



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 12, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Franklin National Bank Of Minneapolis
Charter Number 14949**

**2100 Blaisdell Avenue
Minneapolis, MN 55404**

**Comptroller of the Currency
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.

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INSTITUTION'S CRA RATING

This institution is rated Outstanding.

The bank's performance in community development lending is excellent. The bank originated 13 loans, or 51 percent of the bank's Tier 1 Capital as of December 31, 2002, to businesses or individuals to provide affordable housing to low- or moderate-income individuals.

The geographic distribution of the bank's loans is excellent. The majority of the bank's loans are in low- or moderate-income areas.

A majority of the bank's loans by number (78 percent) and by dollar volume (82 percent) are located within the bank's defined assessment areas.

The bank's average net loan-to-deposit ratio of 80 percent is reasonable and compares favorably with those of other similarly situated banks.

DESCRIPTION OF INSTITUTION

Franklin National Bank (FNB) of Minneapolis, Minnesota, is a \$79 million commercial bank located in the Minneapolis/St. Paul Metropolitan Area (MA). The bank's main office is located in south Minneapolis on the corner of Blaisdell Avenue and Franklin Avenue. The bank opened a branch located in the "Warehouse District" of downtown Minneapolis on Washington Avenue in 2002. Also, in 2002, FNB sold their Plymouth branch, located in the western Minneapolis suburb of Plymouth. The main office and branch are full-service facilities. The bank has two automated teller machines (ATM). One ATM is located at the Washington Avenue branch and the other is located at the International Market Square building in the "Warehouse District". The Washington Avenue ATM accepts deposits for FNB customers only. While the International Market Square ATM does not accept deposits, there is a depository drop box, which also accepts deposits for FNB customers only.

FNB's business focus is commercial and residential real estate lending. According to its Report of Condition and Income, FNB had the following outstanding loans by dollar volume on December 31, 2002: commercial (\$45,208,000 or 66 percent); residential real estate (\$22,131,000 or 32 percent); and consumer (\$1,357,000 or 2 percent). Net loans total 83 percent of total assets.

The bank is 100 percent owned by Franklin Bancorp Inc (dba Sunrise Community Banks), a \$234 million two-bank holding company, with an affiliate holding company and bank in St. Paul, Minnesota. Chairman of the Board William Reiling owns 100 percent of Franklin Bancorp and 46 percent of affiliate holding company, University Financial Corporation.

FNB received an "Outstanding" rating at its April 15, 1997 CRA examination. This

Performance Evaluation assesses the bank's CRA activities from January 1, 1997 through December 31, 2002. There are no financial, legal or other factors which impede the bank's ability to meet the credit needs in its assessment area.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area is located in Hennepin County, which is part of the Minneapolis/St. Paul Minnesota Metropolitan Area (MA). The assessment area includes Minneapolis and several western and southwestern suburban areas. This area includes 256 contiguous census tracts. There are 37 low-income census tracts, 48 moderate-income, 115 middle-income, and 56 upper-income census tracts within the bank's assessment area. The total population of the assessment area is 860,022 persons, according to 1990 U.S. Census Data.

The assessment area complies with regulatory requirements. It includes FNB's main office, branch location and ATMs, along with a majority of the bank's loans. The area does not arbitrarily exclude any low- to moderate-income census tracts.

The U.S. Department of Housing and Urban Development's 2002-updated Minneapolis-St. Paul, MN-WI MA Median Family Income (MFI) estimate is \$76,700. The following table summarizes the income levels of individual census tracts and families located within the bank's assessment area:

| INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES | | | | | | | | | | | | |
|--------------------------------------------------------|-------------------------------------|---------|----------|---------|--------|---------|--------|---------|------------------------|----------|---------|---------|
| Assessment Area | Number and Percent of Census Tracts | | | | | | | | Percentage of Families | | | |
| | Low | | Moderate | | Middle | | Upper | | Low | Moderate | Middle | Upper |
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Percent | Percent | Percent | Percent |
| Portion of Hennepin County | 37 | 14% | 48 | 19% | 115 | 45% | 56 | 22% | 19% | 18% | 26% | 37% |

Source: U.S. Census Data (1990)

The assessment area has seven percent of families with incomes below the poverty level (less than 30 percent of MFI).

The bank's assessment area of Hennepin County has a thriving, diversified economic base. It is a center for high-tech electronics, medical instruments, health care, finance, insurance, entertainment and the arts, printing and publishing, as well as processing and transporting agricultural products. The area is the home of seventeen FORTUNE 500 companies and several of the world's largest private companies. According to the US Department of Labor statistics, the December 2002 unemployment figure for Minnesota was 3.7 percent, which is lower than the National average of 5.7 percent. In the bank's assessment area, unemployment in Hennepin County is at 4.1 percent.

Competition from other financial institutions is substantial. Within the entire Minneapolis-St. Paul, MN-WI MA, there are 168 banks operating 720 offices. Including FNB, there are 46 financial institutions chartered in the bank's assessment area. The bank, with a deposit share of

0.24 percent, ranks 24 out of the 46 banks with offices in the assessment area. Out of the 46 financial institutions, eight are considered similarly situated based on asset size and product types. Based on asset size, FNB ranks third out of eight similarly situated banks in the assessment area.

Previous community contacts have indicated a need for affordable housing, small business loans, and credit counseling. We did not identify any unmet credit needs in FNB’s assessment area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition and assessment area credit needs. The bank’s quarterly net loan-to-deposit ratio averaged 80.35 percent over the 24 quarters from March 31, 1997 to December 31, 2002.

FNB’s net loan-to-deposit ratio is reasonable based upon the other community banks of similar size (total assets \$50 million to \$105 million) in the assessment area. The average loan-to-deposit ratio for the 8 similarly situated banks in the assessment area is 66 percent, with a range from 36 percent to 99 percent over the last 24 quarters from March 31, 1997 to December 31, 2002.

Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its defined assessment area. Of loans originated from 1997 to 2002, 78 percent by number and 82 percent by dollar volume were made to businesses and individuals located within the bank’s assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

| LENDING IN ASSESSMENT AREAS BY NUMBER AND DOLLAR AMOUNT (000s) | | | | |
|-----------------------------------------------------------------------|--------|-------------------|---------|--------------------|
| Type of Loan | Number | Percent of Number | Dollars | Percent of Dollars |
| Commercial | 20 | 85% | 2,871 | 96% |
| Residential Real Estate – Purchase | 76 | 72% | 6,137 | 82% |
| Residential Real Estate – Home Improvement | 132 | 80% | 3,448 | 71% |
| Total | 228 | 78% | 11,633 | 82% |

Source: Bank records and HMDA LAR (verified by examiners)

FNB also originated a substantial amount of loans that qualify as community development loans.

All of the 13 loans originated were to businesses or individuals to provide affordable housing for low- or moderate-income individuals. In addition, all 13 loans were for properties located in low- or moderate-income tracts and represent 51 percent of the bank's Tier 1 Capital as of December 31, 2002.

| COMMUNITY DEVELOPMENT LOANS BY NUMBER AND DOLLAR AMOUNT (000's) | | |
|----------------------------------------------------------------------------|-----------------------|--------------------------------------|
| Number | Dollar Amount (000's) | Percent of Tier 1 Capital (12/31/02) |
| 13 | 3,468 | 51% |

Source: Bank records (verified by examiners)

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

Overall, the income distribution of borrowers reflects a reasonable penetration among businesses of different sizes and individuals of different income levels. Lending to businesses and low- and moderate-income individuals meet community demographics.

Commercial lending activity in the assessment area reasonably meets community demographics. The number of loans in the assessment area originated to small businesses with annual revenues less than \$500,000 is comparable to the number originated to businesses with revenues exceeding one million dollars. Even though 40 percent of the commercial loans sampled had annual revenues in excess of one million dollars, the majority of those businesses were located in low- and moderate-income tracts. The following table compares the bank's commercial lending activity by revenue size to community demographics:

| BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE | | | |
|------------------------------------------------------------------|--------|-------------------|---------------------------|
| Annual Gross Revenue | Number | Percent of Number | Business Demographic Data |
| <\$250,000 | 5 | 25% | 89% |
| \$ 250,000-\$500,000 | 4 | 20% | |
| \$500,000-\$1,000,000 | 3 | 15% | |
| >\$1,000,000 | 8 | 40% | 11% |
| Totals | 20 | 100% | 100% |

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Residential real estate lending in the assessment area meets community demographics for both low- and moderate-income borrowers. This is strong performance given that seven percent of families have income below the poverty level and the majority of these consumers would not qualify for loans under normal underwriting guidelines. In addition, the majority of these individuals, even if they would qualify for loans, would not be able to purchase a house because the cost of housing has significantly appreciated over the past five years in the Minneapolis-St.

Paul MA. The average median price for a single-family home is currently in excess of \$200,000. The following table shows the summary of results:

| BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY INCOME LEVEL | | | | | | | | |
|-------------------------------------------------------------------------------|--------|--------|----------|--------|--------|--------|--------|--------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Percent of AA Families | 19.15% | | 18.41% | | 25.45% | | 36.99% | |
| | % No. | % Amt. | % No. | % Amt. | % No. | % Amt. | % No. | % Amt. |
| Home Purchase | 15% | 15% | 10% | 10% | 31% | 21% | 44% | 54% |
| Home Improvement | 19% | 20% | 23% | 15% | 37% | 39% | 21% | 26% |

Source: Bank HMDA LAR (verified by examiners) and U.S. Census Data (1990).

Geographic Distribution of Loans

The geographic distribution of loans in the assessment area is excellent for both commercial and residential lending. Commercial and residential loan distribution in low- and moderate-income tracts exceeds the demographics.

| GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS IN THE ASSESSMENT AREA | | | | | |
|---------------------------------------------------------------------------|-----------------------------------------------------------------|----------------------|-------------------|----------------------|--------------------------------------------------|
| Tract Income Level | Originations Dated January 1, 1998 through December 31, 2002 | | | | Percent of Businesses By Tract Category |
| | Number | Percent of Number | Amount (\$000) | Percent of Amount | |
| Low-Income | 11 | 55% | \$1,949 | 77% | 9% |
| Moderate-Income | 3 | 15% | \$400 | 15% | 11% |
| Middle-Income | 2 | 10% | \$75 | 3% | 46% |
| Upper-Income | 4 | 20% | \$120 | 5% | 34% |
| Totals | 20 | 100% | \$2,544 | 100% | 100% |

Source: Bank records (verified by examiners) and U.S. Census Data (1990).

| GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN THE ASSESSMENT AREA | | | | | | | | |
|----------------------------------------------------------------------------------------|-------|--------|----------|--------|--------|--------|--------|--------|
| Tract Category | Low | | Moderate | | Middle | | Upper | |
| Percent of Owner-Occupied Housing | 3.45% | | 13.50% | | 53.30% | | 29.75% | |
| | % No. | % Amt. | % No. | % Amt. | % No. | % Amt. | % No. | % Amt. |
| Home Purchase | 42% | 52% | 25% | 24% | 20% | 17% | 13% | 7% |
| Home Improvement | 33% | 44% | 18% | 15% | 35% | 25% | 14% | 16% |

Source: Bank HMDA LAR (verified by examiners) and U.S. Census Data (1990).

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

Fair Lending Review

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