



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 29, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Minnesota Bank, National Association
Charter Number 2571**

**4625 County Highway 101
Minnetonka, MN 55343**

**Comptroller of the Currency
Minneapolis North Field Office
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 Satisfactory.

First Minnesota Bank, National Association (FMB) is satisfactorily meeting the credit needs of its assessment area.

- The geographic distribution of residential real estate loans is excellent as it exceeds owner occupied housing unit demographics. The business demographics of the assessment area are such that minimal emphasis was placed on the geographic distribution of commercial loans.
- The distribution of loans in the assessment area to businesses of different sizes is reasonable in both assessment areas. Residential real estate lending to borrowers of different incomes is excellent in both assessment areas.
- A majority of loans were originated within the combined assessment area.
- The average quarterly loan-to-deposit ratio is reasonable compared to other similar sized banks.

DESCRIPTION OF INSTITUTION

FMB is a \$298 million national bank. The bank's main office is a full-service facility located in Minnetonka, Minnesota, which is approximately 12 miles west of Minneapolis. In addition, the bank has seven full-service branch locations in Glencoe, Hutchinson, Stewart, Brooklyn Park, Buffalo, Monticello, and Mayer, Minnesota. The bank operates a total of seven on premise automated teller machines at its offices in Buffalo, Glencoe, Hutchinson (2), Monticello, Mayer, and Minnetonka.

FMB's business focus is commercial/commercial real estate and residential real estate lending. According to the June 30, 2003 Report of Condition and Income, FMB's loan portfolio is comprised of approximately \$81,249,000 in commercial and commercial real estate loans (55% of total loans), \$45,087,000 in residential real estate loans (31%), \$10,465,000 in consumer loans (7%), and \$10,090,000 in agricultural loans (7%). Net loans represent 48% of FMB's total assets.

The bank is 100% owned by McLeod Bancshares. McLeod Bancshares is a \$300 million, one-bank holding company headquartered in Shorewood, Minnesota. The bank has three affiliates in association with McLeod Bancshares: The Wakefield Trust (an asset management company); Professional Insurance Providers (an insurance company); and Agents & Brokers, LLC (a brokerage company).

FMB received a "Satisfactory" rating during its October 13, 1998 CRA evaluation. This Performance Evaluation assesses the bank's CRA activities from November 1, 1998 through

December 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The bank's combined assessment area consists of 62 contiguous geographies in seven counties. These adjoining geographies surround the bank's office locations. Fifty-three census tracts (CTs) are located in the Minneapolis/St. Paul Metropolitan Area (MA assessment area). The remaining nine geographies are block numbering areas (BNAs) located outside of the MA (non-MA assessment area). Counties in the bank's combined assessment area include Hennepin, Wright, Carver, Sherburne, McLeod, Sibley, and Renville. The area's population was estimated at 303 thousand people according to the 1990 U.S. census.

The assessment areas meets the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies. The first table below shows that no CTs located in the MA assessment area are in low-income geographies, 6% in moderate-income, 60% in middle-income, and 34% in upper-income. As shown in the second table, none of the BNAs located in the non-MA assessment area are low- or moderate-income, 67% are middle-income, and 33% are upper-income. Distributions in both tables are based on 1990 census data. Both tables also show the distribution of families by income levels.

Income Distribution of Geographies and Families (MA)								
MA Assessment Area	Number of CTs				Percentage of Families			
	Low	Mod	Mid	Upper	Low	Mod	Mid	Upper
Hennepin, Wright, Carver, and Sherburne Counties	0	3	32	18	13%	17%	29%	41%

Income Distribution of Geographies and Families (non-MA)								
Non-MA Assessment Area	Number of BNAs				Percentage of Families			
	Low	Mod	Mid	Upper	Low	Mod	Mid	Upper
McLeod, Sibley, and Renville Counties	0	0	6	3	12%	15%	24%	49%

Source: U.S. census data (1990)

Competition for loans and deposits is strong as there are several financial institutions located in the bank's assessment areas. Competing institutions range in asset size from \$25 to \$300 million for community banks. Also, branches of large regional banks reside in the assessment areas and compete for market share.

The economy of the assessment areas relies on service, retail, and manufacturing industries. Major employers in Minnetonka include Cargill, Carlson Companies Inc., St. Jude Medical, and Allina Health System. As of June 2003, the unemployment rate for the Minneapolis/St. Paul Metropolitan Area was 4.8%, which is between the unemployment rate for the State of Minnesota (4.4%) and the United States (5.8%). The unemployment rate for McLeod County in the non-MA was 4.6%. Updated median family income for the MA increased from \$41,001 based on the 1990 census data to \$73,500 in 2002. Likewise the median family income for non-MA Minnesota increased from \$28,933 in 1990 to \$48,500 in 2002. The percentage of households reporting income below the poverty level is 5% in the MA and 6% in the non-MA. 1990 census data indicated that the weighted-average median housing value in the MA was \$92,245, while the value in the non-MA was \$57,882. 2000 census data shows that the median housing value increased to \$143,400 for Hennepin County and to \$104,800 for McLeod County.

A local municipality employee was contacted during this evaluation to assist in evaluating the credit needs of the assessment area. This contact indicated that the product lines offered by this and other local financial institutions fit the credit needs of the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Geographic Distribution of Loans

The bank's geographic distribution of loans throughout the assessment area is excellent.

The following table shows that only 1% of businesses are located in the moderate-income CTs of the MA assessment area. The fact that no commercial or commercial real estate loans were contained in our sample of 20 loans is not indicative of less than reasonable performance given the demographic distribution. We did not evaluate geographic loan distributions in the non-MA assessment area because it does not include any low-or moderate-income BNAs.

Geographic Distribution of Commercial Loans by CT Income Level					
CT Income Level	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Amount	Percent of Businesses by CT Category
Low	0	0%	\$0	0%	0%
Moderate	0	0%	\$0	0%	1%
Middle	15	75%	\$1,347	66%	53%
Upper	5	25%	\$695	34%	46%
Total	20	100%	\$2,042	100%	100%

The geographic distribution of residential real estate loan originations is excellent. Residential real estate loan originations exceed demographics for moderate-income CTs. Specifically, home purchase, home refinance, and home improvement geographic loan distributions exceed the demographics for moderate-income CTs within the MA assessment area. The following table shows the geographic distribution by product for residential real estate loans originated within the bank's MA assessment area. The bank's Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) for the evaluation period is the source of this data.

Geographic Distribution of Home Improvement Loans by CT Income Level					
CT Income Level	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Amount	Percent of Owner-Occupied Housing Units by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	7	7%	\$417	8%	5%
Middle	92	86%	\$4,719	87%	63%
Upper	7	7%	\$261	5%	32%
NA	0	0%	\$0	0%	0%
Total	106	100%	\$5,397	100%	100%

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

Geographic Distribution of Home Purchase Loans by CT Income Level					
CT Income Level	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Amount	Percent of Owner-Occupied Housing Units by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	29	18%	\$3,489	16%	5%
Middle	125	76%	\$16,718	76%	63%
Upper	10	6%	\$1,691	8%	32%
NA	0	0%	\$0	0%	0%
Total	164	100%	\$21,898	100%	100%

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

Geographic Distribution of Home Refinance Loans by CT Income Level					
CT Income Level	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Amount	Percent of Owner-Occupied Housing Units by Tract Category
Low	0	0%	\$0	0%	0%
Moderate	75	17%	\$10,074	16%	5%
Middle	337	77%	\$46,758	75%	63%
Upper	27	6%	\$5,361	9%	32%
NA	0	0%	\$0	0%	0%
Total	439	100%	\$62,193	100%	100%

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

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

FMB's distribution of loan originations within the assessment area to borrowers of different income levels and businesses of different sizes is reasonable.

FMB's commercial loan originations are reasonably distributed among businesses of different sizes, in both the MA and non-MA assessment areas. Although lending to businesses with annual revenues of less than \$1 million is slightly below demographics, the overall distribution is still considered reasonable for both the MA and non-MA assessment areas. It should be noted that a significant number of businesses in the assessment area did not report their revenue. The tables below show the bank's distribution of commercial loans to businesses with various annual revenues. The data was compiled from a random sample of 40 commercial loans, 20 each from the MA and non-MA assessment areas, originated during the evaluation period.

Borrower Distribution of Commercial Loans by Revenue Size (MA)					
Gross Annual Revenue	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Business Demographic Data
Revenues < \$50	3	15%	\$396	21%	
Revenues \$50-\$100	4	20%	\$328	17%	
Revenues \$100-\$250	4	20%	\$150	8%	
Revenues \$250-\$500	3	15%	\$441	23%	
Revenues \$500-\$1,000	3	15%	\$577	31%	
Total Revenues <\$1,000	17	85%	\$1,892	93%	91%*
Total Revenues >\$1,000	3	15%	\$150	7%	9%*
Total	20	100%	\$2,042	100%	100%*

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

*Note: Business demographic data is for reporting companies only. In the assessment area, 41% of businesses did not report their revenue.

Borrower Distribution of Commercial Loans by Revenue Size (non-MA)					
Gross Annual Revenue	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Business Demographic Data
Revenues < \$50	4	20%	\$108	12%	
Revenues \$50-\$100	4	20%	\$315	36%	
Revenues \$100-\$250	5	25%	\$163	18%	
Revenues \$250-\$500	2	10%	\$197	22%	
Revenues \$500-\$1,000	1	5%	\$105	12%	
Total Revenues <\$1,000	16	80%	\$888	74%	93%*
Total Revenues >\$1,000	4	20%	\$309	26%	7%*
Total	20	100%	\$1,197	100%	100%*

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

*Note: Business demographic data is for reporting companies only. In the assessment area, 19% of businesses did not report their revenue.

FMB's overall residential real estate lending performance by borrower income is excellent. A breakdown by residential real estate lending product for loans originated in the MA assessment area shows that home purchase, improvement, and refinance lending exceeded both the low- and moderate-income demographics by number and dollar. Residential real estate lending in the non-MA assessment area exceeds the demographic for low-income and is near the demographic for moderate-income families. The tables below detail the distribution of residential real estate loans originated in the MA assessment area, by product type, among borrowers of different income levels compared to the percentage of families in the assessment area by income level. The data was compiled from the loans reported on the bank's HMDA-LAR over the evaluation period.

Borrower Distribution of Home Improvement Loans By Income Level (In MA)					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	18	17%	\$770	14%	13%
Moderate	34	32%	\$1,701	32%	17%
Middle	36	34%	\$1,952	36%	28%
Upper	18	17%	\$974	18%	42%
NA	0	0%	\$0	0%	0%
Total	106	100%	\$5,397	100%	100%

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

Borrower Distribution of Home Purchase Loans by Income Level (In MA)					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	24	15%	\$2,306	11%	13%
Moderate	64	39%	\$9,001	41%	17%
Middle	47	29%	\$6,175	28%	28%
Upper	24	14%	\$3,758	17%	42%
NA	5	3%	\$658	3%	0%
Total	164	100%	\$21,898	100%	100%

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

Borrower Distribution of Home Refinance Loans by Income Level (In MA)					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	62	14%	\$6,112	10%	13%
Moderate	137	31%	\$16,324	26%	17%
Middle	145	33%	\$12,295	34%	28%
Upper	91	21%	\$17,831	29%	42%
NA	4	1%	\$631	1%	0%
Total	439	100%	\$62,193	100%	100%

The table below details distributions by borrower income level in the non-MA assessment area based on a sample of 20 residential real estate loans. The loans were analyzed and categorized based upon the updated 2002 non-MA median family income for Minnesota.

Borrower Distribution of Residential Real Estate Loans by Income Level (Non-MA Assessment Area)					
Borrower Income Level	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Amount	Percent of Families in Assessment Area
Low	3	15%	\$94	6%	12%
Moderate	2	10%	\$39	3%	15%
Middle	12	60%	\$919	59%	24%
Upper	3	15%	\$504	32%	49%
NA	0	0%	\$0	0%	0%
Total	20	100%	\$1,556	100%	100%

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

Lending in Assessment Area

FMB originates a majority of its loans to borrowers located within its combined assessment area. Based on a sample of 20 commercial and commercial real estate loans, 70% by number and 33% by dollar were originated within the assessment area. The percent of loans by dollar in the commercial loan sample is skewed by two large originations outside the assessment area. Excluding these loans which total \$545,000, the dollar percentage of commercial loans within the assessment area would increase from 33% to 72%. Our sample of 20 residential real estate

loans found that 75% by number and 69% by dollar were originated within the bank's overall assessment area.

Lending in Assessment Area by Number and Dollar Amount (000s)				
Type of Loan	Number of Loans	Percent by Number	Dollar Amount (000s)	Percent by Dollars
Commercial	14	70%	\$340	33%
Total Residential RE	15	75%	\$1,728	69%
Total	29	73%	\$2,068	59%

Source: Bank Records (verified by examiners)

Loan-to-Deposit Ratio

FMB's quarterly net loan-to-deposit ratio is reasonable considering its size, financial condition, recent acquisitions, and the credit needs of the assessment area. The bank's quarterly net loan-to-deposit ratio averaged 63% from December 31, 1998 to December 31, 2002. This ratio ranged from 54% to 73% over this time period. FMB's net quarterly loan-to-deposit ratio totals 63% as of June 30, 2003.

FMB's average quarterly net loan-to-deposit ratio is lower but commensurate with other similarly situated banks. A total of 19 similarly situated banks with total assets between \$101 million and \$341 million have main offices or branches in the assessment area. The average quarterly net loan-to-deposit ratio for this peer group is 74%. Peer average ratios ranged from a low of 57% to a high of 87% during the 17 quarters from December 1998 through December 2002. FMB's loan-to-deposit ratio ranks 18th among 19 similarly situated banks chartered in the assessment area. The competitive market and rate sensitive customers may contribute to the bank's lower loan-to-deposit ratio. Bank management has chosen to focus on its service as opposed to offering aggressive rates. Management has set a goal of a loan-to-deposit ratio of 65% to 70% going forward.

Between November 1998 and December 31, 2002, the bank also sold 1,550 loans totaling \$213 million on the secondary market. This may have contributed to FMB's lower loan-to-deposit as compared to other similarly situated banks in the assessment area.

Responses to Complaints

There have been no CRA-related complaints since the last CRA evaluation dated July 13, 1998.

Record of Compliance with Anti-Discrimination Laws

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