



Comptroller of the Currency
Administrator of National Banks

Small Bank

Minneapolis Duty Station
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402

PUBLIC DISCLOSURE

January 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Farmington
324 Oak Street
Farmington, MN 55024**

Charter # 11687

**Office of the Comptroller of the Currency
920 Second Ave. S. Suite 800
Minneapolis, MN 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 Farmington, prepared by 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: “Satisfactory”

- o The bank has a very good distribution of lending to consumer borrowers of different income levels in relation to the demographics of the assessment area.
- o The bank originates a majority of their loans inside their assessment area.
- o The bank has a good loan-to-deposit ratio.

DESCRIPTION OF INSTITUTION

The First National Bank of Farmington is a \$54 million institution located in Farmington, Minnesota, a city of approximately 6,600 people located about 25 miles south of Minneapolis, MN. The bank has a main office, a branch and four ATMs located in Farmington. Two of the ATMs are located in local convenience stores, one at the local grocery store and the other at the bank's main office. The bank is wholly owned by Anchor Bancorp, Inc., a \$500 million multi-bank holding company headquartered in Wayzata, Minnesota.

Farmington has three other financial institutions ranging from \$10 million to \$66 million in assets to provide competition. The bank's assessment area has approximately twenty other financial institutions of various sizes. The holding company has another bank located in Dakota County which has a branch in Apple Valley. Because of the fast paced growth in the southern suburbs, all the large and midsized Minneapolis and Saint Paul banks have branch locations in this area.

The bank's primary focus is real estate and commercial lending. As of December 31, 1998, the bank's loan mix consisted of 47% commercial and commercial real estate, 35% residential real estate, 12% consumer, and 6% agricultural and agricultural real estate. Net loans and leases comprised 75% of the bank's deposits and 64% of total assets. The bank offers a vast range of credit products and deposit services. There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

The bank's last CRA rating was "Satisfactory Record of Meeting Community Credit Needs" dated December 21, 1995.

DESCRIPTION OF THE ASSESSMENT AREA (AA)

First National Bank of Farmington's AA consists of nineteen census tracts (CTs) in the southern portion of Dakota County. Six of the CTs are designated upper-income, twelve are designated middle-income and one is designated moderate-income. The bank's AA does not include any low-income CTs. Management chose not to include all of Dakota County in its AA due the bank's geographic location and the substantial size of the county. Although no real physical barriers exist, the bank is heavily influenced by other competing financial institutions due to its location in the metropolitan area.

The bank's AA area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. There is only one moderate-income area located in the bank's AA. Dakota County is located in the Minneapolis-St. Paul Metropolitan Statistical Area (MSA) #5120 and has four moderate-income census tracts, but no low-income census tracts. The other three moderate-income tracts are located in St. Paul and approximately 15 miles outside the bank's AA.

Based on 1990 Census data, the population of the AA is approximately 119,000. The median family income from the 1990 census for the AA was \$43,063. The updated 1998 median family income for the MSA is \$60,800. A breakdown of family income levels in the AA show 10% are low-income, 16% are moderate-income, 29% are middle-income, and 45% are upper-income. Four percent of the number of households are below poverty level; the median housing value is \$103,687 and 76% of the housing is owner occupied.

The economy of Farmington is diverse with major employers including Federal Aviation Administration, Farmington Public Schools, City of Farmington as well as numerous commercial and industrial businesses. Farmington is a rapidly growing community with residential expansion of 300+ homes annually. Continued commercial and industrial growth is a result of the close proximity to Minneapolis and St. Paul, MN. Unemployment is low at 2%. Examiner contact with a city government organization identified a need for consumer & housing loans of all sizes, as well as small business and development loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Businesses and Farms of Different Sizes:

Our samples and rating conclusions are centered on the bank’s commercial and real estate lending in correspondence to the significant dollar volume of originations. This is also consistent with the general composition of the bank’s loan portfolio. The following table illustrates the origination activity between January 1996 and December 1998. Our last CRA examination was December 1995, but we chose our samples based on activities from the past two years because the files were more readily available and we were able to retrieve files in a timely manner. Commercial and real estate originations accounted for 80% of all the bank’s originations by dollar and 40% of the number of originations for 1998.

Loan Origination Activity January 1996 thru December 1998												
Type of Loan	1998				1997				1996			
	Number of Loans	% of Total	Dollar Amount (000s)	% of Total	Number of Loans	% of Total	Dollar Amount (000s)	% of Total	Number of Loans	% of Total	Dollar Amount (000s)	% of Total
Commercial loans	173	23%	\$13,822	49%	319	25%	\$20,852	54%	606	41%	\$37,876	70%
Agricultural loans	28	4%	\$2,659	9%	49	4%	\$3,141	8%	38	3%	\$2,540	5%
Residential Real Estate loans	130	17%	\$8,750	31%	174	14%	\$9,445	25%	235	16%	\$9,697	18%
Consumer loans	428	56%	\$3,140	11%	727	57%	\$5,056	13%	592	40%	\$3,995	7%
Totals	759	100%	\$28,371	100%	1,269	100%	\$38,494	100%	1,471	100%	\$54,108	100%

Data Source: Bank Records

The bank has a very good distribution of lending to consumer borrowers of different income levels in relation to the demographics of the assessment area. We reviewed all 75 originated real estate loans which the bank reported for the Home Mortgage Disclosure Act (HMDA) for 1997 and 1998. The review consisted of 29 loans in 1997 totaling \$2.3 million and 46 loans in 1998 totaling \$4.3 million. The bank's originations of loans to individuals of low- and moderate-income levels exceeds the demographics for the AA.

Lending Distribution Based on Income Level of Consumer Borrowers June 1997 - June 1998 Consumer 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	11%	10%	8%
Moderate	28%	16%	21%
Middle	35%	29%	41%
Upper	26%	45%	30%
Totals	100%	100%	100%

The bank has a reasonable distribution of lending to different sizes of businesses in relation to the demographics of the assessment area. We sampled 115 commercial loans totaling \$14.6 million that were originated between January 1996 and December 1998. The sample represented 11% of the number and 20% dollar volume of all commercial loan originations in that time. The results of our review, illustrated below, show that the bank extended 53% of its commercial loans to borrowers with annual revenues less than \$1 million. This compares to 76% of businesses in the AA having annual revenues of less than \$1 million, per updated 1998 census data.

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 (census information)	Bank Lending Distribution by Dollar of Loans
< \$100	5%	71%	13%
\$100 - \$250	11%		17%
\$250 - \$500	18%		8%
\$500 - \$1,000	19%	5%	6%
> \$1,000	47%	7%	56%
Revenue not reported	0%	17%	0%
Totals	100%	100%	100%

Loan-to-Deposit Analysis

The bank’s average quarterly loan-to-deposit ratio from December 1995 to December 1998 is 73%. This ratio is good given the bank’s size, financial condition and lending opportunities within its assessment area. First National Bank of Farmington has the highest average loan-to-deposit ratio of eight similarly situated banks in the AA. Eight banks of similar size, operating in the bank’s AA had average loan-to-deposit ratios ranging from 48% to 73% over the same time period. The average loan-to-deposit ratio of these eight banks was 68%. Uniform Bank Performance Reports were used for the loan-to-deposit data.

Lending Inside the Assessment Areas

First National Bank of Farmington originates a majority of its loans inside its assessment area. We sampled 115 commercial and commercial real estate loans originated between January 1996 and December 1998 which represents 11% of the number and 20% of the dollars originated in the time period. We also reviewed all 75 real estate loans originated between January 1997 and December 1998 that management reported for HMDA.

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	78%	76%
Real Estate Loans	68%	66%

Our findings were consistent with an internal analysis prepared for the bank by the holding company. The April 1998 analysis used zip codes to determine that 84% by number and 70% by dollar of the bank’s loan portfolio was originated inside the AA.

Geographic Distribution of Loans:

The bank has no low-income CTs included in its assessment area. Only one of the bank’s nineteen CTs included in the bank’s AA is designated as a moderate-income area. We found the bank to have reasonable penetration in this tract. The tract contained only 2% of the owner occupied units included in the bank’s AA and the tract is on the most northern edge of the bank’s AA.

In order to have accurate CT data, we used our real estate sample which was based on HMDA data to identify the bank’s penetration in that moderate-income tract. In 1997, there were no applications from that area and only one application was received in 1997. The bank originated a first mortgage loan for \$38 thousand in 1997.

Response to CRA Related Complaints

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

Compliance with Antidiscrimination Laws

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