

PUBLIC DISCLOSURE

January 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**BNC National Bank of Minnesota
Charter Number: 22973**

**333 South Seventh Street, Suite 200
Minneapolis, Minnesota 55402**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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 **BNC National Bank of Minnesota (BNC), Minneapolis, Minnesota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 4, 1999**. 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 **Satisfactory**. The following factors highlight BNC's performance:

- BNC's loan-to-deposit ratio is strong and exceeds other banks of similar size situated in its assessment area.
- BNC showed good loan penetration among businesses of different revenue sizes.
- A substantial majority of loan originations are extended within BNC's assessment area.

DESCRIPTION OF INSTITUTION

BNC is a \$73 million institution which opened in 1996. It operates one office which is located in downtown Minneapolis, Minnesota. The bank also operates one ATM at the downtown location. BNC is a wholly-owned subsidiary of BNC Corporation with corporate offices located in Bismarck, North Dakota. BNC Corporation also owns BNC National Bank of North Dakota, located in Bismarck, North Dakota and BNC Financial of St. Cloud, Minnesota, a financial services company. Total assets of the parent company are \$388 million as of September 30, 1998.

BNC's primary loan focus is business lending. Major product lines are small business financing and commercial real estate. BNC was rated "Satisfactory Record of Meeting Community Credit Needs" in December of 1996. There are no legal or financial impediments limiting BNC's ability to meet community credit needs.

The bank's emphasis is on business loan originations. The loan portfolio has experienced significant volume increases in each of the three years since the bank's inception. Loan balances as of November 30, 1998 total \$68 million or 92% of total assets. The following table illustrates the current loan mix:

Loan Type	Dollar Volume (000's)	% of Total
Commercial	\$40,971	60%
Commercial Real Estate	\$15,536	23%
Other Commercial	\$2,718	4%
Agriculture	\$639	1%
Residential Real Estate	\$5,455	8%
Other Loans	\$2,816	4%
Total Portfolio Volume	\$68,135	100%

* Source: Bank balance sheet as of 11/30/98

DESCRIPTION OF BNC's ASSESSMENT AREA

The assessment area of BNC is comprised of 11 counties representing the Minnesota portion of the Minneapolis/St. Paul Metropolitan Statistical Area (MSA). The counties include Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright. The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

The HUD MSA Median Family Income for 1990 was \$44,297. The 1998 updated Median Family Income for the assessment area is \$60,800. The following table describes the income profile of the census tracts and the income levels of the families located in the assessment area.

BNC National Bank Assessment Area Profile			
Income Level	Number of Tracts	% of Total	% of Families
Low-Income	52	8%	17%
Moderate-Income	104	16%	18%
Middle-Income	351	55%	28%
Upper-Income	123	19%	37%
Not applicable	10	2%	NA
Total	640	100%	100%

* Source: 1990 Census data

The MSA is the fifteenth largest metropolitan area in the United States. The population of the assessment area is approximately 2.5 million. Local economic conditions are good. Unemployment rates are low, currently under 3%. Approximately 8% of households are below the poverty level. Median housing value is \$92,440 and 65% of housing units are owner occupied.

The metropolitan area is the major transportation and distribution hub of the upper Midwest. Major industries include machinery and metal fabricating, information and software systems, grain and commodities handling, and publishing.

BNC’s marketplace is very competitive. The bank’s assessment area includes home offices of two regional banks as well as over 150 other full-service financial institutions. We identified forty-four banks which range in similar asset size to BNC, from \$40 to \$80 million. Competition for mortgage loans is fierce. In 1996 there were almost 500 lenders reporting mortgage loan originations within the bank’s assessment area.

Credit needs of the assessment area are varied. They include all types of loans for small businesses and housing. Small business credit needs include working capital needs for start up and/or expanding businesses and commercial real estate loans.

We determined the credit needs by contacting a local development official and reviewing community contact information obtained by this and other regulatory agencies over the last two years. The community contacts include economic, housing, and development officials.

Description of Samples

Our loan samples were based on bank generated reports which listed all loans originated by the bank during 1997 and 1998. The reports tracked the type of loan, county location, census tract, and originating amount. Unfortunately, loans which were originated during 1997 and subsequently paid off are omitted from the report due to data processing system limitations. Because of this limitation we do not know the exact size of the population for each type of loan, with the exception of Home Mortgage Disclosure Act (HMDA) - Loan Application Register reportable loans.

The analysis of business loans was done on a sampling basis. We reviewed 82 loans totaling \$16,240,123.

Our review of auto loans was also done on a sampling basis. We reviewed 23 loans totaling \$250,464.

We reviewed all HMDA reportable loans for the time period.

Bank generated reports regarding geographic distribution of loans and loans originated in/out of the assessment area were tested for accuracy via our different loan samples. The bank's reports were found to be complete and accurate.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is strong. The quarterly LTD ratio has averaged 184% since the last CRA examination. BNC's LTD ratio ranged from 161% to 304% in this time period. This ratio is more than reasonable given the bank's size, financial condition, and opportunities within its assessment area (AA). BNC had the highest ratio of forty-four similar sized banks operating within the AA. The competing banks' ratios ranged from 24% to 92%.

In addition to lending for its own portfolio, BNC originates and sells a large amount of commercial loan participations to other financial institutions. During 1997 and 1998, BNC sold 196 commercial loan participations totaling \$133,214M.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the Assessment Area

BNC's record of lending to borrowers of different incomes and to businesses of different sizes is reasonable. The bank's primary lending focus is to small and medium size commercial businesses. Our analysis is heavily weighted toward the commercial loan products due to the dominance of commercial loans within the bank's portfolio.

Commercial Lending to Businesses of Different Sizes

BNC has a good distribution of lending to businesses of different sizes. BNC's record of lending to small- and medium-sized businesses helps fulfill identified credit of the community.

We sampled 82 business loans totaling \$16.2 million originated within the AA area during 1997 and 1998. The following table illustrates this business loan sample:

Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	16%	4%
\$101 - \$250	18%	8%
\$251 - \$500	29%	10%
\$500 - \$1,000	17%	11%
> \$1,000	20%	67%

Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
Total	100%	100%

Consumer and Residential Real Estate Loans

Overall, the distribution of lending represents reasonable penetration to borrowers of different income levels.

The review of auto loans shows reasonable penetration to all income categories. The lending patterns approach the income demographics of the assessment area. We sampled 23 auto loans totaling \$250,464. The following table illustrates the consumer automobile instalment loan sample:

Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family income*	17%	30%	21%
Moderate-Income at least 50% < 80% Median Family Income*	18%	9%	11%
Middle-Income at least 80% < 120% Median Family Income*	28%	26%	21%
Upper-Income 120% and > Median Family Income*	37%	35%	47%
Total	100%	100%	100%

* 1998 Updated MSA Median Family Income \$60,800

The residential real estate review indicates weak penetration to all but upper income individuals. However, the bank's lending focus since inception has been business lending. The bank has recently been pursuing residential real estate loans to help meet the housing needs of its assessment area. This is reflected in the increased activity of residential loan origination totals within the AA, from three in 1997 to twenty-three in 1998.

The following table illustrates residential real estate lending activities. Our analysis included all HMDA loans made within the bank's AA for 1997 and 1998. This analysis includes 26 loans totaling \$4,805M.

Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family Income*	17%	8%	4%
Moderate-Income at least 50% < 80% Median Family Income*	18%	8%	9%
Middle-Income at least 80% < 120% Median Family Income*	28%	11%	9%
Upper-Income 120% and > Median Family Income*	37%	73%	78%
Total	100%	100%	100%

* 1998 Updated MSA Median Family Income \$60,800

Lending in the Assessment Area

BNC originates a majority of their loans inside their assessment area. We analyzed bank reports which track loans by county and/or census tract. (Due to computer system limitations the population of loans did not include loans originated and paid off during 1997.) The following table highlights all loans originated during 1997 and 1998 which currently have outstanding balances.

Lending Within the Assessment Area	Loans Originated (\$000's)
Total number of Loans Originated	723
Number of Loan Originations in AA	580
Percentage In AA	80%
Total Dollar of Total Loans Originated	\$212,426
Dollar of Loans Originated In AA	\$168,399

Lending Within the Assessment Area	Loans Originated (\$000's)
Percentage In AA	79%

Geographic Distribution of Loans

The bank has a reasonable geographic distribution of lending throughout its assessment area. We analyzed loan reports which internally geo-coded loans by census tract to determine lending within the different income tracts. Our analysis did not differentiate between types of loans due to the reporting format. However, the portfolio is relatively homogeneous; greater than 90% of all originations are business related.

The following table depicts the distribution of 508 loans totaling \$159,030M originated during 1997 and 1998. This loan sample represents 70% of the number of loans originated and 75% of the dollar volume of all loans originated in the AA in this time period.

Census tract type	% Tracts	% of Number	% of Dollar
Low	8%	4%	2%
Moderate	16%	6%	3%
Middle	55%	51%	46%
Upper	19%	39%	50%
NA	2%	NA	NA
Total	100%	100%	100%

Record of Response to Complaints

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

Record of Compliance with Anti-discriminatory laws

Based on our review, the bank is complying with anti-discriminatory laws. We found

no substantive violations of the fair lending laws.