

CONFIDENTIAL

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 Plaza Park State Bank, Waite Park, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of September 29, 1997. 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.”

There are several factors that support rating the bank’s CRA performance as satisfactory. First, the bank actively lends to borrowers of different income levels and to businesses of different sizes. Second, it extends loans throughout its assessment area. Third, the bank’s lending activity, as evidenced by the net loan-to-deposit ratio, is reasonable. Finally, the bank extends a significant majority of loans within the assessment area.

DESCRIPTION OF INSTITUTION

The bank is able to meet the credit needs of its assessment area effectively. At its last evaluation, dated August 19, 1996, the bank received a satisfactory rating. Its only office is in Waite Park, Minnesota, a suburb of St. Cloud, Minnesota, approximately 70 miles northwest of the Minneapolis-St. Paul metropolitan area. The bank's office is in census tract 5, a middle-income area. The bank operates two automated teller machines ("ATM"). One ATM is located in the bank's outer lobby and is available to customers 24 hours a day. The other ATM, which the bank opened in September 1997, is located at a gas station approximately 10 miles southwest of Waite Park in Rockville, Minnesota. The ATM at the bank accepts deposits; the new ATM is cash-dispensing only. Since the previous evaluation, the bank has added a 24-hour telephone banking service. This service allows bank customers to make account inquiries and transfer funds between accounts. The bank plans to allow customers to make loan payments through this service in the near future.

According to the June 30, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$73.9 million, a decrease of 2% from the bank's September 30, 1996, ROC, which reported assets of approximately \$75.5 million. During this period, net loans increased approximately 4.4% and deposits decreased approximately 2.7%. Bank management attributed loan growth to increased demand from its business borrowers. According to the June 30, 1997, ROC, the bank's loan portfolio consists of approximately 54% commercial, 26% consumer real estate, 16% consumer, 2% agricultural, and 2% other loans. The composition of the loan portfolio reflects the level of demand for specific credit products by the residents of the assessment area.

The bank offers a variety of loan products that serve the credit needs of the residents and businesses within its assessment area. It extends open- and closed-end consumer, residential real estate, and commercial loans. In addition to offering conventional loan products, the bank participates in federal and state loan programs such as Small Business Administration and Minnesota Housing Finance Agency ("MHFA"). The MHFA programs are directed to low- and moderate-income borrowers and include first-time homebuyer loans as well as home improvement loans at below-market interest rates.

DESCRIPTION OF PLAZA PARK STATE BANK'S ASSESSMENT AREA

The bank's assessment area includes 32 census tracts in portions of two metropolitan statistical areas ("MSA"). The St. Cloud MSA section of the assessment area includes portions Benton and Stearns counties. The assessment area's Minneapolis-St. Paul MSA census tracts are in Sherburne County and are part of the St. Cloud metropolis. More specifically, the St. Cloud MSA section of the assessment area includes the following census tracts: 201, 202.01, 202.02, 203, 211, and 212 in Benton County; 1.00 through 10.01, 101.00 through 104.01, 104.03, and 112 through 114 in Stearns County. The following assessment area census tracts are located in the Minneapolis-St. Paul MSA: 303, 313, and 314 in Sherburne County and census tract 1003 in Wright County. Waite Park is located in Stearns County. Because of the bank's size and location in an MSA, the bank is subject to the requirements of Regulation C-- Home Mortgage Disclosure Act ("HMDA").

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower's or geography's income is determined relative to the MSA's median family income. Low-income individuals have incomes of less than 50% of the MSA's median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the MSA's median family income. An individual with an income that is 120% or more of the MSA's median family income is

considered an upper-income person. According to the updated 1997 census data, the median

family income for the St. Cloud MSA is \$43,300, while the median family income for the Minneapolis-St. Paul MSA is \$57,300.

Of the 32 census tracts in the assessment area, 2 are classified as low income, 25 are classified as middle income, and 5 are classified as upper income. There are no moderate-income tracts in the assessment area. The two low-income tracts have very few residents. One of the assessment area's low-income areas is census tract 314 in Sherburne County and is home to the St. Cloud State Reformatory. The population of the tract, according to 1990 census data, is 753 and consists entirely of prison inmates who have very few limited, if any, credit needs. The other low-income tract is in Stearns County. Census tract 1.00 is the downtown St. Cloud business district, which has a population of 528. The population of the two low-income tracts is approximately 1% of the assessment area's total population. Eighty-three percent of the assessment area's population resides in middle-income census tracts, with the remaining 16% residing in upper-income census tracts.

According to 1990 census data, the assessment area's population is 134,882 with 45,429 households. Approximately 70% of the households are families. Of the 45,429 households, approximately 21% are low income, 16% are moderate income, 22% are middle income, and 41% are upper income. Approximately 12% of the households have incomes below the poverty level. Of the assessment area's 31,705 families, approximately 16% are low income, 18% are moderate income, 27% are middle income, and 39% are upper income. Approximately 6.7% of the families have incomes below the poverty level.

Examiners made contacts with local government officials and an individual involved in local community development as part of the CRA evaluation process. Information obtained from these individuals and from bank management was used in evaluating the bank's CRA performance.

The St. Cloud metropolitan area has been enjoying great economic growth. According to information received from a community contact, the region is one of the fastest growing in the state. There are several reasons for the growth: St. Cloud's central location in the state, the city's proximity to the Minneapolis-St. Paul metropolitan area, and its diverse business base. The four major industries in the area include manufacturing, service, retail, and education. One community contact stated that the St. Cloud area has become a retail shopping hub for residents of central Minnesota. The economic growth in the area has contributed to a very low unemployment rate. With low unemployment, continued economic growth will come from developing small businesses rather than attracting large employers. According to community contacts, local government officials have recognized this trend and are in the process of developing programs to assist small-business owners. Such assistance will include a microloan program for start-up companies.

St. Cloud's economic growth and strength translates into a robust housing market. New housing development has been strong at the middle- and upper-income levels. A community contact stated that the greatest need in the area is for senior housing options. Once this need is fulfilled, older homes in the area, which are typically lower in price than newly-constructed homes, will become available for acquisition by low- and moderate-income, first-time homebuyers. Contacts said these older homes have been well maintained and sell very quickly. According to 1990 census data, the assessment area has 49,087 total housing units. Of these, 64% are owner-occupied units, 29% are rental units, and the remaining 7% are vacant or boarded up. Of the 45,429 households in the assessment area, 31,207, or 69%, reside in owner-occupied units. There are only 10 owner-occupied households in the assessment area's low-income census tracts. Eighty-five percent of the owner-occupied households are in the assessment area's middle-income census tracts, and the remaining 15% are in the upper-income tracts.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation revealed the bank's performance in fulfilling the assessment area's credit needs is satisfactory. Much of the analysis on the following pages is based on a statistical sample of 40 residential real estate loans, 127 consumer loans, and 83 small business loans originated in the 12 months preceding the evaluation. The criteria discussed below were reviewed in determining this rating. In assigning the overall rating, the greatest weight was placed on the assessment of the bank's lending to borrowers of different income levels and businesses of different sizes as well as to various geographic areas in the assessment area. These two factors most closely measure the bank's efforts to meet the credit needs of all segments of its community.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's overall lending activity meets the standards for satisfactory performance based on the net loan-to-deposit ratio data, competitors' net loan-to-deposit data, and loan demand in the assessment area. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 62.7%. It is slightly higher than the 61% quarterly average net loan-to-deposit ratio noted during the last evaluation. According to the June 30, 1997, ROC, the bank's net loan-to-deposit ratio was 65.5%. The following chart, based on quarterly ROC data, shows the relative consistency of the bank's loans and deposits. Deposits have decreased slightly, which is not unusual in a highly competitive banking environment.

DATE	DEPOSITS (In thousands)	NET LOANS (In thousands)	NET LOAN-TO-DEPOSIT RATIO
June 30, 1997	\$66,755	\$43,689	65.45%
March 31, 1997	\$66,997	\$41,992	62.68%
December 31, 1996	\$67,900	\$41,934	61.76%
September 30, 1996	\$68,598	\$41,836	60.99%

According to the June 30, 1997, Uniform Bank Performance Report, the bank's 65.45% net loan-to-deposit ratio is below its peer group's average of 70.32%. However, the bank's net loan-to-deposit ratio data does not include residential real estate loans sold on the secondary market. The bank has made and sold several loans in this category since the last evaluation. The following chart shows the asset size and quarterly average net loan-to-deposit ratio for some of the bank's local competitors.

BANK	TOTAL ASSETS (As of June 30, 1997) (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
Plaza Park State Bank Waite Park, Minnesota	\$ 73,893	62.7%
First American Bank, N.A. St. Cloud, Minnesota	\$334,219	79.9%
Stearns County National Bank of Albany Albany, Minnesota	\$345,041	87.0%
Zapp National Bank of St. Cloud St. Cloud, Minnesota	\$238,327	81.6%
First State Bank of St. Joseph		

St. Joseph, Minnesota	\$ 31,588	72.5%
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The competition among financial institutions in the St. Cloud metropolitan area is intense. In addition to the financial institutions listed above, there are branch offices of three large regional banks, savings banks, and credit unions. As the chart illustrates, the bank is one of the smaller financial institutions in the assessment area. Community contacts stated and bank management concurred that the bank is not as aggressive at attracting new business as some of the larger financial institutions. Information received from community contacts did not indicate that there were any unmet credit needs in the assessment area.

Given the strong competition for loans in the assessment area, the relative consistency of the size bank's loan portfolio, the lending activity of local competitors, and the lack of any identified unmet credit needs, the bank's lending activity meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending to residents and businesses in the assessment area exceeds the standards for a satisfactory rating. A review of the statistical sample of the loans originated by the bank in the 12 months preceding the evaluation reveals that a significant majority of the loans were made to borrowers in the bank's assessment area. The following table illustrates the percentage of loans within the assessment area by total number and loan amount in each major loan category.

LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Residential Real Estate	93%	97%
Consumer	91%	91%
Small Business	92%	93%

The 1996 HMDA data also indicate that the bank is lending in its assessment area. In 1996, the bank originated 87% of its HMDA-reportable loans within the assessment area. The bank is one of the smaller lenders in the assessment area. Its loans accounted for approximately 2% of the total HMDA-reportable loans in the assessment area.

Based on the very high concentration of loans in the bank's major loan categories originated in within the assessment area, the bank exceeds the standards for satisfactory performance in this category.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to borrowers of different income levels and to businesses of different sizes exceeds the standards for satisfactory performance. The following table shows the percentage of consumer and residential real estate loans to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
<u>Consumer</u>				
Total Number of Loans	32%	28.5%	29.5%	10%
Total Amount of Loans	28%	26.0%	29.0%	17%
<u>Residential Real Estate</u>				
Total Number of Loans	14%	29%	26%	31%
Total Amount of Loans	7%	28%	22%	43%
*Income level based on 1997 St. Cloud MSA median family income of \$43,300 or 1997 Minneapolis-St. Paul MSA median family income of \$57,300.				

The data in the table indicate that the bank originated a significant majority, or 60.5%, of its consumer loans to low- and moderate-income borrowers. In addition, 43% of the residential real estate loans were made to low- and moderate-income borrowers. As previously mentioned in the Description of the Assessment Area section, approximately 34% and 37% of the assessment area's families and households, respectively, are classified as low- and moderate-income according to the 1990 census figures. According to bank management, the bank's customer base is primarily "working class" individuals, which explains the concentration of lending to low- and moderate-income borrowers.

Community contacts stated that the St. Cloud Housing and Redevelopment Authority ("HRA") has been a leader in developing affordable housing loan programs. The bank has participated in HRA loan programs. The bank has also been an active lender in MHFA loan programs. MHFA's loan programs are directed toward low- and moderate-income borrowers. In addition to mortgage loan programs, MHFA also offers below market-rate home improvement loans. The bank is commended for being an active lender to the low- and moderate-income residents of its assessment area.

The HMDA data for 1996 also indicates that the bank actively lends to low- and moderate-income borrowers. The bank made 27% of its reported loans to low- and moderate-income borrowers. The bank's performance is slightly less than that of all lenders who extended reportable loans in the bank's assessment area. These lenders extended 29% of reported loans to low- and moderate-income borrowers.

A review of the bank's small business loan sample shows that the bank makes more than a majority of its loans to small businesses with gross annual revenues of \$1 million or less. A small business loan is a commercial loan with an original principal amount of \$1 million or less. The loan sample revealed that the bank extended 68% of the small businesses loans to entities with gross annual revenues of \$1 million or less. The loan sample may not be truly indicative of the bank's lending because 17% of the sampled loans were made to one borrower. This borrower's gross annual revenues exceed \$1 million.

An analysis of small business loan sizes revealed a significant majority (93%) of the bank's small business loans were for less than \$100,000. Of small business loans to entities with gross annual revenues of \$1 million or less, almost all loans (98%) had original principal amounts of less than \$100,000. The remaining 2% of small business loans to such entities had original principal amounts of \$100,000 to \$249,999.99. As previously stated, the majority of the bank's lending is to commercial borrowers. Community contacts stated that the largest area of growth in the commercial sector has been in small businesses. The distribution of commercial loans is consistent with the bank's asset size and the

assessment area's economic conditions.

Based on the bank's high level of consumer lending to low- and moderate-income borrowers, participation in real estate loan programs for low- and moderate-income borrowers, and high number of small business loans in the loan sample, the bank exceeds the standards for satisfactory performance in this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout its assessment area is reasonable. As discussed earlier, the bank's assessment area includes 2 low-income census tracts, 25 middle-income census tracts, and 5 upper-income census tracts. There are no moderate-income tracts in the assessment area. Less than 1% of the assessment area's population lives in the low-income tracts. One of the low-income tract's population consists solely of prison inmates, while the other is the downtown St. Cloud business district. With respect to the latter area, the 1990 census data indicates that there were only 10 owner-occupied units in this tract. Eighty-five percent of the assessment area's owner-occupied housing is in middle-income census tracts. The remaining 15% is in upper-income tracts.

Analyzing the loans originated during the sample period reveals that the bank has not made any loans in the downtown St. Cloud low-income census tract. This is reasonable because there are several financial institution offices located in this tract and the bank's office is not conveniently located to serve the residents of this tract. Also, the bank did not extend any loans in the low-income census tract occupied by the prison. Again, this is reasonable given the inmates' lack of credit needs. The following table illustrates the distribution of loans in the sample by census tract income level.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL			
Loan Type	Low-Income Census tract	Middle-Income Census tracts	Upper-Income Census tracts
<u>Consumer</u>			
Total Number of Loans	0%	69%	31%
Total Amount of Loans	0%	62%	38%
<u>Residential Real Estate</u>			
Total Number of Loans	0%	92%	8%
Total Amount of Loans	0%	92%	8%
<u>Small Business</u>			
Total Number of Loans	0%	55%	45%
Total Amount of Loans	0%	69%	31%

The bank's 1996 HMDA data show no loans in the assessment area's low-income tracts. Similarly, the data for all lenders in the assessment area show little activity in these areas. Given the previously stated characteristics of the assessment area's low-income census tracts, the bank's lack of lending in these areas is reasonable.

A tract-by-tract analysis reveals that the bank's loans are reasonably distributed throughout the middle- and upper-income census tracts. The distribution of residential real estate loans indicates that a significant

majority of loans were made in the middle-income tracts. This is a result of the small sample size for this product category and the fact that there are five times as many middle-income tracts as there

are upper-income tracts. The number of small business loans in the upper-income tracts is a result of multiple loans to one borrower.

Based on the tract-by-tract analysis as well as the limited opportunities for the bank to lend in low-income census tracts, the bank meets the standards for satisfactory performance in this category.

GENERAL

The evaluation did not reveal any substantive violations of fair lending laws and regulations. The evaluation did reveal technical violations of the Equal Credit Opportunity Act's Regulation B and the Home Mortgage Disclosure Act's Regulation C. Bank management promised prompt corrective action. The bank has not received any CRA-related complaints since the last evaluation.

PUBLIC DISCLOSURE

September 29, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Plaza Park State Bank

Name of Depository Institution

092762620000

Identification Number of Institution

Waite Park, 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.