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Comptroller of the Currency  
Administrator of National Banks

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**PUBLIC DISCLOSURE**

**December 10, 1997**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**National City Bank of Minneapolis  
Charter Number 15295  
651 Nicollet Mall  
Minneapolis, Minnesota 55402**

**Supervisory Agency: Office of the Comptroller of the Currency  
Midwestern District  
Minneapolis West 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.**

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## GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

**Assessment Area (AA)** - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of a MSA.

**Census Tract (CT)** - Small, locally defined statistical areas within an MSA, determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per ten-year census and an average population of 4,000.

**Community Development Loan** - A loan which has as its *primary* purpose community development. Community development loans specifically exclude loans which have been reported under the Home Mortgage Disclosure Act or as small loans to businesses and farms, except for multi-family rental housing loans which can be reported under both categories.

**Community Development Service** - A service that has community development as its *primary* purpose and is related to the provision of financial services.

**Community Development Purpose** - A community development purpose is defined per 12 C.F.R. § 25.12(h) as affordable housing (including multi-family rental housing) for low- and moderate-income (LMI) individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet size eligibility standards of 13 C.F.R. § 121.802(a)(2) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize LMI geographies.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in MSAs to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of the applicant(s), the amount of loan requested and its disposition (e.g made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase loans, home improvement loans, refinancing of home purchase and home improvement loans and loans for the purchase of multi-family (5 or more units) dwellings. *(This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. § 2801, as amended, and 12 C.F.R. § 203, as amended.)*

**Income Levels** - These relate to individuals, families, or the CTs in an MSA.

**Low** = An income level that is less than 50% of the median income.

**Moderate** = An income level that is at least 50% and less than 80% of the median income.

**LMI** = An income level that is less than 80% of the median income.

**Middle** = An income level that is at least 80% and less than 120% of the median income.

**Upper** = An income level that is 120% or more of the median income.

**Median Family Income** - The median family income for a specific MSA as determined by the United States Census Bureau. The Department of Housing and Urban Development (HUD) updates this figure annually using an estimated inflation factor.

**Metropolitan Statistical Area (MSA)** - An area containing a city with a population of at least 50 thousand or an urbanized area with a population of at least 50 thousand and a total metropolitan population of at least 100 thousand. Generally, MSAs consist of one or more whole counties that have a high degree of interaction.

**Qualified Investment** - A lawful investment that has as its *primary* purpose community development.

**Small Business or Small Farm** - A business or farm that has \$1 million or less in gross annual revenues.

**Small Loan to a Business** - A loan of \$1 million or less to a business of any size.

## 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 CRA performance of **National City Bank of Minneapolis (NCB), Minneapolis, Minnesota** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **SMS CRA Analysis Close Date**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. § 25.

**Institution's CRA Rating:** This institution is rated **"Satisfactory Record of Meeting Community Credit Needs."**

We rate NCB's CRA performance "Satisfactory" because:

- NCB showed good penetration among businesses of different sizes with 58% of small loans originated to businesses with revenues of \$1 million or less.
- The bank showed a reasonable distribution of HMDA-reportable loans to borrowers of different income levels, particularly in the moderate-income category. NCB's lending to moderate-income borrowers was directly comparable to the demographics for families in that category in the assessment area.
- The bank's geographic distribution of small business loans reflected good penetration throughout the assessment area, including LMI CTs. NCB's lending in low-income CTs exceeded both the percentage of small business loans all lenders in the market originated in low-income CTs as well as demographics for small businesses in the assessment area that are located in low-income CTs.
- NCB's geographic distribution showed adequate penetration throughout the assessment area. The bank's percentage of HMDA-reportable loans in LMI census tracts was generally comparable to aggregate data for all lenders in the market area and to demographics for owner-occupied housing units located in LMI CTs.
- NCB had an adequate level of qualified investments, the majority of which support the construction of affordable housing for LMI individuals, provide community services targeted to LMI individuals, or promote economic development by financing or providing assistance to small businesses.

- Through both traditional banking branches and several alternative banking systems, NCB’s retail delivery systems were reasonably accessible to all portions of the bank’s assessment area. NCB and its staff provided a relatively high level of community development services.

The following table indicates the performance level of **NCB** with respect to the lending, investment and service tests.

Performance Levels	National City Bank of Minneapolis Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	<b>X</b>		
Low Satisfactory		<b>X</b>	<b>X</b>
Needs To Improve			
Substantial Noncompliance			

\*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## **DESCRIPTION OF INSTITUTION**

National City Bank of Minneapolis (NCB) is a wholly-owned subsidiary of National City Bancorporation. NCB offers a full range of commercial and industrial, real estate, and consumer credit products. Bank management's primary focus is to serve the credit needs of middle market commercial customers in the metropolitan area. NCB defines middle market as customers with sales between \$5 million and \$50 million. The bank offers trust services and sells nondeposit investment products through a third party vendor. NCB's main office is located in downtown Minneapolis. The bank also has a detached drive-up facility in downtown Minneapolis and a branch in Edina, Minnesota, a suburb of Minneapolis. In addition, NCB owns ten automated teller machines (ATMs), four at the main office, one each at the drive-up facility and the Edina branch, and three at the offices of commercial customers. Refer to the "Retail Banking Services" paragraphs in the "Service Test" section of this evaluation for further details on the extended services available at the ATMs located in the offices of commercial customers.

There are no legal or financial impediments which would hamper NCB's ability to help meet the credit needs of its assessment area. As of June 30, 1997, NCB had \$705 million in total assets. The bank's loan-to-deposit ratio on that date was 83% and gross loans represented 59% of total assets. The loan portfolio consisted of the following types of credit: 47% commercial and industrial loans; 22% real estate loans for commercial, multi-family, construction, and development; 10% mortgage loans for one- to four-family residential real estate; 14% consumer loans; and 7% all other loans. For calendar year 1996, NCB had a net income of \$2.8 million and a return on average assets of 0.94%.

## DESCRIPTION OF ASSESSMENT AREA

NCB’s assessment area consists of the seven counties that comprise the Twin Cities Metropolitan Area. This includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties, all located within the Minneapolis-St. Paul MN-WI MSA. The assessment area does not extend across the state line of Minnesota into the Wisconsin portion of the MSA. The assessment area has a population of 2,288,721. The 1990 HUD MSA median family income for the Minneapolis-St. Paul MSA was \$43,063. The estimated median family income levels for 1996 and 1997 were \$54,600 and \$57,300, respectively. Table 1 shows the distribution of census tracts and families by income levels.

<b>Table 1: Census Tract and Family Distribution Within NCB’s Assessment Area</b>				
<b>INCOME LEVEL</b>	<b># of Census Tracts</b>	<b>% of Census Tracts</b>	<b># of Families</b>	<b>% of Families</b>
<b>Low-income</b>	52	9%	96,232	16%
<b>Moderate-income</b>	92	15%	106,290	18%
<b>Middle-income</b>	330	54%	162,406	28%
<b>Upper-income</b>	123	20%	223,245	38%
<b>Income not applicable</b>	9	2%	0	0%
<b>TOTAL</b>	606	100%	588,173	100%

Source: 1990 Census Data, U.S. Bureau of the Census

The Minneapolis-St. Paul MSA is the fifteenth largest metropolitan area in the United States. The population grew by 15 percent between 1980 and 1990, making it the twelfth fastest growing area in the United States. Local economic conditions are good. The unemployment rate has gradually declined throughout this evaluation period and was under three percent in 1995.

The Twin Cities metropolitan area is the major transportation and distribution hub for the Upper Midwest. It is also a center for graphic arts, electronics, and medical instruments. Major industries include machinery and metal fabricating, plastics, computers, printing and publishing, and processing and transporting cash grain crops. The area is home to 15 of the FORTUNE 500 “Largest U.S. Corporations”, 32 FORTUNE 1000 companies, and several of the world’s largest private companies. The Twin Cities ranks fourth among all U.S. cities with the most corporate headquarters.

Table 2 on the following page shows the distribution of businesses within NCB’s assessment area by sales volume and by the income level of the census tracts in which they are located.

**Table 2: Distribution of Businesses by Sales Volume and Tract Income Level**

Income Level	# of Census Tracts	Businesses With Revenues:			Total Businesses
		\$1 Million or Less	More Than \$1 Million	Not Reported	
Low-income	52 (9%)	3,241 (6%)	693 (7%)	1,096 (7%)	5,030 (6%)
Moderate-income	92 (15%)	5,568 (10%)	1,109 (10%)	1,525 (10%)	8,202 (10%)
Middle-income	330 (54%)	32,669 (59%)	6,024 (56%)	8,941 (58%)	47,634 (59%)
Upper-income	123 (20%)	13,602 (25%)	2,854 (27%)	3,721 (24%)	20,177 (25%)
Income Not Applicable	9 (2%)	3 (0%)	4 (0%)	24 (0%)	31 (0%)
<b>TOTALS</b>	606 (100%)	55,083 (100%)	10,684 (100%)	15,307 (100%)	81,074 (100%)

Source: Dun & Bradstreet, Inc.

NCB's market environment is extremely competitive, particularly among the larger commercial and regional financial institutions. NCB's assessment area is served by more than 80 commercial financial institutions, ranging in total assets from \$35 billion to \$3 million. The vast majority of these banks are full-service financial institutions that help meet the day-to-day credit needs of individuals and small businesses. NCB is the sixth largest financial institution in the market and has the highest concentration of commercial and industrial loans among the ten largest financial institutions. The banks most similarly situated to NCB in total asset size range from \$970 million to \$251 million and have an average of 8 banking offices. NCB is the second largest of these 8 financial institutions. Of the remaining financial institutions, four have total assets in excess of \$1 billion while the remaining institutions are smaller than \$250 million. Competition for mortgage loans is especially fierce. In 1996, there were almost 500 lenders reporting mortgage loan originations within the bank's assessment area.

The most pressing commercial credit needs include small dollar working capital loans for small businesses and start-up businesses, loans for development/redevelopment, and loans with flexible underwriting. Commonly cited housing credit needs include combination purchase/rehabilitation loans, flexible first time home buyer loans, and down payment assistance financing. We determined these credit needs from over 50 community contacts conducted by the OCC and other regulators and through our review of CRA Performance Evaluations generated for Minneapolis/St. Paul area banks over the last couple of years.

## **SCOPE OF EXAMINATION**

We examined NCB using the Lending, Investment, and Services Tests for large banks pursuant to the revised CRA regulation. These tests assess the bank's record of helping to meet community credit needs. We analyzed the bank's small business, mortgage, and community development lending on the basis of responsiveness to credit needs in the assessment area, distribution to borrowers of different income levels and businesses of different sizes, geographic distribution, and the extent to which the bank uses flexible and innovative lending products to meet community credit needs. Under the Investment Test, financial institutions are evaluated on the level of qualified investments, particularly those not routinely provided by private investors; the extent to which qualified investments are considered innovative or complex; and the responsiveness of qualified investments to credit and community development needs in the assessment area. For the Service Test, we analyzed branch distribution and accessibility; the extent to which opening and closing branches has affected the accessibility of delivery systems, particularly in LMI geographies or to LMI individuals; the extent to which retail banking services are tailored to the needs of the assessment area, including LMI geographies or individuals; and the level of community development services provided.

Under the Lending Test, we gave small business lending greater consideration than mortgage lending because NCB's primary lending focus is commercial credit. For small business loans, this evaluation covers calendar year 1996 only, since it was the first year such data was required to be collected and reported under the revised CRA regulation. We did not include year-to-date 1997 small business loan data in our analysis as we found the bank's information for 1997 incomplete. We analyzed HMDA-reportable loans for calendar years 1995 and 1996, as well as through August 31, 1997.

The revised CRA regulation also gives consideration to a bank's small farm lending. We did not include small farm lending in our analysis as NCB did not report any small farm loans in 1996. Self-employed farmers comprise only 1 percent of the assessment area's population.

NCB's prior Performance Evaluation was dated May 16, 1994 and the rating was "Satisfactory Record of Meeting Community Credit Needs." The current evaluation covers the period from June 1994 through August 1997.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

#### Lending Activity:

The number and amount of small loans to businesses NCB made and purchased in 1996 showed an adequate responsiveness to the credit needs of commercial borrowers. An analysis of 1996 aggregate small business loan data released by the Federal Financial Institutions Council (FFIEC) showed NCB originated 1.4% of all reported business loans in amounts less than \$1 million within the bank's assessment area. In comparison, similarly situated lenders originated between 1.1% and 1.8% of all reported business loans in amounts less than \$1 million within the bank's assessment area. (The FFIEC data only includes small business loan data for financial institutions with total assets of \$250 million or more or financial institutions of any size that are affiliates of bank holding companies with \$1 billion or more in total assets.)

NCB originated a substantial portion of its small business loans within its assessment area. In 1996, the bank originated 93% of its small business loans within its defined assessment area. NCB made the majority of its small loans to businesses with gross annual revenues of \$1 million or less. In 1996, loans to small businesses accounted for 58% of all small loans reported.

Table 3 shows the number and dollar amount of small loans to businesses originated or purchased within NCB's assessment area in 1996. It also shows the income level of the borrowers.

<b>Table 3: 1996 Small Business Lending Activity</b>									
Business Revenues	Originated			Purchased			Total		
	Count #	%	Amount (000)	Count #	%	Amount (000)	Count #	%	Amount (000)
<b>\$1 Million or less</b>	159	60%	19,966	6	32%	2,240	165	58%	22,206
<b>Greater than \$1 Million</b>	106	40%	22,764	13	68%	5,663	119	42%	28,427
<b>Total</b>	265	100%	42,730	19	100%	7,903	284	100%	50,633

Source: Bank Records

From 1995 through August 1997, NCB showed an adequate responsiveness to home buyer and homeowner credit needs. Given the bank's primary focus on middle market commercial customers and strong competition from other HMDA loan originators in the market, the number and amount of NCB's HMDA-reportable loans is reasonable.

For the evaluation period, the bank originated 94% of its HMDA loans within its assessment area. Table 4 on the following page shows the number and dollar amount of HMDA-reportable loans NCB originated within its assessment area for 1995, 1996, and year-to-date 1997.

<b>Table 4: HMDA Lending Activity Within NCB's Assessment Area</b>						
HMDA PRODUCT	1995		1996		1997 (January - August)	
	Number	\$ (000's)	Number	\$ (000's)	Number	\$ (000's)
<i>Conventional Home Purchase</i>	15	1,970	31	4,128	10	1,627
<i>Refinance</i>	8	1,169	14	3,111	10	1,103
<i>Home Improvement</i>	144	2,430	198	3,286	168	3,979
<i>Multifamily</i>	5	13,585	4	4,230	1	3,000
<b>TOTAL</b>	172	19,154	247	14,755	189	9,709

Sources: Federal Financial Institutions Examination Council (FFIEC) HMDA Data (1995 and 1996), Bank Records (1997)

***Distribution of Loans by Borrower Profile***

NCB showed good penetration among business customers of different revenue sizes. NCB's distribution of loans to businesses of different sizes is significantly better than aggregate lender data, even though it is somewhat below demographic data contained in Table 2. In 1996, 58% of the number and 44% of the dollar amount of NCB's business loans originated in amounts less than \$1 million were to businesses with revenues of \$1 million or less. In comparison, FFIEC 1996 aggregate small business loan data showed only 36% of the number and 20% of the dollar amount of all reported small business loans were to businesses with revenues of \$1 million or less.

Table 5 shows the distribution of NCB's small business loans by loan size. It illustrates NCB's commitment to meeting the identified credit need of small dollar loans to small businesses. Loan size generally correlates to the size of the business. The table shows 67% of NCB's loans to businesses with annual revenues of \$1 million or less were in amounts of \$100 thousand or less.

<b>Table 5: Distribution of Small Loans to Businesses With Gross Annual Revenues Less Than \$1 Million</b>				
Loan Size	Number	Percent	Amount (000)	Percent
<b>0 to \$25,000</b>	39	24%	602	3%
<b>\$25,001 to \$50,000</b>	36	22%	1,414	6%
<b>\$50,001 to \$100,000</b>	35	21%	2,883	13%
<b>\$100,001 to \$250,000</b>	29	18%	4,921	22%
<b>\$250,001 to \$500,000</b>	19	11%	7,023	32%
<b>\$500,001 to \$1,000,000</b>	7	4%	5,363	24%
<b>Total</b>	165	100%	22,206	100%

Source: Bank Records

NCB had a reasonable distribution of HMDA-reportable loans to borrowers of different income levels. We compared NCB's percentage of HMDA loans among borrowers of different income levels to population demographics for the assessment area. We also compared NCB's lending to the aggregate of all HMDA reporters in the market area. Table 6, below, illustrates the distribution of NCB's HMDA-reportable loans to borrowers of different income levels.

<b>Table 6: HMDA Lending Activity by Borrower Income Level</b>						
Income Category & HMDA Product	1995		1996		1997 #	Percent of Families in Income Category
	All Lenders	NCB	All Lenders	NCB	NCB	
<b>Percentage of Loans by Number to Low-Income Borrowers:</b>						10% *
<i>Conventional Home Purchase</i>	8%	6%	8%	3%	0%	
<i>Refinance</i>	7%	0%	7%	0%	10%	
<i>Home Improvement</i>	7%	3%	9%	4%	2%	
<i>All HMDA Loan Products</i>	8%	4%	9%	4%	3%	
<b>Percentage of Loans by Number to Moderate-Income Borrowers:</b>						18%
<i>Conventional Home Purchase</i>	17%	7%	16%	20%	10%	
<i>Refinance</i>	16%	38%	17%	14%	10%	
<i>Home Improvement</i>	19%	18%	22%	22%	19%	
<i>All HMDA Loan Products</i>	21%	17%	21%	21%	18%	
<b>Percentage of Loans by Number to Middle-Income Borrowers:</b>						28%
<i>Conventional Home Purchase</i>	25%	20%	24%	19%	30%	
<i>Refinance</i>	26%	12%	27%	7%	10%	
<i>Home Improvement</i>	33%	30%	33%	33%	33%	
<i>All HMDA Loan Products</i>	27%	27%	26%	29%	31%	
<b>Percentage of Loans by Number to Upper-Income Borrowers:</b>						38%
<i>Conventional Home Purchase</i>	35%	67%	33%	58%	60%	
<i>Refinance</i>	35%	50%	32%	79%	70%	
<i>Home Improvement</i>	38%	49%	34%	41%	46%	
<i>All HMDA Loan Products</i>	30%	49%	28%	45%	48%	
<b>Percentage of Loans by Number to Borrowers with Unknown Income:</b>						0%
<i>Conventional Home Purchase</i>	15%	0%	19%	0%	0%	
<i>Refinance</i>	16%	0%	17%	0%	0%	
<i>Home Improvement</i>	3%	0%	2%	0%	0%	
<i>All HMDA Loan Products</i>	14%	3%	16%	1%	0%	

Sources: FFIEC Aggregate HMDA Data (1995 and 1996), Bank Records (1997), and 1990 Census Data, U.S. Bureau of the Census

# Aggregate data for all lenders for year-to-date 1997 is not available.

\* 33,938 families in the NCB assessment area are below the poverty level. We adjusted the percentage of families who are low-income (16%) to exclude the families who are below the poverty level because it is highly unlikely they could afford to borrow. This resulted in approximately 10% of the low-income families (with incomes between 30% - 50% of the median) who could potentially become borrowers.

When analyzing HMDA lending activity by borrower income level, emphasis was placed on home improvement lending, as this was the HMDA loan category with the most volume of originations. In 1996, the most recent year where aggregate data is available, NCB's percentage of home improvement loans to low-income borrowers is below the percentage of families in the assessment area that are low-income. It is also lower than the percentage of home improvement loans all lenders in the market area made to low-income borrowers. However, NCB's percentage of home improvement loans to moderate-income borrowers is very reasonable when compared to the percentage of families that are moderate-income and when compared to the percentage of loans all lenders in the market area made to moderate-income borrowers. A similar conclusion is drawn for NCB's home improvement lending to middle-income borrowers. The overall distribution is reasonable considering HMDA lending is not the bank's primary focus and NCB does not offer HMDA loan products targeted to LMI individuals.

***Distribution of Loans by Geography***

NCB's geographic distribution of small business loans reflects good penetration throughout the assessment area, including low- and moderate-income census tracts. We compared the bank's geographic distribution of small business loans to FFIEC aggregate data; the percentage of businesses in the assessment area that are located in low-, moderate-, middle-, and upper-income CTs; and the percentage of total CTs in the assessment area that are low-, moderate-, middle-, and upper-income.

Table 7 shows the small business loan geographic distribution data. Of particular note is NCB's percentage of small business loans in low-income census tracts when compared to aggregate lenders and the percentage of all businesses in the assessment area that are located in low-income tracts.

<b>Table 7: 1996 Small Business Lending Activity by Census Tract Income Level</b>					
<b>Census Tract Income Level</b>	<b>NCB Small Business Loans</b>		<b>Aggregate Lenders</b>	<b>All Businesses in Assessment Area</b>	<b>All Census Tracts in Assessment Area*</b>
	<b>Number</b>	<b>Percent</b>	<b>Percent</b>	<b>Percent</b>	<b>Percent</b>
<b>Low-Income CTs</b>	22	8%	5%	6%	9%
<b>Moderate-Income CTs</b>	17	6%	8%	10%	15%
<b>Middle-Income CTs</b>	142	50%	57%	59%	54%
<b>Upper-Income CTs</b>	103	36%	30%	25%	20%

Sources: Bank Records; FFIEC 1996 Aggregate CRA Data; Dun & Bradstreet, Inc.; and 1990 Census Data, U.S. Bureau of the Census

\* This column totals 98%. The remaining 2% of census tracts in NCB's assessment area do not have an applicable income level. These tracts were excluded from the table as 0% of businesses are located in these tracts. NCB and all other lenders in the assessment area reported 0% of their 1996 small business loans in these tracts.

NCB's geographic distribution of HMDA loans shows adequate penetration throughout the assessment area. We compared NCB's geographic distribution with the aggregate distribution of loans for all HMDA reporters in 1995 and 1996. This is illustrated in Table 8. For comparison purposes, the table also includes the percentage of owner-occupied housing in the assessment area that is located in each CT income category as well as the percentage of total CTs in the assessment area that are low-, moderate-, middle- and upper-income.

<b>Table 8: HMDA Lending Activity By Census Tract Income Level</b>							
Income Category & HMDA Product	1995		1996		1997 #	Percent of Owner-Occupied Housing	Total Census Tracts *
	All Lenders	NCB	All Lenders	NCB	NCB		
<b>LOW-INCOME CTs</b>						2%	9%
<i>Conventional Home Purchase</i>	2%	7%	2%	3%	0%		
<i>Refinance</i>	2%	0%	2%	0%	10%		
<i>Home Improvement</i>	2%	1%	2%	1%	1%		
<i>Multifamily</i>	21%	20%	17%	0%	0%		
<i>All HMDA Loan Products</i>	2%	2%	2%	1%	1%		
<b>MODERATE-INCOME CTs</b>						10%	15%
<i>Conventional Home Purchase</i>	5%	0%	5%	3%	10%		
<i>Refinance</i>	7%	13%	6%	7%	0%		
<i>Home Improvement</i>	8%	13%	8%	8%	4%		
<i>Multifamily</i>	16%	20%	20%	0%	0%		
<i>All HMDA Loan Products</i>	8%	12%	7%	7%	4%		
<b>MIDDLE-INCOME CTs</b>						62%	54%
<i>Conventional Home Purchase</i>	57%	47%	56%	52%	60%		
<i>Refinance</i>	60%	37%	61%	36%	60%		
<i>Home Improvement</i>	63%	59%	64%	66%	70%		
<i>Multifamily</i>	45%	40%	48%	25%	100%		
<i>All HMDA Loan Products</i>	61%	56%	61%	62%	70%		
<b>UPPER-INCOME CTs</b>						26%	20%
<i>Conventional Home Purchase</i>	36%	46%	37%	42%	30%		
<i>Refinance</i>	31%	50%	31%	57%	30%		
<i>Home Improvement</i>	27%	27%	26%	25%	25%		
<i>Multifamily</i>	18%	20%	15%	75%	0%		
<i>All HMDA Loan Products</i>	29%	30%	30%	30%	25%		

Sources: FFIEC Aggregate HMDA Data (1995 and 1996), Bank Records (1997), and 1990 Census Data, U.S. Bureau of the Census

# Aggregate data for all lenders for year-to-date 1997 is not available.

\* This column totals 98%. The remaining 2% of census tracts in NCB's assessment area do not have an applicable income level. These tracts were excluded from the table as 0% of owner-occupied housing is located in these tracts. NCB and all other lenders in the assessment area reported 0% of their HMDA loans in these tracts for 1995 or 1996.

When analyzing HMDA lending activity by census tract income distribution, emphasis was placed on home improvement lending, as this was the HMDA loan category with the most volume of originations. Table 8 shows NCB's percentage of home improvement loans in low-income census tracts was directly comparable to aggregate data for all lenders in 1995 and 1996, as well as comparable to the percentage of owner-occupied housing units located in low-income tracts. NCB's home improvement lending in moderate-income census tracts was also comparable to aggregate lender data; however, the percentage declined somewhat for year-to-date 1997.

### **Community Development Lending**

NCB originated a relatively high level of community development loans. During the evaluation period, NCB made 11 qualified community development loans in its assessment area totaling \$7,607,000. Half of these loans involved complex financing arrangements with organizations such as the Minneapolis Community Development Agency (MCDA) and the Minnesota Housing Finance Agency, or with private equity investors. The loans included:

- Two loans totaling \$3.4 million for the construction and permanent financing of two retail centers that are part of long-term plans to stabilize and revitalize two LMI neighborhoods. One of the facilities includes a medical clinic. Both projects are part of complex redevelopment agreements with MCDA. The agreements required MCDA to acquire condemned properties in the targeted LMI areas, raze the existing structures, correct environmental contamination problems, and sell the properties to the borrowers for the express purpose of constructing the retail centers.
- Six loans totaling \$2.6 million for the purchase and renovation of apartment buildings located in LMI neighborhoods. Upon renovation, the buildings will provide over 275 rental units for LMI families. For three of the loans, the renovations also help stabilize LMI neighborhoods that have a history of illegal drug use, uninhabitable housing, and high crime activity.
- \$1.0 million term mortgage loan to cover tenant improvement costs for an office/warehouse building. Goodwill Industries, Inc. will be the largest tenant, along with a medical clinic, a medical supply company, and a broadcasting company.
- \$500 thousand loan to purchase an apartment complex in a moderate-income CT, renovate it, and convert it into LMI cooperative units.
- \$125 thousand mortgage loan to refinance a building that houses three non-profit organizations engaged in economic assistance and redevelopment of a low-income neighborhood. The organizations find jobs for area residents; promote local business development; and facilitate neighborhood participation and revitalization with programs focusing on crime prevention, housing concerns, neighborhood clean-ups, and health services.

In addition, NCB issued two standby letters of credit totaling \$1.1 million for the development of LMI housing. NCB also identified several loans under \$1 million that had a community development purpose but were already reported as small loans to businesses. As noted on the "Glossary of Terms and Common Abbreviations" page of this evaluation, these loans are excluded from the definition of community development loans.

### **Flexible Loan Programs**

NCB used flexible lending programs to help meet the credit needs of borrowers in its assessment area. For example, NCB participated in several small business loan programs through MCDA. These included the Two-Percent Loan Program, helping stabilize commercial areas and increase employment opportunities for neighborhood businesses; the Working Capital Loan Program, enabling new and growing small businesses to obtain operating loans and finance expansion; and the Micro Loan Program, providing management assistance and loans to businesses in neighborhoods targeted for revitalization and stabilization by MCDA and the Minneapolis Consortium of Community Developers. Data on loan originations under these programs was not available; however, these loans were included in the small business loan data discussed in this evaluation.

NCB also participated in federal programs that provide financing for small businesses and home buyers, including Small Business Administration (SBA), Federal Housing Administration (FHA), and Veteran's Administration (VA) loan programs. Data on SBA loan originations was not available; however, NCB had \$2.2 million in outstanding SBA loans as of July 31, 1997. The bank did not report any FHA or VA loans during this evaluation period.

In addition, NCB participates in a multi-bank lending consortium sponsored by the Metropolitan Economic Development Association (MEDA), a non-profit organization that provides financial, technical, and managerial assistance to minority-owned small businesses in the metropolitan area. The consortium loan program provides flexible working capital loans for minority entrepreneurs who do not meet traditional lending standards. Loan amounts range from \$25 thousand to \$150 thousand. Loan funds available through the consortium total \$5.3 million, including \$3.3 million from financial institutions and \$2 million from the McKnight Foundation and state financing. NCB committed to providing \$330 thousand, or 10% of the funding from financial institutions. The financial institutions also guarantee a portion of the loan pool. During this evaluation period, the consortium originated \$1.4 million in loans to 11 businesses.

## **INVESTMENT TEST**

NCB made an adequate level of qualified community development investments and grants that benefit the bank's assessment area. During the evaluation period, NCB made \$659 thousand in qualified investments and grants. This represents 0.09% of total assets as of June 30, 1997, or approximately 0.03% on an annual basis.

Qualified investments included:

- \$328 thousand over four years to purchase interests in limited partnerships formed to construct affordable housing, primarily in the Twin Cities metropolitan area. The residential real estate projects qualify for federal low-income housing tax credits.
- \$288 thousand in grants and donations to organizations whose primary purpose meet the definition of community development, including groups dedicated to promoting economic development by financing or providing technical assistance to small businesses; providing affordable housing or community services targeted to LMI individuals; or promoting activities that stabilize or revitalize LMI geographies.
- \$43 thousand in grants to 26 LMI families. The grants provided down-payment assistance for families purchasing homes. To qualify, the applicant's annual income may not exceed 80% of the MSA median family income.

None of the investments are considered innovative or complex and all are routinely provided by private investors. The investments adequately respond to credit and community development needs in NCB's assessment area as 66% of the qualified investments and grants were to organizations who focus primarily on providing affordable housing for LMI individuals or promoting economic development by providing financing or technical support for small businesses. The remaining 34% of qualified investments were to organizations focused on providing community services targeted to LMI individuals or working to stabilize or revitalize LMI geographies.

## **SERVICE TEST**

### **Retail Banking Services**

NCB's delivery systems are reasonably accessible to essentially all portions of the bank's assessment area. The bank's main office, drive-up facility, and Edina branch are all located in middle-income CTs. The main office and drive-up facility are in downtown Minneapolis. The areas surrounding downtown Minneapolis contain 36 low- and 39 moderate-income CTs, or 52% of all LMI CTs in the bank's assessment area. Hours of operation are reasonable with the main office and the drive-up facility open Monday through Friday from 7:30 a.m. to 6:00 p.m. The Edina branch offers extended hours on Friday and Saturday. There are no material differences in the availability or cost of services at any locations.

Because the bank has limited branches, NCB relies on several alternative banking systems to reasonably reach essentially all portions of the bank's assessment area. These alternative banking systems include:

- In 1995, NCB piloted Direct Access Banking, which consists of a proprietary ATM and video telephone in the plant of one of NCB's commercial customers. In 1997, the bank refined the program to introduce Kiosk Banking at two additional commercial customer locations. These kiosks consist of proprietary ATMs with interactive video and telephone access to an NCB banker, as well as a fax machine, document scanner, and a printer. Customers at all three kiosks (primarily employees of the commercial customers) are able to consult with the banker regarding their personal financial needs, apply for loan and deposit accounts, and conduct transactions from their deposit accounts. The kiosks are located in one moderate-income, one middle-income, and one upper-income CT; however, no information was available on the income level of the individuals actually using the kiosks. NCB plans to open additional kiosks in the immediate future.
- Another kiosk is located in the building that houses NCB's main office. This kiosk also consists of an ATM and permits individuals to inquire about NCB's products and services during the hours the building is open, from 6:00 a.m. to 12:00 a.m. Individuals can inquire about consumer and business products and services, special bank promotions, and loan payments for instalment loans.
- NCB entered into an agreement with First Bank Systems where NCB customers can use over 120 ATMs throughout the metropolitan area owned and operated by First Bank without incurring an access fee. Transactions are limited to withdrawals from and transfers between NCB deposit accounts only; customers can not make deposits. The geographic distribution of these kiosks include 7% in low-income CTs, 10% in moderate-income CTs, 60% in middle-income CTs, and 23% in upper-income CTs.
- NCB offers Info-Bank, a 24-hour telephone service where customers can monitor loan and deposit accounts, initiate transactions, and obtain loan and deposit rate information. For business customers, the bank also offers Network Banker, where customers can monitor business account activity, initiate transactions, and communicate loan paydowns and advances via computers.

Together with the bank's branches, these alternative delivery systems make the bank's products and services reasonably accessible to all portions of NCB's assessment area. This is evidenced by the bank's reasonable lending performance in LMI geographies, as discussed under the "Lending Test".

NCB's record of opening and closing branches has not adversely affected the accessibility of its delivery systems. In 1996, NCB relocated its main office approximately one block in downtown Minneapolis. The new location provides state-of-the-art technology and easy access to the Minneapolis skyway system and downtown retail stores, restaurants, and businesses. To provide continued access to the bank's delivery systems during construction of the new office, NCB opened a temporary branch in the Gaviidae Common. The temporary branch closed upon completion of the new office in March 1996.

***Community Development Services:***

NCB provides a relatively high level of community development services. Bank staff regularly provide financial expertise to organizations serving the needs of small businesses and LMI individuals. They also provide financial expertise in helping new organizations establish programs for LMI families and small businesses. Examples of the community development services NCB and its employees provide in the bank's assessment area include:

- Bank officers provide ongoing financial expertise to MEDA and various programs sponsored by MEDA. Two loan officers have served on the loan committee for the multi-bank lending consortium that targets minority-owned small businesses. A bank employee provides financial expertise by spreading financial statements and preparing projections for small businesses obtaining financing and management assistance through the Milestone Growth Fund. Another bank officer serves on the Minnesota Minority Supplier Development Council, which provides sales development and marketing assistance to MEDA clients.
- A bank officer provided financial expertise in helping the Self Sufficiency Center set up their counseling programs for potential home buyers. The organization targets LMI families and provides education workshops on a variety of home buying topics, including pre-purchase mortgage counseling, financial management skills, selecting a home, down payment assistance programs, and financing options.
- Several bank representatives have worked on the Commonweal HeroCard Demonstration Project. The program pilots a "dual-currency" system where consumers use cash and cash-like credits earned in voluntary activities to pay for products and services at participating merchants. Volunteer activities generally qualify for community development, including education, day care, job training, social services, and neighborhood clean-up programs targeted to LMI individuals and geographies. The program also promotes economic development and stabilization as small businesses become involved in the project by becoming participating merchants. The Commonweal Project is currently being tested in a LMI neighborhood. NCB employees have been involved in the development and implementation of the project and provide monthly statements to project participants detailing credits earned and spent.
- Consumer and small business loan officers have participated in the ACORN Bank Fair for several years. Bank personnel provided financial training for small business owners and provide general information on obtaining small business and home improvement loans.
- On an ongoing basis, several bank representatives serve on the Boards of Directors of several community organizations that focus on the needs of LMI individuals, small businesses, or LMI geographies.

**FAIR LENDING REVIEW**

We did not identify any substantive violations of the anti-discrimination laws (Equal Credit Opportunity, Fair Housing, and Home Mortgage Disclosure Acts).

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## **ADDITIONAL INFORMATION**

NCB is located in the Minneapolis-St. Paul, MN-WI MSA #5120. HMDA data is available to the public by contacting the following:

Thomas Smisek  
Tech/Sci/Docs  
Minneapolis Public Library  
300 Nicollet Mall  
Minneapolis, Minnesota 55401-1992  
Phone: (612) 372-6643