

PUBLIC DISCLOSURE

August 2, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Elk River
Charter Number 8757**

**729 Main Street
Elk River, Minnesota 55330**

**Office of the 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 **The First National Bank of Elk River, Elk River, Minnesota**, prepared by **The Comptroller of Currency**, the institution's supervisory agency, as of August 2, 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 First National Bank of Elk River is actively lending in its assessment area. Loan growth is exceptional and a substantial majority of lending is within the assessment area. The distribution of loan customers demonstrates satisfactory penetration among low- and moderate-income individuals and small businesses. The distribution of loan customers demonstrates acceptable penetration into moderate-income geographies.

DESCRIPTION OF INSTITUTION

The First National Bank of Elk River (FNB Elk River) is a \$275 million bank located in Elk River, Minnesota. The bank maintains seven offices in the northwest section of the Minneapolis/St. Paul Metropolitan Statistical Area (MSA 5120). Three offices are located in Elk River, including the main office and a grocery store location. One office each is located in the near by communities of Anoka, Hassan (Rogers), Monticello, and Zimmerman. The bank has ATMs at five store locations in addition to each office except Monticello and Zimmerman.

The bank specializes in lending to businesses and to present or potential home owners. On June 30, 1999, commercial real estate loans comprised 45% of total outstanding loans (includes loans to finance residential real estate developments), commercial 34%, residential real estate 13%, and consumer 8%. Total loans equal \$201 million or 74% of total assets as of June 30, 1999. In addition, the bank's mortgage division originated and sold \$47 million of residential real estate loans to unrelated investors in 1997 and 1998.

Elk River Bancshares, Inc. (ERBI) owns 100% of FNB Elk River. ERBI engages in a limited amount of lending through FNB Elk River. The bank has no other affiliates engaged in lending.

FNB Elk River received an "Outstanding" rating in its previous CRA Performance Evaluation dated February 20, 1997.

There are no legal impediments or other factors, including the financial condition of the bank, which limit its ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNB Elk River's assessment area includes 33 contiguous census tracts located in the northwest section of MSA 5120. From east to west the assessment area includes the cities of: Coon Rapids, Andover, Bethel, St. Francis, Anoka, Ramsey, Dayton, Champlin, Rogers, Hanover, Monticello, Albertville, St. Michael, Elk River, Ostego, Zimmerman, Big Lake, and Becker. Population of the assessment area is 176,003, according to 1990 U.S. Census Bureau data.

A total of nine banks are headquartered within the assessment area. The assessment area is also served by credit unions, finance companies, and branches of multi-billion dollar regional banks.

The assessment area is economically prosperous. Unemployment is low and every city and township in the assessment area is experiencing population growth. The local job market is expanding but most individuals still choose to live in this area and commute deeper into MSA 5120 for employment. In 1999, the Department of Housing and Urban Development's (HUD) estimate of median family income (MFI) for MSA 5120 was \$63,600, up from \$54,600 in 1996.

Owner-occupied units account for nearly 80% of total housing units in the assessment area. Median housing value was \$83,437 as of 1990, but has increased since then. Total housing units in the assessment area are approximately 59,000 with new housing starts strong. Recent housing permit data and population growth estimates are shown in the following table courtesy of the U.S. Census Bureau:

Housing Permits (# of units) & Estimated Population Growth (# of people)	Cities in Assessment Area	Total in Assessment Area
1-4 Family Housing Permits - YTD June 1999	1,415	1,443
Total Housing Permits - YTD June 1999	1,451	1,479
Estimated Population Growth - July 97 to July 98	4,600	6,100

Five community contacts, four existing and one new, were considered in evaluating the credit needs of the assessment area. Residential housing was consistently mentioned as a credit need due to the population growth in the assessment area. Small businesses were also consistently mentioned as a credit need in an effort to expand and diversify the tax bases of the growing communities within the assessment area. All community contacts made or reviewed indicated healthy economic conditions throughout the assessment area.

The President of the Rogers Area Chamber of Commerce was contacted during this exam. Rogers is one of two communities the bank branched into during 1998. The community contact indicated that FNB Elk River is viewed as a local bank with a strong community presence.

The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. There are no low- or moderate-income geographies contiguous to the bank's assessment area. Assessment area income level composition by census tracts and families is detailed in the following table:

Income Level	Census Tracts	Families
Low Income (<50% of MFI)	0%	12%
Moderate Income (50%-80% of MFI)	3%	20%
Middle Income (80%-120% of MFI)	85%	34%
Upper Income (>120% of MFI)	9%	34%
NA	3%	0%

Approximately 5% of households have income below the poverty level.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

FNB Elk River's loan-to-deposit ratio indicates an exceptional amount of lending activity for a bank of its size. The bank's loans and deposits have both grown significantly since the last CRA Performance Evaluation. The bank's loan-to-deposit ratio increased from 79% as of December 31, 1996 to 86% June 30, 1999. The bank's loan-to-deposit ratio compares favorably against local competition and similarly-situated banks by asset size at the national level.

Loan-to-Deposit Ratio	FNB Elk River	Custom Peer (1)	National Peer (2)
Recent Loan-to-Deposit Ratio (a)	86%	76%	72%
Average Loan-to-Deposit Ratio (b)	81%	76%	71%
(1) National/State Banks and Savings & Loans in Anoka, Hennepin, Sherburne, and Wright Counties. (2) National Banks with total assets of \$100 to \$300 million, multiple offices, and located in an MSA. (a) Calculated as of June 30, 1999. (b) Average of ten quarters beginning March 31, 1997 and ending June 30, 1999.			

Lending in the Assessment Area

The bank makes a substantial majority of its loans to borrowers located within its assessment area. We used home purchase loans and commercial and commercial real estate loans as the primary products for our CRA review. Home purchase loan originations exceed those of all other residential and consumer loan products, except for refinancing loans, which were high due to recent low interest rates. Commercial and commercial real estate loans comprise a combined 79% of the bank's loan portfolio. The table below shows the results of our review for lending in the assessment area:

Loans in Assessment Area	Home Purchase Loans (1)	Business Loans (2)
By # of Originations	90%	84%
By \$ Amount of Originations	90%	87%
(1) Source 1997 & 1998 HMDA Disclosure Statement. (2) Sample of 31 business originations from April & May 1999.		

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

FNB Elk River's overall distribution of borrowers indicates strong performance in lending to individuals of different income levels and adequate levels of lending to businesses of different revenue sizes.

Home purchase lending indicates the bank is doing an exceptional job of lending to individuals of different incomes, especially to low- and moderate-income individuals.

Assessment Area by Family Income Level	Families	Home Purchase Loan Originations (1)			
		# of Loans	% by #	\$ of Loans (000s)	% by \$ (000s)
Low Income	12%	29	16%	\$2,271	13%
Moderate Income	20%	54	31%	\$4,602	27%
Middle Income	34%	52	29%	\$5,298	31%
Upper Income	34%	39	22%	\$4,755	27%
NA	0%	3	2%	\$325	2%

(1) Source 1997 & 1998 HMDA Disclosure Statements.

The following table shows that the bank lends to businesses of all different sizes, but at a level below community demographics for businesses with revenues less than \$1 million:

Business Loans by Gross Annual Revenue (\$000s)	Percent of Loans (1)	Business Demographic Information
Less than \$100M	3%	80%
\$100M to \$250M	10%	
\$250M to \$500M	19%	
\$500M to \$1,000M	16%	
Greater than \$1,000M	52%	8%*

(1) Sample of 31 business originations in assessment area, by note, from April & May 1999.
* 12% of businesses did not report revenue information.

Data as of 1996 courtesy of D&B Business Demographics.

However, bank management provided us with information that indicates a higher level of lending to small businesses than provided by our sample. Based on analysis of outstanding customer loan balances as of June 30, 1999, management shows that 57% of commercial customers have loan balances of less than \$100,000, with an additional 30% of customer at less than \$500,000. Loans of

smaller amounts generally benefit smaller businesses. In addition, the bank recently hired a Small Business Administration (SBA) lending specialist.

Geographic Distribution

FNB Elk River's geographic distribution of originations indicates a reasonable disbursement of home purchase loans and an acceptable disbursement of commercial loans throughout the assessment area. Analysis reflects lending in most tracts with no unexplicable gaps in lending coverage. The assessment area contains no low-income census tracts and only one moderate-income census tract. This moderate-income tract includes much of downtown Anoka and has the lowest percentage of owner-occupied housing (41.2%) and the second lowest number of owner-occupied housing units (606) among all tracts in the assessment area. The census tract with the lowest number of owner-occupied housing units (408) is a middle-income tract; the bank did not originate any home purchase loans in that census tract.

The table below shows the bank's level of home purchase lending by census tract income level. Most of the bank's home purchase lending clearly occurs in middle-income geographies, consistent with community demographics:

Assessment Area Tract Income Level	Owner-Occupied Housing Units	Home Purchase Originations in Assessment Area (1)			
		# of Loans	% of #	\$ of Loans (000s)	% of \$
Low Income Tracts	0.0%	0	0.0%	\$0	0.0%
Moderate Income Tracts	1.3%	2	1.3%	\$162	1.1%
Middle Income Tracts	89.2%	155	96.8%	\$15,071	97.4%
Upper Income Tracts	9.5%	3	1.9%	\$232	1.5%

(1) Source 1997 & 1998 HMDA Disclosure Statement.

Our review of all 139 commercial loans originated in April and May 1999 identified one loan to a business located in a moderate-income census tract, or approximately 1% of loans. This is below community demographics which show that 5% of assessment area businesses are located in that census tract. However, this census tract also contains several other financial institutions, including branches of multi-billion dollar regional banks. FNB Elk River's Anoka office is approximately two miles from this tract and the main office is about 12 miles away.

Response to Complaints

There have been no CRA-related complaints against the bank since the date of our last CRA Performance Evaluation.

INNOVATIVE INVESTMENTS AND LENDING PRODUCTS

- C Small business promotion in Anoka and Sherburne County. The bank invested an additional \$25 thousand, bringing its total to \$75 thousand, in a community development corporation (Anoka County Capital Fund) devoted to providing venture capital to small business entrepreneurs in Anoka and Sherburne County.

- C Day care improvement in Anoka County. The bank participates, via loan servicing, in a loan program funded by the McKnight Foundation to improve the quality of day care facilities. This includes small businesses. A loan in our sample was to a day care with annual revenues of \$25 thousand. The bank is currently servicing 19 loans under this program.

RECORD OF COMPLIANCE WITH ANTIDISCRIMINATION LAWS

FNB Elk River is in compliance with anti-discrimination laws and regulations. We found no such violations during our examination. To reach this conclusion, we compared the terms of conventional home refinance loans based on gender originated from May through August 1998.