



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 30, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Anchor Bank National Association
Charter Number 15659**

**1055 Wayzata Boulevard East
Wayzata, MN 55391**

**Comptroller of the Currency
Minneapolis South
920 2nd Avenue South, Suite 800
Minneapolis, MN 55402**

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.

INSTITUTION'S CRA RATING: **This institution is rated Satisfactory.**

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's average loan-to-deposit ratio is satisfactory.
- The bank originates a majority of its loans by number and dollar volume within its assessment area.
- The bank's lending among commercial borrowers reflects poor penetration to businesses of different sizes.
- The geographic distribution of commercial loans reflects satisfactory dispersions throughout the assessment area.
- The bank's community development performance demonstrates satisfactory responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services.

SCOPE OF EXAMINATION

We evaluated Anchor Bank, N.A.'s (ABNA) Community Reinvestment Act performance under the Lending and Community Development Tests. In evaluating the bank's lending performance, we reviewed lending data for the bank's primary loan product, commercial loans. Based on commercial loan originations from January 1, 2005 through December 31, 2006, commercial loans made up 41% of the loan portfolio by number of loans and 75% by dollar volume.

The Community Development evaluation covers the period from the date of the previous CRA examination, January 12, 2004, through December 31, 2006. We reviewed the bank's community development loans, investments, and services based on information provided by bank management. We used only those that met the regulatory definition for community development in our analysis of the Community Development Test.

DESCRIPTION OF INSTITUTION

ABNA is a \$384MM bank headquartered in Wayzata, MN. Wayzata, population 3,941, is located 13 miles west of downtown Minneapolis. ABNA has three full-service branches located in Plymouth, Eden Prairie, and Blaine, MN. The Blaine branch opened in November 2004. ABNA is owned by Anchor Bancorp, Inc., a four-bank holding company with affiliate banks located in St. Paul, Farmington, and North St. Paul, MN. As of December 31, 2006, Anchor Bancorp, Inc. had total consolidated assets of \$1,137MM.

ABNA's main office and branches are located in the Minneapolis-St. Paul, MN-WI Metropolitan Statistical Area (MSA). More specifically, the Wayzata, Plymouth, and Eden Prairie branches are in Hennepin County and the Blaine branch is located in Anoka County. ABNA offers telephone and Internet banking to its customers. These services provide customers with 24-hour access to deposit and loan account information and allow customers to make transfers between accounts. ABNA owns five ATMs, one located at each of their branches and one located at the Wayzata Bay Shopping Center.

ABNA offers a wide range of loan and deposit products which are designed to meet the community's needs. As of December 31, 2006, loans equaled 61.9% of total assets. The bank's main credit products are commercial, residential real estate, home equity lines of credit (HELOC), and consumer loans. The table below breaks down the loans originated in 2005 and 2006 by originated dollars and number of loans.

	% of originated dollars	% of originated # of loans
Commercial Loans	75%	41%
Residential Real Estate Loans	12%	11%
HELOC	11%	22%
Consumer Loans	1%	22%

There are no financial, legal or other factors that impede ABNA's ability to meet its CRA obligations. The bank's last CRA rating was "Satisfactory" dated January 12, 2004.

DESCRIPTION OF ASSESSMENT AREA

ABNA's assessment area (AA) includes all of Anoka and Hennepin Counties. Both are located in MN and have a combined population of 1.4 million people. Of the 377 census tracts (CTs) in the AA, 37 (9.81%) are designated low-income, 80 (21.22%) are designated moderate-income, 171 (45.36%) are designated middle-income, and 88 (23.34%) are designated upper income. One is not applicable since it is where the Minneapolis/St. Paul airport is located. ABNA's AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Based on 2000 census information, 7.26% of the AA's population live in low-income CTs, 19.13% in moderate-income CTs, 46.60% middle-income CTs, 26.98% upper-income CTs, and 0.03% live in the not applicable CT. The 2000 median family income for the MSA was \$68,245. Based on the Department of Housing and Urban Development's 2006 estimate, the updated median family income for the MSA is \$78,500.

The 2000 census data shows that 38,305 or 7% of the households within the AA are below the poverty level. In 2003, the Census Bureau estimated that the State of MN had 8% of its persons below the poverty level, compared to 12.5% nation-wide. By county, the percentage of the population below the poverty level is 5.3% in Anoka and 9.1% in Hennepin.

According to the U.S. Bureau of Labor Statistics, unemployment levels in the State of MN as of

December 31, 2006 were 4.2%, compared to 3.7% in the MSA, and 4.5% nationwide. The AA is home to some of the largest employers in the state, including the University of MN, Target Stores, Inc, and area hospitals.

Bank competition in the AA is strong. There are 89 financial institutions with a presence in ABNA's AA, some of which are branches of mid-size and large banks situated in the metro area. ABNA ranks 13th in deposit market share with 0.80% of the market based on June 2006 deposit information obtained from the Federal Deposit Insurance Corporation.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank's performance under the Lending Test is satisfactory. This conclusion is based on our sample of commercial loans and other lending criteria outlined below.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is satisfactory given the bank's size, financial condition and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 16 quarters since the previous CRA exam is 71.42%. Similarly situated banks with a presence in the AA are those with total deposits between \$200 and \$280 million as of June 30, 2006. Quarterly average loan-to-deposit ratios for similarly situated banks range from 71.42% to 104.33% over the same time frame.

Institution	Deposits (as of 06/30/06)	Average Loan-to-Deposit Ratio 1Q03-4Q06
Northeast Bank	\$266 million	104.32
21st Century Bank	\$280 million	95.95
Citizens Independent Bank	\$224 million	83.61
United Bankers Bank	\$206 million	78.58
Anchor Bank National Association	\$258 million	71.42

Lending in Assessment Area

ABNA does an excellent job of originating loans in their AA. Based on a sample of 20 commercial loans, ABNA originated 90% of loans by number and 78.2% by dollar volume within the defined AA. The following table shows loans originated inside and outside their AA by number and dollar volume:

	Number of Loans				Dollar of Loans			
	Inside		Outside		Inside		Outside	
Loan Type	#	%	#	%	\$	%	\$	%
Commercial	18	90	2	10	5,010,327	78.2	1,400,000	21.8

Lending to Businesses of Different Sizes

ABNA's lending to businesses of different sizes shows poor loan penetration compared to the

demographics of the AA. Our random sample of 20 loans indicated that the majority of ABNA's commercial lending is concentrated in larger businesses (those with gross annual revenues greater than \$1MM), however, the AA demographics indicate that the majority of businesses in the area have gross annual revenues less than \$1MM. Our sample was fairly consistent with the bank's actual lending based on internal reviews that indicated that 32.17% of the bank's commercial loans originated in 2006 by number, and 15.11% by dollar, were made to businesses with gross annual revenues less than \$1 million. Although the small business demographics are fairly high, we noted that nearly 60% of those small businesses have four or fewer employees. As smaller businesses sometimes have limited or no credit needs, lending opportunities for banks may be somewhat limited. Credit needs for smaller businesses are sometimes also met through home equity lending or other personal loans, rather than standard commercial lending.

Although ABNA's lending focus appears to be on larger customers, our community contact indicated that ABNA is very active in promoting small businesses in the AA through their involvement in several area organizations that work to support and attract small businesses to the area. Following is the break-down of the results of our review of 20 random commercial loans originated from January 1, 2005 through December 31, 2006, as compared to the AA demographics.

Borrower Distribution of Loans to Businesses		
Gross Annual Revenues	< \$1,000,000	> \$1,000,000
% of AA Businesses*	65.73%	7.23%
% of Bank Loans in AA by #	25%	75%
% of Bank Loans in AA by \$	12.03%	87.97%

* Per 2006 Business Geodemographic Data; 27.04% of businesses did not report revenues

Geographic Distribution of Loans

The geographic distribution of commercial loans reflects satisfactory dispersions throughout the AA, including the low-and moderate-income CTs. The random sample of loans showed that the number of loans made were in line with the number of businesses in the low-and moderate-income CTs. We did not identify any conspicuous gaps in lending to low- or moderate-income CTs. The following table compares the demographics of the area to the bank's actual lending, based on a random sample of 20 commercial loans:

Geographic Distribution of Loans to Businesses in Assessment Area										
Census Tract	Low 9.8%		Moderate 21.2%		Middle 45.4%		Upper 23.3%		N/A 0.3%	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	6.1%	10%	15.8%	10%	48.3%	50%	29.5%	30%	0.3%	0%

Responses to Complaints

ABNA has not received any complaints about its performance in helping meet AA credit needs during this evaluation period.

Community Development Test

ABNA's performance under the Community Development Test is Satisfactory. The bank's community development performance demonstrates reasonable responsiveness to community development needs in its AA through community development loans, qualified investments and community development services.

Number and Amount of Community Development Loans

Community development lending levels are adequate. ABNA originated two qualifying community development loans during the evaluation period benefiting their AA, totaling \$1,670M. One loan provided housing assistance to poverty-stricken families in Hennepin County. The second finances construction of a 106-unit affordable housing senior cooperative in a moderate-income CT in St. Louis Park. This new affordable housing will replace a vacant building and will retain the current aging population in the area. ABNA also originated another community development loan for \$2,750M to finance construction of affordable condominium units in St. Paul. This loan was not made within the bank's AA but benefits the broader area that includes other counties that are part of the MSA.

Number and Amount of Qualified Investments

The bank's volume of qualified investments and donations is excellent. ABNA invested in four qualifying mortgaged backed securities and one qualifying municipal bond benefiting their AA, totaling \$9,746M. The municipal bond funds were used to subsidize school lunches for poverty level households in the Minneapolis school district. ABNA also made seven donations totaling \$31M, most of which were to organizations that provide services to low- and moderate-income individuals.

Extent to which the Bank Provides Community Development Services

Retail and community development services are adequate. Bank services are accessible to individuals of different income levels. ABNA's Wayzata and Plymouth branches are located in upper-income CTs and their Eden Prairie and Blaine branches are located in middle-income CTs. Although low and moderate CTs combined make up 31% of the tracts in the AA, only 26% of the population is located in those tracts. While ABNA does not have any branches in low-or moderate-income CTs, their branch locations are accessible to all persons. In addition, ABNB also offers Internet and telephone banking for added availability to the bank's products. During the evaluation period, ABNA opened a new branch in Blaine, MN.

Community development service levels are adequate and responsive to community needs. Bank officers provide technical assistance and financial expertise to two organizations in MN. One emphasizes economic development in several cities throughout the AA. Another involves a development corporation for children, which assists in delivering high quality child care to low- and moderate-income families.

ABNA offers a wide range of consumer and commercial banking products and services. The bank participates in loan programs to assist LMI home buyers. The My Community Program,

provides assistance to first time home buyers and borrowers with credit problems. In addition, ABNA participates in a deposit product called Thrift Savings, which offers a low minimum balance and is targeted at LMI families and first time savers. They also offer a free checking account with no minimum balance.

Bank’s Responsiveness, through Community Development Activities, to Community Development Lending, Investment, and Services Needs

ABNA is responsive to community development needs throughout its AA. Community development activities during this evaluation period focused on economic development and involvement in organizations that provide services to low- and moderate-income individuals.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.