100%	\$58,804	100%

Data Source: Bank

Records

**It should be noted that the bank sells mortgage loans in the secondary market. From January 1997 to September 1999, the bank sold 323 loans in the secondary market totaling \$36 million.

The bank has a reasonable distribution of lending to consumer borrowers of different income levels in relation to the demographics of the assessment area. We reviewed all Home Mortgage Disclosure Act (HMDA) reportable real estate loans in the bank's assessment area originated between January 1, 1997 and December 31, 1998. The review consisted of 130 loans totaling \$7.8 million. The number of loan originations to low- and moderate-income borrowers was generally comparable to the demographics of the assessment area. The 1990 median housing value was \$74,256. This value has appreciated substantially over the past few years according to the community contact, thus the bank's distribution appears reasonable. (Note: Real estate loans originated during 1999 was not included, as this HMDA information was not finalized at the time of this evaluation.)

Lending Distribution Based on Income Level of Consumer Borrowers January 1997 - December 1998 Residential Real Estate Loan Originations			
Borrower Income Level	Bank Lending Distribution by Number of Loans	Percentage of Families in each Income Category (census information)	Bank Lending Distribution by Dollar of Loans
Low	12.31%	20.14%	5.17%
Moderate	26.92%	24.61%	19.01%
Middle	30.77%	30.80%	27.94%
Upper	27.69%	24.45%	45.47%
Unknown	2.31%	0.00%	2.41%
Totals	100%	100%	100%

Data Source: Bank Records

A comparison of residential real estate products also shows that the bank maintains a reasonable distribution to borrowers of different income levels. The bank is particularly strong in its distribution of home purchase loans, with its percentages at or above demographics for low- and moderate-income levels.

Residential Real Estate Lending Product Distribution Based on Income Level of Consumer Borrowers January 1997 - December 1998 Residential Real Estate Loan Originations				
Borrower Income Level	Home Purchase Distribution by Number of Loans	Home Improvement Distribution by Number of Loans	Refinancing Distribution by Number of Loans	Percentage of Families in each Income Category (census information)
Low	20.00%	13.21%	7.85%	20.14%
Moderate	32.00%	28.30%	23.53%	24.61%
Middle	12.00%	35.85%	35.29%	30.80%
Upper	36.00%	20.75%	31.37%	24.45%
Unknown	0.00%	1.89%	1.96%	0.00%

Data Source: Bank Records

The bank has a reasonable distribution of lending to different sizes of businesses in relation to the demographics of the assessment area. We reviewed a sample of 23 commercial loans that were originated between January 1, 1997 and November 15, 1999 within the assessment area. The results of our review, illustrated in the following table, show that the bank extended 47.83% by number and 19.97% by dollar volume of its commercial loans to borrowers with annual revenues less than \$1 million. This compares to 82.94% of businesses in the assessment area reporting annual revenues of less than \$1 million, per updated 1998 Dunn and Bradstreet Information (D&B). However, 74% of these loans were originated in amounts less than \$100,000. This evidence of small dollar loan originations provides support for the bank's commercial lending practices, as generally loans of smaller amounts benefit smaller and less complex businesses. Revenue information was unavailable for 8.70% of the loans sampled.

Lending Distribution Based on Gross Revenues Commercial Loan Originations			
Revenue Size of Businesses Sampled \$(000's)	Bank Lending Distribution by Number of Loans	Percentage of Businesses in each Revenue Category (D&B Information)	Bank Lending Distribution by Dollar of Loans
< \$100	13.05%	78.00%	11.26%
\$100 - \$250	13.04%		1.62%
\$250 - \$500	4.35%		0.44%
\$500 - \$1,000	17.39%	4.94%	6.65%
> \$1,000	43.48%	6.89%	78.67%
Revenue not reported	8.70%	10.17%	1.37%
Totals	100%	100%	100%

Loan-to-Deposit Analysis

The bank's average quarterly loan-to-deposit ratio from January 1, 1997 to June 30, 1999 is 74.75%. This ratio is reasonable given the bank's size, financial condition and lending opportunities within its assessment area. Oakley has the fourth highest average loan-to-deposit ratio of eleven similarly situated banks in its assessment area. Eleven banks of similar size and product offerings, operating in the bank's assessment area, had average loan-to-deposit ratios ranging from 51.50% to 81.92% over the same time period. The average loan-to-deposit ratio of these eleven banks was 69.31%. Management is budgeting to maintain a loan-to-deposit ratio near 75%.

Lending Inside the Assessment Area

Oakley originates a majority of its loans inside its assessment area. We reviewed a sample of 30 commercial loans originated between January 1997 and November 1999, and all residential real estate loans originated between January 1, 1997 and December 31, 1998. Our residential real estate review included 130 loans totaling \$7.8 million, while our commercial sample totaled \$6 million.

The following table illustrates the level of lending inside the bank's assessment area:

Penetration of Lending Inside the Bank's Assessment Area		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial Loans	76.67%	47.48%
Residential Real Estate Loans	90.28%	88.57%

Geographic Distribution of Loans

The geographic distribution of HMDA and commercial loans reflects excellent dispersions throughout the assessment area. The assessment area does not include any low- or upper-income census tracts. Six of the fourteen census tracts (42.86%) are designated as moderate-income, with the remaining eight designated as middle income. The bank has a strong penetration within the moderate-income census tracts. Sixty-three percent of all residential real estate loans originated in the assessment area between January 1, 1997 and December 31, 1998 were to borrowers residing in moderate-income tracts. In comparison, only 39.5% of all owner-occupied homes is located in these moderate-income census tracts. The table below shows the bank’s strong penetration for all residential real estate loan types.

Geographic Distribution of Residential Real Estate Loans with in the Assessment Area January 1997 - December 1998 Real Estate Loan Originations				
Income Level of Census Tract	Home Purchase Distribution by Number of Loans	Home Improvement Distribution by Number of Loans	Refinancing Distribution by Number of Loans	% of Owner Occupied Housing (census data)
Moderate-Income	64.00%	66.04%	60.78%	39.52%
Middle-Income	36.00%	33.96%	39.22%	60.48%

Data Source: Bank Records

Oakley originated 82.62% of its commercial loans by number and 97.88% by dollar to businesses located in moderate-income census tracts. Dunn and Bradstreet demographic information shows that only 41.55% of businesses in the assessment area are located in moderate-income census tracts.

Response to CRA Related Complaints

The bank has not received any CRA related complaints since the previous evaluation.

Compliance with Anti-discrimination Laws

Oakley is in compliance with applicable antidiscrimination laws and regulations. We found no evidence of apparent disparate treatment during our fair lending review.

We performed a fair lending review of all approved automobile loans originated between April 1, 1999 and September 30, 1999. The review compared denied individual female applications to approved individual male applications. Gender was assumed by first name comparisons and discussions with bank staff. Our review did not identify any denials of female applicants with similar or more favorable application characteristics than the approved male applicant population.

Other Information

Oakley is a regular contributor to nonprofit and charitable organizations located in the assessment area. The bank has worked with the City of Buffalo on various community development projects, and with the Minnesota Housing Agency on their First-Time, Home Buyer program. In addition, they have a good

history of granting credit to local municipalities, schools, and churches.