



SMALL BANK

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

PUBLIC DISCLOSURE

January 12, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Anchor Bank Farmington, National Association
Charter Number 11687**

**324 Oak Street
Farmington, MN 55024**

**Comptroller of the Currency
Minneapolis South
920 Second 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 Outstanding.

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans by number and dollar within its assessment area.
- The bank has an excellent distribution of credit among commercial borrowers of different sizes and an excellent distribution of credit among residential real estate borrowers of different income levels.
- The geographic distribution of commercial loans and residential real estate loans reflect good dispersions throughout the assessment area.

DESCRIPTION OF INSTITUTION

Anchor Bank Farmington, N.A. (Anchor) was an \$81 million institution as of December 31, 2002. Anchor has their main office located in Farmington, Minnesota, a city of 18,000 persons located approximately 20 miles south of the Twin Cities. Anchor has two full-service branches located in Farmington and Lakeville, Minnesota. In addition, Anchor conducts deposit-taking activities at the All Saints Catholic School in Lakeville on a monthly basis.

All bank locations are in Dakota County. Dakota County is part of the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). The bank offers telephone and Internet banking to its customers. This service provides customers with 24-hour access to deposit and loan account information. It also allows customers to make transfers between accounts. Anchor has three ATMs, one located at each of their full-service facilities. The ATM located at the main bank in downtown Farmington is the only one that accepts deposits.

Anchor offers a wide range of loan and deposit products which are designed to meet the community's needs. As of December 31, 2002, the bank's \$59 million loan portfolio consisted of 52% commercial loans, 35% residential real estate loans, 8% consumer loans and 5% agricultural loans. As of December 31, 2002, net loans made up 72% of total assets. The bank's primary lending focus is commercial and residential real estate loans.

Anchor Bancorp, Inc. is a five-bank holding company that owns Anchor Bank Heritage, N.A. The other four Anchor Bank charters are located in Wayzata, St. Paul, West St. Paul and North St. Paul, Minnesota. As of December 31, 2002, Anchor Bancorp, Inc. had assets of \$908 million. The bank does not have any affiliate relationships that impact the bank's CRA performance.

There are no financial, legal or other factors that impede Anchor's ability to meet its CRA obligations. The bank's last CRA rating was a "Satisfactory Record of Meeting Community Credit Needs" dated January 4, 1999.

DESCRIPTION OF ASSESSMENT AREA

Anchor's assessment area (AA) includes nineteen census tracts (CTs) located in the southwest corner of Dakota County. Based on the 1990 census data, 1 CT in Anchor's AA is moderate-income (5%), 12 CTs are middle-income (63%) and 6 CTs are upper income (32%). Dakota County does not have any low-income CTs and the only other moderate-income CTs are located on the far north side of the county. Anchor's AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Based on 1990 census information, 9.93% of the families within this AA are low income, 15.58% moderate income, 29.54% middle income and 44.96% upper income. The 1990 census median family income for the AA was \$43,063. Based on the Department of Housing and Urban Development's 2002 estimate, the updated median family income for the AA is \$76,700.

The 1990 census data indicates that 1,500 households (3%) within the AA are below the poverty level. The percentage from the 2000 census remains at 3% but represents 1,839 households. In 1999, the Census Bureau indicated that the State of Minnesota had 7.9% of its persons below the poverty level, compared to 12.4% nation-wide. Dakota County had only 3.6% of its persons below the poverty level.

The Census Bureau indicates the population of the entire AA has increased more than 40% from 1990 to 2000. Dakota County as a whole grew at the rate of 29.3% during this same 10-year span. This is representative of the outward sprawl from the downtown metro areas of residential developments as persons working in the metro area move to the outlying areas and commute to work. Dakota County commuters average a 23-minute drive to their workplace. Our community contact indicated that the City of Farmington is growing at a record pace with over 300 new homes being built annually.

The median value of owner occupied housing units in 2000 per census data for the State of Minnesota was \$122,400. Dakota County median value of owner occupied housing units in 2000 was \$152,400. 1990 census data indicated that 75% of the housing units were owner occupied and that percentage has increased to 81% as a result of the 2000 census.

According to the Minnesota Workforce Center, unemployment levels in the State of Minnesota as of December 31, 2003 were at 4.5%, compared to 3.6% in Dakota County. The nationwide unemployment rate as of December 31, 2003 was 5.4%. Employers in Farmington with more than 100 employees include the Farmington Public School District, Federal Aviation Administration, Dakota Electric, Marigold Foods (dairy products) and Valmart Lexington (fabricated metal product manufacturing). The largest industry is trade, transportation and utilities, followed by manufacturing and government. Our community contact indicated that commercial and industrial expansion is also growing at a rapid pace in the area and that the economic downturn of recent years has had only a minimal impact on the area.

Bank competition in Anchor's AA is strong. There are 22 financial institutions with a presence

in Anchor's AA, some of which are branches of mid-size and large banks situated in the metro area. Anchor is ranked 9th in deposit market share with 3% of the market share based on 2001 deposit information obtained from the Federal Deposit Insurance Corporation.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable 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 80.03%. Similarly situated banks with a presence in the AA are those with total assets between \$53 and \$115 million. Quarterly average loan-to-deposit ratios for similarly situated banks range from 55.22% to 83.01% over the same time frame. The loan-to-deposit ratio does not take into account loans sold by banks on the secondary market, which for Anchor totaled \$13 million in 2001 and \$19 million in 2002.

Institution	Assets (as of 12/31/02)	Average Loan-to-Deposit Ratio; 1Q99 – 4Q02
FIRST STATE BANK OF ROSEMOUNT	\$61 million	55.22
CASTLE ROCK BANK	\$85 million	61.93
ROSEMOUNT NATIONAL BANK	\$53 million	66.85
MERCHANTS BANK	\$94 million	75.85
ANCHOR BANK FARMINGTON	\$81 million	80.03
PREMIER BANK METRO SOUTH	\$115 million	83.01

Lending in Assessment Area

Based on a sample of 20 commercial loans and 20 residential real estate first mortgage loans, Anchor originates a majority of its loans to borrowers by number and dollar located within its defined AA. The sample determined that of loans originated from January, 2001 through December, 2002, 82.50% by number and 85.25% by dollar were made to commercial and residential real estate customers located within the bank's AA. The following table shows loans originated inside and outside their AA by number and dollar volume.

Loan Type	Number of Loans				Dollar of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	#	%
Commercial	15	75	5	25	1,958,250	82.36	419,304	17.64
Residential Real Estate	18	90	2	10	2,706,228	87.46	388,000	12.54
TOTALS:	33	82.50%	7	17.50%	4,664,478	85.25%	807,304	14.75%

Lending to Commercial Borrowers of Different Revenue Sizes and Residential Real Estate

Customers of Different Income Levels.

Anchor has an excellent distribution of credit among businesses of different revenue sizes. Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to more than a million dollars. A random sample of 20 commercial files indicates the following breakdown of annual revenues.

Borrower Distribution of Loans to Businesses		
Business Revenues	< \$1,000,000	> \$1,000,000
% of AA Businesses*	55.41%	4.05%
% of Bank Loans in AA by #	85%	15%
% of Bank Loans in AA by \$	63.45%	36.55%

*per 2002 Business Demographic Data;
40.54% of businesses did not report revenues

Anchor has an excellent distribution of credit among residential real estate borrowers of different income levels. The following table compares the percentage of families based on income level located within the AA to those loans made by the bank from the selected loan sample of 20 residential real estate first mortgage loans.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level*	Low (0 - \$38,350)		Moderate (\$38,351 - \$61,360)		Middle (\$61,361 - \$92,040)		Upper (\$92,041 and over)	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate	9.93%	10%	15.58%	30%	29.54%	25%	44.96%	35%

*per 2002 HUD Estimated Median Family Income for Minneapolis-St. Paul MSA

Geographic Distribution of Loans

The geographic distribution of commercial loans and residential real estate loans reflect good dispersions throughout the AA. All of Anchor's bank locations are in middle-income CTs and the random sample of files selected indicated that their lending to borrowers in middle-income CTs exceed the area's demographics. While none of the loans in our sample were to businesses or homeowners located in the only moderate-income CT in the bank's AA, the demographics for that area are extremely low. Less than 1% of businesses in the AA are located in the moderate-income CT and less than 2% of the owner occupied housing units in the AA are located in the moderate-income CT. In addition, the moderate-income CT in the AA is located on the northern edge of their defined AA and is not in close proximity to any of Anchor's bank locations. We did not identify any conspicuous gaps in lending to low- or moderate-income CTs. The following tables reflect the demographics of the area to the bank's actual lending, based on a random sample of 20 commercial loans and 20 residential real estate first mortgage loans.

Geographic Distribution of Loans to Businesses in Assessment Area				
Census Tract Income Level	Low 0%	Moderate 5%	Middle 63%	Upper 32%

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
Commercial	0%	0%	.76%	0%	70.63%	85%	28.61%	15%

Geographic Distribution of Residential Real Estate Loans in Assessment Area								
CT Income Level	Low 0%		Moderate 5%		Middle 63%		Upper 32%	
Loan Type	% of AA Owner Occupied Housing Units	% of Number of Loans	% of AA Owner Occupied Housing Units	% of Number of Loans	% of AA Owner Occupied Housing Units	% of Number of Loans	% of AA Owner Occupied Housing Units	% of Number of Loans
Residential Real Estate	0%	0%	1.95%	0%	64.37%	100%	33.69%	0%

Responses to Complaints

Anchor has not received any complaints about its performance in helping meet assessment area credit needs during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.