

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 the 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 Dakota Bank, Mendota Heights, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of July 29, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The CRA evaluation revealed numerous factors that support rating the bank's CRA performance as satisfactory. First, the bank's net loan-to-deposit ratio is high and compares favorably with the local competition. Second, the bank originates a majority of its consumer and commercial loans to residents and businesses in its assessment area. Third, the bank extends loans to low- and moderate-income individuals and small businesses. Finally, the bank lends to persons and businesses throughout the assessment area.

The following table indicates the performance level of Dakota Bank, Mendota Heights, Minnesota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	DAKOTA BANK MENDOTA HEIGHTS, MINNESOTA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	The bank has not received any CRA complaints since the last evaluation.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank effectively meets the credit needs of residents and businesses located within its assessment area. The prior CRA evaluation, also performed by the Federal Reserve Bank of Minneapolis, similarly revealed that the bank's performance in meeting community credit needs was satisfactory. The bank operates five full-service offices and five cash-dispensing automated teller machines ("ATMs") throughout the assessment area. Bank customers have 24-hour access to the bank's ATMs.

The bank's main office is located at 750 South Plaza Drive in Mendota Heights, Minnesota. The branch offices are located at 7055 Cahill Avenue, Inver Grove Heights, Minnesota; 2109 Cliff Road, Eagan, Minnesota; 1425 Maryland Avenue East, St. Paul, Minnesota; and 2310 West Seventh Street, St. Paul, Minnesota. The bank opened the branch at 1425 Maryland Avenue just prior to the last evaluation and it opened the 2310 West Seventh Street branch in August 1995.

According to its March 31, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$61 million. The ROC data indicates that the bank is primarily a commercial lender; the bank's loan portfolio is composed of 79% commercial (including 21% commercial real estate) loans; consumer and residential real estate loans represent 10% and 11% of the bank's loan portfolio, respectively. The bank's offices located in Mendota Heights, Eagan, and Inver Grove Heights account for a substantial majority of the bank's lending activity. The bank's market niche is commercial loans for small businesses, but it does originate consumer and residential real estate loans in an effort to be a full-service bank for its customers. The composition of the bank's loan portfolio reflects the level of demand for specific types of loans by members and businesses of the bank's market.

The bank offers a variety of loan products to fulfill the credit needs of the residents and businesses within its assessment area. The bank offers closed-end consumer loans, overdraft protection lines of credit, and home equity lines of credit. It also offers conventional residential real estate credit products, including purchase-money, refinance, and home improvement loans; loan customers requesting residential real estate loans not offered by the bank are referred to a local mortgage company. The bank participates in one governmental loan program to benefit consumer borrowers: the Minnesota Housing Finance Agency's Home Improvement Loan Program. In addition to offering conventional commercial loans, the bank also participates in the Small Business Administration Loan Program.

Because of the bank's size and location in the Minneapolis-St. Paul metropolitan statistical area ("MSA"), it submits annual reports about its residential real estate loan originations and applications, pursuant to the Home Mortgage Disclosure Act ("HMDA"). However, the bank is not an active residential real estate lender; it reported only 30 residential real estate loan originations and applications for 1995. Consequently, the bank's HMDA data does not provide useful information about the bank's lending activity in the assessment area or how it compares with other local lenders.

DESCRIPTION OF DAKOTA BANK'S ASSESSMENT AREA

Although the bank operates one main office and four branches, it has defined only one assessment area for purposes of CRA. The bank's assessment area is generally described as southern Ramsey County and northern Dakota County. It also includes a small section of western Washington County. The entire assessment area is located in the Minneapolis-St. Paul MSA, but only comprises a small section of the MSA and population. The bank's assessment area has a population of 715,277, according to 1990 census data, and includes the cities of St. Paul, Mendota Heights, Inver Grove Heights, Eagan, and Burnsville. The MSA population is 2,538,834, of which 28% is located in the bank's assessment area.

CRA divides income levels into four categories: low, moderate, middle, and upper income. Because the bank's assessment area is located in an MSA, the categorization of a borrower's or census tract's income is determined relative to the MSA median family income. Pursuant to CRA's definitions, low-income individuals have incomes of less than 50% of the MSA median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as persons with incomes of at least 80% but less than 120% of the MSA median family income. Individuals with incomes of 120% or more of the MSA median family income are classified as upper-income persons. Census tracts are classified using similar categories based on the level of the median family income in the geographic area. According to the 1995 updated census data, the median family income for the Minneapolis-St. Paul, Minnesota, MSA is \$51,000.

The bank's assessment area includes 184 census tracts. Based on the 1990 U.S. Census data, it includes 15 low-income census tracts, which are all located in Ramsey County: 305, 313, 326, 327, 328, 329, 330, 331, 334, 335, 336, 337, 340, 374, and 420.01. The total population in the low-income census tracts is 32,751, which is 4.58% of the assessment area population. The assessment area also includes 4 moderate-income tracts in Dakota County, 33 in Ramsey County, and 1 in Washington County. The following table lists the moderate-income census tracts for each county in the bank's assessment area.

COUNTY	CENSUS TRACT
Dakota County	601.01, 603.01, 604.01, 608.05
Ramsey County	304, 306.01, 307.04, 308, 309, 310, 311, 314, 315, 316, 317, 318.01, 320, 321, 324, 325, 332, 338, 339, 344, 345, 346.01, 347.02, 354, 359, 360, 361, 368, 369, 371, 372, 376.02, 408.02
Washington County	709.01

These tracts have a total population of 119,353 and represent 16.69% of the assessment area's population. The low- and moderate-income census tracts are concentrated in the area of St. Paul that is north of the Mississippi River. The other sectors of the assessment area are defined as middle- and upper-income areas. These tracts have a total population of 563,173 and represent 78.73% of the assessment area's population.

According to the 1990 U.S. Census data, the assessment area's median household income is \$35,750, while the median family income is \$43,087. There are 274,162 households and 183,842 families in the bank's assessment area. Approximately 8.3% of the households and 6.4% of the families residing in the assessment area have incomes below the poverty level. The number of households and families with incomes below the poverty level within the assessment area is higher than such households and families in the entire MSA.

The distribution of family and household income for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Household Income	22.3%	17.3%	22.2%	38.3%

Families Compared to Median Family Income	18.0%	18.0%	26.7%	37.2%
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Numerous bank and nonbank financial institutions serve the credit needs of residents and businesses located in the bank's assessment area. According to bank management, the Minneapolis-St. Paul credit market is very competitive. The fact that local creditors are operating in a competitive marketplace results in better service, interest rates, and loan terms for local borrowers. According to bank management, small commercial lenders operating in the Minneapolis-St. Paul market do not have the technological capabilities of larger financial institutions. Consequently, the small lenders often lose commercial customers to the larger financial institutions that can offer more advanced services, such as sweep accounts and on-line banking.

The local lending market is dominated by two multistate, regional bank holding companies with corporate headquarters in Minneapolis, Minnesota. These two financial institutions, as well as several community banks located in the bank's assessment area, are active real estate mortgage originators. Based on contacts with residents of the community, the residential real estate loan needs of low- and moderate-income people are sufficiently served by these financial institutions. The larger financial institutions have more resources to dedicate to the unique credit needs of these people. According to contacts with community members, area residents tend to have deposit and credit accounts at banks operating in the local neighborhoods.

The bank operates in a racially diverse community. According to the 1990 census data, the racial composition of the bank's assessment area is generally comparable to that of the MSA.

The percentage of non-English-speaking adults in the bank's assessment area is 0.2%, which is higher than the corresponding percentage for the MSA.

The local economy is stable and the unemployment rate in the assessment area is 4.4%, which is lower than the unemployment rate of 4.6% for the MSA. According to contacts with community members, underemployment, rather than unemployment, is the problem facing most low- and moderate-income individuals. Commercial activity in the bank's assessment area is diverse, with no particular industry or firm dominating the local employment market. Several large employers operate within the bank's assessment area; however, most local businesses have 1 to 49 employees.

Examiners contacted several community service groups and one government official as part of the bank's CRA evaluation. The examiners derived information from these contacts that was used to evaluate and determine the bank's CRA performance and rating.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs in its assessment area is satisfactory. The following criteria were analyzed to determine this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank's quarterly loan-to-deposit ratio has fluctuated between 71% and 75% since the last evaluation. Based on the March 31, 1996, Uniform Bank Performance Report data, the bank's loan-to-deposit ratio of 74% ranks the bank in the 65th percentile in comparison with its peers. Based on the data for the four calendar quarters since the last evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 74%. The following chart summarizes the bank's quarterly loan-to-deposit ratio and its components since the last evaluation, dated July 24, 1995.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO- DEPOSIT RATIO
June 30, 1995	\$37,329	\$50,050	75%
September 30, 1995	\$38,925	\$52,022	75%
December 31, 1995	\$40,098	\$56,148	71%
March 31, 1996	\$40,223	\$54,664	74%

As the data indicate, the bank has successfully increased its loan portfolio in each calendar quarter since the last evaluation. Its loan growth rate since the last evaluation was 7%. During the same period, deposits increased by 9%, which accounts for the decline in the bank's net loan-to-deposit ratio.

The bank's average loan-to-deposit ratio is high and comparable to the quarterly average ratios of its local competitors. Based on quarterly ROC data from June 30, 1995, to March 31, 1996, the following table identifies the asset size and quarterly average loan-to-deposit ratios for the bank and its competitors.

BANK AND LOCATION	TOTAL ASSETS (March 31, 1996) (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
Dakota Bank, Mendota Heights, Minnesota	\$ 61,369	74%
Competitor A	\$ 77,794	64%
Competitor B	\$ 42,044	77%
Competitor C	\$211,097	75%
Competitor D	\$135,737	63%
Competitor E	\$247,762	67%

In addition to the competitor banks listed above, three large multistate, regional banks, two of which have corporate headquarters in Minneapolis, Minnesota, serve the assessment area. Each of these regional banks has numerous full-service branches located throughout the bank's assessment area.

Also, several nonbank entities extend credit to residents and businesses within the bank's assessment area. The many financial institutions operating within the bank's assessment area create a very competitive credit market for the types of loans offered by the bank. As reflected by the competitor data, it appears that the demand for credit in the bank's assessment area is strong, and local banks are willing to extend credit to fulfill the needs of local residents and businesses.

As the competitor data show, the bank competes against two similarly sized banks in the assessment area. The bank's quarterly average net loan-to-deposit ratio is lower than that of its smaller local competitor, Competitor B. However, the bank's quarterly average net loan-to-deposit ratio is higher than that of Competitor A. In general, the bank's quarterly average net loan-to-deposit ratio compares favorably with those of its local competitors.

The bank has an arrangement to refer applications for residential real estate loans to a mortgage company operating in the MSA. Since the last evaluation, seven of the applicants referred to the mortgage company received loans. The bank's loan-to-deposit ratio data does not reflect the loans originated as a result of the bank's referral policy. The bank also sells loan participations; these loans also are not reflected in the bank's net loan-to-deposit ratio.

The bank's loan-to-deposit ratio exceeds the standards for a satisfactory rating. The bank has successfully increased its loan portfolio in each quarter since the last evaluation and has maintained a high net loan-to-deposit ratio, despite significant growth in its deposit base. Furthermore, the bank's quarterly net loan-to-deposit ratio compares favorably with those of the local competitors. Consequently, the bank's lending activity exceeds the standards for a satisfactory rating in this category.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its assessment area meets the standards for satisfactory performance. For the loans sampled during the evaluation, the bank made more than a majority of its originations to residents and businesses of its assessment area. The table that follows shows the percentage of the bank's consumer and commercial loans that were extended to members of the assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	83%	73%
Commercial	75%	62%

The data is based on a statistical sampling of consumer and commercial loans originated in the six months before the evaluation. Because of its location in a metropolitan area, the bank has numerous loan customers who do not reside in the assessment area, but who have long-term, historical relationships with the bank. As mentioned previously, the bank is primarily a commercial lender. The percentage of the bank's consumer loans to borrowers who reside in the bank's assessment area (83%) is slightly higher than the number of its depositors who reside in the assessment area, 77%. The percentage of the bank's commercial loans to borrowers who reside in the bank's assessment area (75%) is slightly less than the percentage of depositors who live in the assessment area.

As the data indicates, the bank's lending activity is concentrated within the assessment area. Accordingly, the bank's lending meets this category's standard for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different incomes and to businesses of different sizes meets the standards for satisfactory performance. As discussed, the CRA classifies income levels into four categories: low, moderate, middle, and upper income. The 1990 median household and family incomes for the bank's assessment area are \$35,750 and \$43,087, respectively. Both figures are similar to the 1990 MSA median household and family incomes of \$36,468 and \$43,063, respectively.

The following table shows the percentage of the statistically sampled loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
<u>Consumer</u>				
Total Number of Loans	27%	23%	21%	29%
Total Amount of Loans	13%	15%	18%	47%
*Income level is determined based on the 1995 median family income for the Minneapolis-St. Paul, Minnesota, MSA of \$51,000.				

The data reveals that the bank extends consumer loans to low- and moderate-income borrowers. Segregated by the categories set forth in the table, these loans represented the following percentage of the total number and amount of loans in the sample.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA TO LOW- AND MODERATE-INCOME BORROWERS	
Loan Type	Low- and Moderate-Income Borrowers
<u>Consumer</u>	
Total Number of Loans	50%
Total Amount of Loans	28%
*Income level is determined based on the 1995 median family income for the Minneapolis-St. Paul, Minnesota, MSA of \$51,000.	

The 1990 census data show that low- and moderate-income households comprise 40% of the assessment area population while such families comprise 36% of the same area. More specifically, low- and moderate-income households represent 22.3% and 17.3%, respectively, of the local population. Low- and moderate-income families each represent 18% of the assessment area population.

The bank's consumer lending to low- and moderate-income borrowers generally meets the representation of such persons in the assessment area. Based on the number of loans to low- and moderate-income persons, the bank's originations to low- and moderate-income borrowers exceeds the representation of such persons in the assessment area population. The percentage of the total amount of loans to low- and moderate-income persons is lower than that for the total number of loans because these borrowers apply and qualify for smaller loan amounts.

Based on the loans sampled during the evaluation, the bank originates a substantial majority of its commercial loans to small businesses. In addition, a majority of the sampled loans had loans amounts of \$100,000 or less. The following table shows the distribution of the bank's commercial loans to small businesses.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA TO SMALL BUSINESS BORROWERS*			
	LOAN AMOUNT		
	Less than	\$100,000 to	\$250,000 to

	\$100,000	\$250,000	\$1,000,000
Total Number of Loans to Small Businesses	39	9	2
Total Number of Loans to Small Businesses as a Percentage of Sample	71	50	100
Total Amount of Loans to Small Businesses as a Percentage of Sample	61	48	100
*Small businesses are defined as businesses with gross annual revenues of less than \$1,000,000.			

Based on the income distribution of the bank's consumer borrowers, the loans to small businesses, and the demographics of the assessment area, the bank's level of lending to low- and moderate-income borrowers and small businesses meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout the assessment area generally meets the standards for satisfactory performance. As previously discussed, the bank's assessment area is located in an MSA and includes 15 low-income and 38 moderate-income census tracts. The bank's main office and its Eagan and Inver Grove Heights branch offices are located in middle-income census tracts. The branch offices at 1425 Maryland Avenue East and 2310 West Seventh Street in St. Paul are located in moderate-income census tracts.

Based on the statistical sample of the bank's loans, the following table shows the distribution of consumer and commercial loans in those low-, moderate-, middle- and upper-income census tracts located within the assessment area.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL				
Loan Type	Low-Income Census Tract	Moderate-Income Census Tract	Middle-Income Census Tract	Upper-Income Census Tract
<u>Consumer</u>				
Total Number of Loans	0%	12%	48%	40%
Total Amount of Loans	0%	7%	38%	55%
<u>Commercial</u>				
Total Number of Loans	1%	12%	68%	19%
Total Amount of Loans	0%	18%	65%	17%

The bank's consumer lending performance in the low- and moderate-income census tracts is barely reasonable considering the representation of residents in these tracts as compared with the total assessment area population. The total population in the low-income census tracts within the assessment area is 32,751, which is 4.58% of the total assessment area population. The total population in the moderate-income census tracts is 119,353, which is 16.69% of the total assessment area population. As a percentage of the bank's consumer loan portfolio, loans to residents of low- and moderate-income census tracts are fewer than expected given the population data.

The data set forth above reflect statistically sampled consumer loans from the bank's entire loan portfolio. As previously discussed, the bank operates five full-service offices. Three of the bank's offices are in northern Dakota County and serve residents and businesses of Mendota Heights, Eagan, and Inver Grove Heights. These areas do not include any low-income census tracts, but do include four moderate-income census tracts, representing 10.85% of the population residing in moderate-income census tracts in the bank's assessment area. However, these residents only represent 7.50% of the residents of Dakota County who reside in the bank's assessment area. The bank's Dakota County offices originate approximately 83% of the bank's entire loan portfolio. As a result, the number of loans to borrowers residing in low- and moderate-income census tracts reflects the weighing of the statistical sample.

The bank's other two offices are located in Ramsey County and serve residents and businesses of St. Paul. The areas served by the bank's Ramsey County offices include all of the low-income census tracts and 34 of the 38 moderate-income census tracts within the bank's assessment area. As previously discussed, the bank fairly recently purchased the branch offices in Ramsey County; it acquired the branch at 1425 Maryland Avenue East prior to the last evaluation, and the branch at 2310 West Seventh Street opened in August 1995. The bank's two Ramsey County office loans represent 17% of the bank's entire loan portfolio.

In order to evaluate the lending performance of the bank's branch offices located near the low- and moderate-income areas, the loan sample was expanded to include all loans originated by the Ramsey County branches since the last

evaluation. The results of the expanded loan review are set forth in the following table.

CENSUS TRACT	LOAN TYPE			
	Consumer	Residential Real Estate	Commercial	Total
Low Income	3%	0%	0%	3%
Moderate Income	5%	1%	13%	19%
Middle Income	16%	13%	24%	52%
Upper Income	11%	12%	4%	27%

The bank's lending activity to residents and businesses located in low- and moderate-income census tracts is lower than expected given the population demographics of the assessment area. A review of the bank's loan originations and applications revealed that the bank does not receive many credit applications from residents and businesses located in these areas. This may be the result of the branches' locations as well as the fact that both the 1425 Maryland Avenue East and 2310 West Seventh Street branches were recently acquired by the bank. According to contacts in the community, however, local financial institutions, including the bank, are serving the needs of those residents and businesses located in low- and moderate-income census tracts. For these reasons, the bank's level of lending to residents and businesses located in low- and moderate-income census tracts barely meets the standards for satisfactory performance.

GENERAL

The evaluation did not reveal any credit practices that are inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations. It did reveal procedural violations of technical reporting requirements of the HMDA's Regulation C. During the evaluation, management promised prompt corrective action.

The bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

July 29, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dakota Bank
Name of Depository Institution

092739150000
Identification Number of Institution

Mendota Heights, Minnesota
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

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.