



PUBLIC DISCLOSURE

November 2, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heritage National Bank
Charter Number 13973**

**2700 East Seventh Avenue
North St Paul, Minnesota 55109-3198**

**Comptroller of the Currency
Midwestern District
2345 Grand Avenue, Suite 700
Kansas City, Missouri 64108**

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 **Heritage National Bank, North St Paul, Minnesota**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 1, 1998**. 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**.

Heritage National Bank (Heritage) is responsive to credit needs of the community including low- and moderate-income areas, individuals and small businesses. This is evidenced by the following:

- The loan to deposit ratio is reasonable given Heritage's size, financial condition, and credit needs of the assessment area (AA). The bank's loan to deposit ratio has averaged 66 percent since the prior CRA examination and is comparable to similar institutions in its AA.
- A majority of loans are made within the bank's AA, which was redefined during this CRA evaluation to include all of Ramsey and Washington counties.
- The distribution of borrowers reflects satisfactory penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersal throughout the AA.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

Heritage, with total assets of \$115 million at September 30, 1998, is one of five financial institutions owned by Anchor Bancorp, Inc., a \$500 million holding company headquartered in Wayzata, Minnesota. Heritage's main office is located in North St. Paul, Minnesota. Its one branch is located about fifteen miles away in Woodbury, Minnesota. Three automated teller machines are placed conveniently in the cities of Columbia Heights, New Hope, and Woodbury, Minnesota. The main office is located in a middle-income census tract, while the branch is located in an upper-income census tract.

Heritage focuses on commercial real estate lending. The majority of these loans are owner occupied properties with other lending and deposit relationships. Heritage considers itself a business bank, so they also focus on commercial lending. The construction industry, specifically roofing and electrical contractors, comprises about 6 percent of this category. Residential real estate makes up the third largest category of loans. Most of these loans are sold into the secondary market. This practice is expected to continue.

A detailed summary of the loan portfolio, as of September 30, 1998, is listed below:

| Loan Portfolio Composition as of September 30, 1998 | | |
|---|------------------------------|----------------------------|
| Loan Type | Dollar Volume (000's) | % of Loan Portfolio |
| Commercial Real Estate | 25,544 | 36.28 |
| Commercial | 22,860 | 32.47 |
| 1 - 4 Family Residential | 14,582 | 20.71 |
| Consumer | 4,375 | 6.21 |
| Home Equity Lines | 1,988 | 2.82 |
| Other | 1,061 | 1.51 |
| Total | 70,410 | 100.00 |

DESCRIPTION OF THE ASSESSMENT AREA (AA)

Heritage designates all of Ramsey and Washington counties as its AA. After receiving clarification about the CRA regulation, bank management changed its initial AA to meet regulatory requirements. The AA is located in Metropolitan Statistical Area (MSA) 5120. Ramsey County includes 136 census tracts (CTs), while Washington County consists of 35 CTs. The 1990 U.S. Census reported population for the two counties at 631 thousand with a median

family income (MFI) of \$43,063. Annually, the Department of Housing and Urban Development (HUD) updates the MFI. The updated MFI for 1998 is \$60,800.

The AA is comprised of fourteen low-, thirty-six moderate-, eighty-six middle-, and thirty-one upper-income census tracts. Four CTs did not have demographic information available for review. The AA does not arbitrarily exclude low- and moderate-income geographies. By income level, the percentage of families in the AA includes: 19 percent low-income, 19 percent moderate-income, 27 percent middle-income, and 35 percent upper-income.

Numerous financial institutions exist in the AA. These institutions include national banks, state banks, multi-national banks and their branches, credit unions, and savings institutions. Heritage provides a vast range of credit products and deposit services to the community. Credit products include residential, commercial, small business, and consumer loans. There are no legal, financial, or other factors that impede Heritage's capacity to meet the credit needs of its assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management is satisfactorily meeting the community credit needs of its AA, including low- and moderate-income individuals, consistent with its resources and capabilities.

● Loan to Deposit Ratio

Heritage's loan to deposit ratio meets the standard for satisfactory performance and is comparable to other similar institutions in the area. The bank's loan to deposit ratio has averaged 66 percent since the prior CRA examination. The average loan to deposit ratio for the ten comparable banks in Ramsey and Washington counties was 71 percent as of September 30, 1998. The loan to deposit ratios for these ten banks ranged from 60 percent to 83 percent.

● Lending in the Assessment Area

A majority of loans are extended within the bank's AA. Our sample of recently originated residential, consumer, and business loans indicates 74 percent of the number and 72 percent of the dollar amount were extended within the bank's AA. This sample included 100 loans totaling \$4,019,000.

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

Heritage meets the standards for satisfactory performance of this criteria with a satisfactory penetration of loans to low- and moderate-income individuals and small businesses. Approximately 80 percent of our consumer loan sample, by number, were made to low- and moderate-income individuals. This sample included 76 loans totaling \$2,375,000. Also, 58 percent of our commercial loan sample, by number, were made to businesses with annual revenues of less than \$1 million. Our business loan sample included 24 loans totaling \$1,644,000.

The following two tables summarize the loan sample distribution by income group and lending to businesses of different sizes.

| Loan Sample Distribution by Income Group | | | | | | | | | | |
|---|----------------------------|----------|---------------------------------|----------|-------------------------------|----------|------------------------------|----------|--------------|----------|
| | Low Income Families | | Moderate Income Families | | Middle Income Families | | Upper Income Families | | Total | |
| Area Demographic Characteristics | | | | | | | | | | |
| % of Families | 19.01% | | 18.63% | | 26.79% | | 35.56% | | 100.00% | |
| # of Families | 30,554 | | 29,938 | | 43,059 | | 57,150 | | 160,701 | |
| Loan Type | # | % | # | % | # | % | # | % | # | % |
| Consumer | 12 | 48 | 8 | 32 | 2 | 8 | 3 | 12 | 25 | 100 |
| Residential | 6 | 12 | 10 | 20 | 12 | 24 | 23 | 45 | 51 | 100 |
| Total | 18 | 24 | 18 | 24 | 14 | 18 | 26 | 34 | 76 | 100 |

| Lending to Businesses of Different Sizes | | | | | | | | | | |
|---|--------------------------|----------|------------------------|----------|--------------------------|----------|----------------------------|----------|--------------|----------|
| Gross Revenues \$ | Less than 100,000 | | 100,000-250,000 | | 250,000-1,000,000 | | More than 1,000,000 | | Total | |
| Loan Type: | # | % | # | % | # | % | # | % | # | % |
| Commercial | 0 | 0 | 4 | 16 | 10 | 42 | 10 | 42 | 24 | 100 |

● **Geographic Distribution of Loans**

Heritage has reasonable geographic distribution of lending throughout its assessment area. We compared the percentage of loans made at each income level to the percentage of census tracts within the assessment area at each income level. The geographic distribution of loans reflects an adequate penetration throughout the assessment area. The majority of the low- and moderate-income census tracts are located near downtown St. Paul close to Heritage’s sister bank. Our sample included 103 loans reported on the 1997 and September 30, 1998 YTD HMDA-LAR which totaled \$5,012,000. The following table illustrates the distribution of sampled loans.

| Geographic Distribution of Sampled Loans | | | |
|---|--|--|--|
| Income Tract Profile | Distribution by Number of Loans | Distribution by Dollar of Loans | Distribution of Assessment Area Census Tracts by Number |
| | | | |

| Geographic Distribution of Sampled Loans | | | |
|---|---------|---------|--------|
| Low-Income Tracts | 0.00% | 0.00% | 8.19% |
| Moderate-Income Tracts | 6.8% | 6.53% | 21.05% |
| Middle-Income Tracts | 62.13% | 57.02% | 50.29% |
| Upper-Income Tracts | 31.07% | 36.45% | 18.13% |
| Totals | 100.00% | 100.00% | 97.66% |
| Tracts with no reported income | 0.00% | 0.00% | 2.34% |

- **Responses to Complaints**

Heritage has not received any complaints regarding its CRA performance during the evaluation period.

- **Record of Compliance with Anti-discrimination Laws**

No substantive violations of the anti-discrimination laws and regulations were identified. No practices were detected which would discourage applicants from applying for the types of credit offered by Heritage.