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 Minnesota BANKFIRST, Minneapolis, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of July 6, 1998. 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 "Substantial Noncompliance."

The evaluation revealed several factors that support the bank's overall CRA performance rating. Foremost is the bank's negligible lending within its assessment area. Specifically, a significant majority of the bank's loans are outside the assessment area despite indications of strong credit demand in the assessment area. This fact is directly related to the bank's deposit-taking business strategy and its emphasis on purchasing loans from its affiliated bank in Sioux Falls, South Dakota.

Furthermore, the bank's net loan-to-deposit ratio is below a reasonable level and is notably lower than other financial institutions located in the assessment area. The bank's declining loan-to-deposit ratio is an initial indicator of limited lending activity. Finally, due to the bank's minimal lending within the assessment area, analyses of the Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes and the Geographic Distribution of Loans categories are not meaningful and are accorded virtually no weight in the evaluation. Performance in these categories is measured using loan activity that occurs within the assessment area. Loans from outside the assessment area may be evaluated in these categories only if a financial institution has adequately served assessment area borrowers. The bank's very low level of lending in its assessment area is given significantly more weight in evaluating this bank's performance in meeting community credit needs.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is capable of meeting the credit needs of its assessment area effectively. Minnesota BANKFIRST commenced de novo operations January 18, 1994. The bank became a member of the Federal Reserve System on July 1, 1997 ("membership date"). This is the bank's first CRA evaluation. The bank operates one full-service office in downtown Minneapolis, Minnesota. The bank does not own automated teller machines ("ATM"); however, it participates in a nationwide ATM system, which allows customers access to ATM cash-dispensing services. The bank lobby and drive-up teller is open from 8:30 a.m. to 5:00 p.m. Monday through Friday. The bank has not opened or closed any offices since membership date.

The bank is not subject to any financial constraints that would inhibit it from effectively meeting the credit needs of residents and businesses within the assessment area. According to the March 31, 1998, Report of Condition ("ROC"), the bank had total assets of approximately $70.6 million. The bank's asset size has increased by approximately $42.7 million since June 30, 1997. The bank attributes this growth primarily to its intensive marketing efforts to increase deposits. Deposits have increased by approximately $40.2 million while loans increased by only $11.8 million since June 1997. Management stated that its business strategy is to act as a source of financial strength and liquidity for its affiliated bank in South Dakota. The bank does not actively market credit products in its assessment area.

As subsequently discussed in more detail, the bank's loan levels have not kept pace with deposit growth during the same period. According to the March 31, 1998, ROC data, the loan portfolio is composed of approximately 51% consumer, 39% agriculture, 8% commercial, 1% consumer real estate, and 1% other loans. According to the ROC data, consumer loans have increased from 2% to 51% of the loan portfolio since membership date. These data reflect the bank's acquired credit card loans, which represent almost all consumer loans.

The bank offers a variety of open- and closed-end consumer and commercial loans. Although the products appear appropriate for the assessment area, the bank has not originated any consumer loans since membership date. Community contacts stated that there is a strong demand for both consumer and commercial credit in the assessment area.

DESCRIPTION OF MINNESOTA BANKFIRST'S ASSESSMENT AREA

The bank's assessment area includes a portion of the 11-county Minneapolis-St. Paul, Minnesota, Metropolitan Statistical Area ("MSA"). The MSA consists of two center cities; first-, second-, and third-ring suburbs; and rural/bedroom communities. Since the bank is located in an MSA, it is subject to the Home Mortgage Disclosure Act ("HMDA"); however, as of the evaluation date, the bank was exempt from the requirements of HMDA because it had not originated any loans subject to HMDA data collection requirements.

The bank defines its assessment area as 7 of the 11 counties in the Minneapolis-St. Paul MSA, which is located in east-central Minnesota. The counties in the assessment area are Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington. As mentioned, the bank's sole office is located in the central business district in downtown Minneapolis, which is in middle-income census tract 44.0 of Hennepin County. According to the 1990 U.S. Census data, the assessment area's population is 2,288,721 and comprises 90% of the MSA's total population. However, according to the 1996 estimated data from the State of Minnesota, the seven-county area's population has increased to 2,482,858, an 8.5% increase since the 1990 census data was released.

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower 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. Census tracts are classified using similar categories based on the level of median family income in the geography compared with the 1990 MSA median family income of $43,063. The HUD estimated 1997 and 1998 median family incomes are $57,300 and $60,800, respectively. This figure is used to classify borrowers' incomes.

The bank's assessment area consists of 606 census tracts, of which 61 (or 10.1%) are low income, 92 (or 15.2%) are moderate income, 330 (or 54.4%) are middle income, and 123 (or 20.3%) are upper income. A total of 53 of the 61 low-income census tracts are centrally located in Hennepin and Ramsey counties. The majority of the moderate-income tracts are also located in Hennepin and Ramsey counties. A total of 80 of the 92 moderate-income tracts are located in these two counties. According to the 1990 census data, the total population in the low-income tracts is 135,337, which is 5.9% of the assessment area population. The moderate-income tracts have a total population of 265,189 and represent 11.6% of the assessment area's population. The middle-income tracts have the largest population at 1,368,686 and represent 59.8% of the assessment area population. The upper-income tracts have a total population of 519,509 and represent 22.7% of the assessment area's total population.

According to the 1990 U.S. Census data, the assessment area's median household and family incomes are $36,785 and $43,786, respectively. There are 875,833 households and 588,153 families residing in the assessment area. There are 594,035 owner-occupied households in the assessment area. Of these, 2% are located in low-income tracts, and 9% are in moderate-income tracts. Middle-income tracts contain 63% of the owner-occupied households, and upper-income tracts have 26% of owner-occupied households. Approximately 8% of the households and 6% 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 parallels such households and families in the entire MSA. The population distribution by household and family income for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Units of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Household Income	21%	17%	22%	40%
Families Compared to Median Family Income	16%	18%	28%	38%

Numerous banks and nonbank financial institutions serve the credit needs of residents and businesses in the assessment area. According to bank management and the community contacts, economic conditions in the assessment area are strong. Unemployment is at historically low levels. The unemployment rate is extremely low at 2.4% in the metropolitan region and 3% in the state as of June 1998, which compares favorably with the national unemployment rate of 4.7%. According to the Minnesota Department of Economic Security, Research, and Statistics Office ("MDES"), the employment trends continue to be strong in business services and health services. Minnesota's unemployment rate is at an all-time low, and job growth is at an all-time high. According to the report, Minnesota's employment opportunities continue to expand as indicated by the fact that more than 62,000 jobs were added to the state economy in the past 12 months. In the seven-county metropolitan area, the projections for growth between 1994 and 2005 indicate all industries will average a rate of 16% in overall employment. Adding to the strength of the economy, a steady personal income growth continues to fuel the surge in retail sales. The Bureau of Labor Statistics reported that the 5.5% increase in pay Minnesota experienced between 1995 and 1996 was the largest percentage increase in the nation.

Commercial activity in the bank's assessment area is diverse. According to projections based on 1990 census data, all industries except farming and manufacturing were expected to experience moderate to strong growth from 1991 to 1995. Updated data compiled by the MDES support these projections and indicate the outlook for employment by industry will continue to be strong through the year 2005. Manufacturing, retail trade, and services industries are projected to grow at 2%, 13%, and 28%, respectively.

Examiners made community contacts with local government officials and individuals familiar with the economic characteristics and credit needs of the assessment area. Information obtained from these individuals and bank management was used in evaluating the bank's CRA performance. According to community contacts, many opportunities exist throughout the assessment area for the financial services industry.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance is substantially below the standards for satisfactory performance and, therefore, the bank is in substantial noncompliance with the requirements of CRA. Analysis of the bank's lending levels takes into account that the institution opened only four years before this evaluation. Nevertheless, given the bank's asset size, financial condition, and capacity to meet the credit needs of its assessment area, its lending level does not meet the standards for a satisfactory performance. Much of the analysis on the following pages is based on a combined statistical sample of 202 credit card loans the bank purchased in the last eight months and 100% of the 133 commercial and 115 agricultural loans originated and purchased since the bank opened January 18, 1994. The criteria discussed below were reviewed in determining the rating.

As mentioned previously, the bank's credit card loan portfolio and agricultural loan portfolio comprise 50% and 39% of the bank's total loan portfolio, respectively; however, almost all such loans are located outside the bank's assessment area. The regulation states the bank is evaluated on its performance in meeting the credit needs of residents of the defined assessment area. As such, the bank's overall lending in its assessment area is substantially less than satisfactory because the bank makes virtually all its loans outside its assessment area. In assigning an overall rating, the greatest weight was placed on the low number of the bank's total loans originated or purchased within the assessment area and the low loan-to-deposit ratio.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's overall loan-to-deposit ratio is not reasonable and does not meet the standards for a satisfactory performance. The bank's quarterly average net loan-to-deposit ratio for the four quarters since membership date is 41.8%. Since this is the bank's first CRA evaluation, consideration was given to the bank's average net loan-to-deposit ratio since commencing banking operations. The bank's average net loan-to-deposit ratio since January 1994 is 52.5%. However, using information beginning with the March 31, 1994, ROC is not characteristic of the bank's current business strategy or performance. Therefore, for purposes of analysis the following charts are based on information for the eight quarters preceding the CRA evaluation. The following table illustrates the bank's dramatic deposit growth and declining loan-to deposit ratio since June 30, 1996.

Date	Net Loans (In thousands)	Deposit (In thousands)	Net Loan-to-Deposit Ratio
March 31, 1998	$22,572	$64,524	35%
December 31, 1997	$17,002	$49,225	35%
September 30, 1997	$15,962	$29,828	54%
June 30, 1997	$10,731	$24,287	44%
March 31, 1997	$8,387	$21,764	39%
December 31, 1996	$8,575	$18,062	47%
September 30, 1996	$10,272	$17,702	58%
June 30, 1996	$12,450	$17,017	73%

For the eight calendar quarters reflected in the table, the quarterly average of the bank's net loan-to-deposit ratio is 48.1%.

As mentioned in the Description of the Institution section, the bank's primary focus is to support the liquidity needs of the national credit card loan portfolio of its South Dakota affiliate. As shown above, the bank has experienced immense deposit growth. According to bank management, the bank maintains a very successful and aggressive marketing effort to increase deposit funds. As the table indicates, deposits have increased by 279% in the eight quarters preceding the evaluation. However, loan growth is only moderate when compared to deposit growth.

According to the December 31, 1997, Uniform Bank Performance Report, the bank's net loan-to-deposit ratio of 35% was significantly below its national peer group average of 69%. The bank's ratio places it in the 4th percentile compared with its national peers. The following chart shows the asset size and average net loan-to-deposit ratio for the bank and some of its competitors in the assessment area.

Bank and Location	Total Assets (March 31, 1998) (In thousands)	Quarterly Average Net Loan-to-Deposit Ratio *
Minnesota BANKFIRST Minneapolis, Minnesota	**$70,554**	**48.1%**
Private Bank Minnesota Minneapolis, Minnesota	$31,658	93.3%
Northland Security Bank Ramsey, Minnesota	$22,990	75.2%
Capital Bank St. Paul, Minnesota	$42,203	72.6%
BNC National Bank of Minnesota Minneapolis, Minnesota	$61,351	237.8%
Franklin National Bank of Minneapolis Minneapolis, Minnesota	$43,468	67.2%
Resource Trust Company Minneapolis, Minnesota	$92,721	63.2%
Marquette Capital Bank N.A.		

Bank and Location	Total Assets (March 31, 1998) (In thousands)	Quarterly Average Net Loan-to-Deposit Ratio *
Minneapolis, Minnesota	$159,587	87.1%
Bank Windsor Nerstrand, Minnesota	$170,918	76.1%
Riverside Bank Minneapolis, Minnesota	$311,758	75.1%
The Midway National Bank of St. Paul St. Paul, Minnesota	$402,646	67.3%
* The loan-to-deposit ratio for all banks in the chart except Northland Security Bank represents eight quarters of data.		

As shown above, the bank's loan-to-deposit ratio is 15 percentage points below the ratio of its lowest competitor. For purposes of comparison, three de novo banks are included in the evaluation as well as institutions that actively lend in the assessment area closest to the bank's main office. The table does not reflect substantial lending activity of local credit unions, large superregional banks, and nonbank lenders. Although banking competition is intense in the MSA, the strong economy and generally high loan-to-deposit ratios of banks in the assessment area indicate that there are ample lending opportunities. The bank's loan-to-deposit ratio is not reasonable when compared with the ratios of other area lenders.

Based on the unreasonable net loan-to-deposit ratio, the comparison to national and local competitors, and the high demand for credit in the assessment area, the bank's lending performance is not reasonable and does not meet this category's standards for a satisfactory rating.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity in the assessment area is substantially less than reasonable and does not meet the standards for satisfactory performance. In general, the bank does not make loans in the assessment area but rather purchases agricultural and credit card loans from its South Dakota affiliate. The commercial loans in the assessment area represent only a small portion of the bank's loan portfolio. As mentioned in the Description of the Institution section, approximately 8% of the bank's loan portfolio consists of small business loans while credit card and small farm loans comprise 50% and 39%, respectively, of the bank's loan portfolio.

A review of the statistical sample of credit card loans purchased by the bank during the past eight months and a 100% sample of agricultural and commercial loans originated or purchased by the bank reveals that the bank extended a significant majority of its loans outside the assessment area. The following table shows the percentage of loans inside and outside the assessment area based on total number and loan amount in each major loan category.

DISTRIBUTION OF LOANS ORIGINATED INSIDE AND OUTSIDE THE ASSESSMENT AREA								
Product Lines	Inside Assessment Area				Outside Assessment Area			
	Number of Loans	%	Amount of Loans (In thousands)	%	Number of Loans	%	Amount of Loans (In thousands)	%
Credit Cards	1	0	$ .4	1	201	100	$ 68	99
Small Business	96	72	$9,293	75	37	28	$ 3,066	25
Small Farm	0	0	$ 0	0	115	100	$10,748	100

As illustrated above, the bank makes a substantial majority of its loans to people, businesses, and farms outside its assessment area. This level of concentration in the assessment area does not meet the standards for satisfactory performance. The bank has virtually 100% of its credit card loans and small farm loans outside its assessment area. Although the chart above shows that the bank has 72% of its small business loans inside the assessment area, little consideration is given to the percentage or amount of loans in this product line. The small business loans represent only 8% of the bank's loan portfolio; therefore, this percentage is inconsequential and little weight is given these loans for analysis purposes.

Analysis of lending activity and economic conditions indicates there is strong demand for credit in the assessment area. As mentioned previously, there is steady growth in personal income and record levels of employment in the assessment area. The relatively high loan-to-deposit ratios of competitor banks shown previously evidence a strong local credit market.

Aggregate data reported by banks subject to data-reporting requirements of CRA also provide an assessment of the level of demand for business credit in the MSA. The level of business credit in the assessment area is strong. According to 1996 aggregate data (the most recent available as of the evaluation date), reporting institutions made 7,458 loans (37%) with original amounts totaling $312.3 million to businesses with revenues under $1 million. These lenders also made 101 loans with original balances of $5.5 million to the farms with revenues under $1 million in 1996. In addition, more than 20,000 business and farm loans with original amounts under $1 million and $500,000, respectively, were made in the assessment area in 1996. These data reflect only loans originated by large banks. The loans were distributed as follows:

Loan Distribution			
	£ **$100,000**	> **$100,000 but** £ **$250,000**	> **$250,000**
Small Business			
Number of loans	17,172	1,467	1,712
Percentage of total	84.4%	7.2%	8.4%
Amount of loans	$302,631,000	$257,833,000	$947,994,000
Percentage of total	20.1%	17.1%	62.8%
Small Farm			
Number of Loans	88	12	4
Percentage of total	84.6%	11.6%	3.8%
Amount of loans	$2,651,000	$1,578,000	$1,485,000
Percentage of loans	46.4%	27.6%	26.0%

The aggregate data also show that while the vast majority of the small business loans in the bank's assessment area (84.4%) were for less than $100,000, these loans represented only 20.1% of the dollar amount of loans made by reporting institutions. In the case of small farm loans, the largest number of loans (84.6%) and dollar amount of loans (46.4%) were in the $100,000 or less category.

The evaluation reveals that the bank does not actively market credit products in the assessment area. The majority of the bank's loan portfolio growth is concentrated in credit cards and agricultural loans and is entirely a function of purchased loans. While the bank is not an active consumer or residential real estate lender, no apparent financial or legal impediments exist that would prevent bank management from providing loans in the assessment area. According to community contacts and Department of Housing Urban Development's Current Market Housing Report, the development and resurgence of both downtown Minneapolis and St. Paul are a testimony to the viability of the economy in the state. The strong area economy is an indicator that many opportunities exist for financial institutions in the assessment area.

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

The information in this category was not sufficient for a meaningful analysis of lending to borrowers of different income levels and to businesses of different sizes. The bank's total lending to individuals of different incomes in the assessment area represents 1% of the total amount of the bank's consumer loans; therefore, no meaningful conclusions can be made based on this amount of lending.

For purposes of this portion of the evaluation, small business loans are most commercial loans with original principal balances of $1 million or less. The bank has a reasonable record of providing small business loans to businesses with gross annual revenues of $1 million or less. The following table shows the percentage of the total number and dollars of loans to small businesses across the assessment area by business revenue of borrower.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BUSINESS REVENUE OF BORROWER

Loan Type Small Business	**Loan Amt. £ 100,000**	**100,000 < Loan Amt. £ 250,000**	**250,000 < Loan Amt. £ 1,000,000**	**Total**
Total Number of Loans	75%	14%	11%	100%
Of loans for this amount, % to small businesses	57%	42%	60%	55%
Total Amount of Loans	23%	25%	52%	100%
Of loans for this amount, % to small businesses	41%	40%	58%	50%

As the table indicates, 55% of the number and 50% of the amount of loans with original principal balances of $1 million or less are to small businesses. A review of the lending to businesses of different sizes revealed that the bank's distribution of business loans to entities of different sizes is reasonable. However, as noted above, the small business loans represent only a small portion (8%) of the bank's portfolio; therefore, a review of the dollar amount and size of the entities is given little weight for analysis purposes. Overall, this category does not meet the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of the bank's assessment area loans is poor based on the dispersion of loans among census tracts and the percentage of loans in low-, moderate-, middle-, and upper-income census tracts. As previously discussed, the assessment area includes 61 low-, 92 moderate-, 330 middle-, and 123 upper-income census tracts. The table below shows the distribution of the bank's loans among the assessment area's low-, moderate-, middle-, and upper-income census tracts.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL				
Loan Type	**Low Income**	**Moderate Income**	**Middle Income**	**Upper Income**
Credit Cards				
Total Number of Loans	100%	0%	0%	0%
Total Amount of Loans	100%	0%	0%	0%
Small Business				
Total Number of Loans	5%	17%	58%	20%
Total Amount of Loans	4%	30%	24%	24%
Small Farm				
Total Number of Loans	0%	0%	0%	0%
Total Amount of Loans	0%	0%	0%	0%

The distribution of the bank's credit card loans in the low-income tracts represents one loan and 1% of the amount of total loans reviewed for the sample. While 5.9% of the assessment area's population lives in the low-income tracts, the bank made only 1% of its credit card loans in these areas. There is no credit card lending activity in the moderate-, middle-, or upper-income tracts.

The distribution of the bank's small business loans among census tracts of different income levels appears reasonable. The bank extended loans in 2 low-, 8 moderate-, 17 middle-, and 12 upper-income tracts. This data is comparable to the percentages of aggregate lending in the assessment area. Although the bank's small business loans are dispersed throughout the assessment area, as stated previously, this lending comprises a very small portion of the bank's total lending activity. Furthermore, as indicated above, the distribution of small farm lending among census tracts of different income levels is 0%.

As described in the Description of the Assessment Area section, the majority of the assessment area's low- and moderate-income tracts are located in the central communities close to the bank's office. Community contacts indicated there is strong credit demand and identified various opportunities for small banks to participate in loan programs, as well as to offer financial and technical assistance to neighborhoods, community development groups, and small businesses in these neighborhoods and communities.

There is not sufficient lending throughout the assessment area for a meaningful analysis of geographic distribution of the bank's loans. However, when analyzing this information in the context of the bank's capacity to lend, the strong area economy and growing population as well as the lending opportunities in the assessment area, these facts reflect the bank's poor performance in the assessment area. Based on these factors, the bank does not meet the standards for satisfactory performance in this category.

GENERAL

The evaluation did not reveal violations of the substantive or technical provisions of the fair housing and fair lending laws and regulations. In addition, the bank has not received any CRA-related complaints since entering into banking operations.

PUBLIC DISCLOSURE

July 6, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Minnesota BANKFIRST
Name of Depository Institution

092739530000
Identification Number of Institution

Minneapolis, Minnesota
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

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.