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 June 8, 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: "Satisfactory."

The bank's satisfactory rating is based on several factors. First, the bank lends to borrowers of different income levels and to businesses of different sizes. Second, the bank's net loan-to-deposit ratio reflects a reasonable level of lending. Third, the bank's loans are distributed adequately throughout its assessment area. Finally, a majority of the bank's loans were made within the assessment area.

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 bank received a satisfactory rating at its last CRA performance evaluation, conducted July 29, 1996. The bank relocated its main office to its new facility in the Dakota Financial Center at 1060 Dakota Drive, Mendota Heights, Minnesota, effective December 15, 1997; Mendota Heights is adjacent to Minneapolis-St. Paul, Minnesota. The bank is a relatively small commercial lender in an extremely competitive banking market. The bank operates five full-service offices: the main office in Mendota Heights and the branch offices located in nearby Inver Grove Heights and Eagan, Minnesota, and two offices in St. Paul. The branch offices are located at 7055 Cahill Avenue, Inver Grove Heights; 2109 Cliff Road, Eagan; 1425 Maryland Avenue East, St. Paul; and 2310 West Seventh Street, St. Paul. The bank also operates six cash-dispensing automated teller machines ("ATM") throughout the assessment area: one at each office and one at the former main office location. Bank customers have 24-hour access to the bank's ATMs.

The bank's offices operate uniform banking hours. Its lobby hours are 9:00 a.m. to 4:00 p.m. Monday through Thursday, and 9:00 a.m. to 6:00 p.m. on Friday. The bank's drive-up facilities are open 7:30 a.m. to 6:00 p.m. Monday through Friday and 8:30 a.m. to 12:00 p.m. on Saturday.

According to its March 31, 1998, Report of Condition ("ROC"), the bank's assets totaled approximately $79 million. The ROC data indicate that the bank continues to be primarily a commercial lender. Commercial loans total 81% of the bank's loan portfolio; approximately 41% of the commercial loans consist of commercial real estate and approximately 35% consist of working capital and commercial lines of credit. Approximately 15% of the loan portfolio consists of residential real estate loans and approximately 4% consists of consumer loans.

The bank's offices in Mendota Heights, Eagan, and Inver Grove Heights continue to account for a substantial majority of the bank's lending activity. The bank's market niche is commercial loans for small businesses, but it also originates 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 continues to offer 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 temporary construction, 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. In addition to offering conventional commercial loans, the bank continues to participate 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. The bank reported 37 and 63 residential real estate loan originations in 1996 and 1997, respectively. Of 1996 and 1997 reportable applications, 28 and 39 loans, respectively, were in the bank's assessment area. This activity represented less than 1% of the MSA activity in both 1996 and 1997. Consequently, the bank's HMDA data do not provide significant 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 743,856, according to 1990 census data, and includes the cities of St. Paul, Mendota Heights, Inver Grove Heights, Eagan, and Burnsville, Minnesota. The MSA population is 2,538,834, 29% of which 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 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.

For purposes of classifying borrowers' incomes, this evaluation used the U.S. Department of Housing and Urban Development- ("HUD") estimated 1998 median family income for the MSA. For borrowers in this MSA assessment area, this figure is $60,800. For purposes of classifying census tract ("CT") income levels, this evaluation used the median family income for the MSA from the 1990 census data. The 1990 median family income for this MSA was $43,063. Within the assessment area portion of the MSA, the 1990 median family income is $43,221 and the median household income is $36,059. The median family income for the assessment area is slightly higher than that of the MSA and the median household income is slightly lower that of MSA. Both assessment area figures are higher than the median family and household incomes for the state, which are $36,916 and $30,909, respectively.

The assessment area has approximately 191,519 families, approximately 6.3 % of which have incomes below the poverty level. The assessment area has 283,389 households; approximately 8.2% of which 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	21.9%	17.2%	22.3%	38.6%
Families Compared to Median Family Income	17.7%	18.0%	27%	37.3%

The bank's assessment area includes 188 census tracts. Based on the 1990 U.S. Census data, it includes 15 low-income census tracts, all of which are located in Ramsey County: 305, 313, 326, 327, 328, 329, 330, 331, 334, 335, 336, 337, 340, 374.04, and 420.01. The total population in the low-income census tracts is 32,751, which is 4.4% of the assessment area population. The assessment area also includes four moderate-income tracts in Dakota County, 33 in Ramsey County, and one 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 they represent 16% of the assessment area's population. The low- and moderate-income census tracts are concentrated in the area of St. Paul 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 591,752, and they represent 79.55% of the assessment area's population.

The income distribution of the assessment area's CTs is 8% low income, 20.2% moderate income, 52.1% middle income, and 19.7% upper income. According to 1990 U.S. Census data, there are 297,789 housing units in the assessment area, 188,820 (63.4%) of which are owner occupied. Approximately 12,902, or 4.33%, of the housing units in the assessment area are located in the low-income CTs. The data show that 29% of these units are owner occupied, 61.5% are rental units, and 9.5% are vacant. Owner-occupied housing units in low-income tracts represent only 1.98% of total owner-occupied units in the assessment area. Median family income in these tracts ranged from $9,164 to $21,214 as of the 1990 census.

Approximately 50,659, or 17.01%, of the housing units in the assessment area are located in the moderate-income CTs. The data show that 49.1% of these units are owner occupied, 44.4% are rental units, and 6.5% are vacant. The 24,867 owner-occupied units in these tracts represent 13.2% of assessment area owner-occupied units. Median family income in these tracts ranged from $21,571 to $34,349 as of the 1990 census.

Middle-income tracts in the assessment area contain approximately 169,775, or 57.01%, of the housing units in the assessment area. The data show that 64.3% of these units are owner occupied, 31.1% are rental units, and 4.7% are vacant. Median family income in these tracts ranged from $34,451 to $51,597 as of the 1990 census.

Upper-income tracts in the assessment area contain approximately 64,453, or 21.64%, of the housing units in the assessment area. The data show that 79.3% of these units are owner occupied, 16.7% are rental units, and 4% are vacant. Fully 27.07% of the owner-occupied housing units in the assessment area are located in upper-income tracts. Median family income in these tracts ranged from $51,921 to $116,115 as of the 1990 census.

As shown above, the number of housing units and the level of owner-occupied and rental housing vary throughout the assessment area. The number of housing units and the level of owner-occupied housing is lowest in the low- and moderate-income CTs and is much higher in the middle- and upper-income CTs. In fact, more than 78% of all housing units in the assessment area are located in the middle- and upper-income CTs. According to 1990 census data, the average median housing value in the assessment area was $88,430. The affordability ratio of .408 is slightly lower than the .414 affordability ratio for the MSA and the .419 affordability ratio for Minnesota.[1] Rental units account for 93,980, or approximately 31.6%, of the housing units in the assessment area. Of the total number of rental units, 30,442 are located in low- and moderate-income CTs. Median gross rent as of 1990 was $473, $5 lower than that of the MSA and $51 higher than the statewide gross rent figure.

Examiners made community contacts with a representative of a neighborhood development group and a government official as part of this CRA evaluation. These individuals are familiar with the demographic and 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 one of the community contacts, single-family residential dwellings in the low- and moderate-income CTs in the assessment area are selling for between $60,000 and $80,000. Although the housing market is not as robust in these CTs as it is in many other areas of the Twin Cities, ownership of much of the affordable housing stock has transferred to a new generation of homeowners. According to the contact, in general, this new group of homeowners is much less affluent than their predecessors.

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 continues to be 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 as many of the technological capabilities as the larger financial institutions do. 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 superregional bank holding companies with current corporate headquarters in Minneapolis. These two financial institutions, as well as several community banks located in the bank's assessment area, are active real estate mortgage originators. Community contacts indicate that the residential real estate loan needs of low- and moderate-income people are being 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 local economy is strong and stable; according to 1990 census data, the unemployment rate in the assessment area is 4.4%, which is lower than the unemployment rate of 4.6% for the MSA. Data updated through 1996 from the U.S. Bureau of Labor Statistics indicate that the unemployment rate has steadily declined in the MSA to 2.8%. 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.

[1]The affordability ratio measures the ratio of median household income to median housing value. The closer the ratio to 1, the more affordable housing is.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in serving the credit needs of its assessment area is satisfactory. Much of the analysis on the following pages is based on a statistical sample of 67 consumer loans and 103 small business loans originated in the six months preceding the evaluation. These samples were derived from 212 small business and 101 consumer loans originated during this time period. These loan categories represent the bank's major product lines based on number and/or dollar amount of loans originated.

The loan products were chosen because of the relative significance of the product either as a percentage of number of loans or the percentage of the dollar volume of loans in the sample period. The following table illustrates those percentages.

Loan Product	**% of Total Number of Loans (Six months ending 5/31/98)**	**% of Total Dollar Amount of Loans (Six months ending 5/31/98)**
Consumer	28%	7%
Small Business	52%	44%
Residential Real Estate	5%	12%
Commercial Real Estate	15%	37%

The consumer loans were chosen for review because they represent a significant percentage of the total number originated in the sample period, and small business loans were chosen because they represent a significant percentage of the number originated and the total dollar amount during the same period. Residential real estate loans were not reviewed as major product lines because they do not represent a significant percentage of the total number or dollar amount of loans originated in the sample period. As discussed in the Description of Institution section, the bank is primarily a commercial lender. According to the bank's March 31, 1998, ROC, approximately 81% of the bank's loan portfolio were in commercial loans. The bank's loan mix has not changed materially since the last CRA evaluation.

The criteria discussed below were reviewed in determining the rating. In assigning an overall rating, the greatest weight was placed on the assessment of lending to borrowers of different income levels and businesses of different sizes and the geographic distribution of the bank's loans. These factors most closely measure the bank's efforts to meet the credit needs of its community.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. Although the bank's quarterly loan-to-deposit ratio has fluctuated somewhat since the last evaluation, it has been generally stable and in a range between 72% to 74%. Based on the March 31, 1998, Uniform Bank Performance Report data, the bank's loan-to-deposit ratio of 72.08% ranks the bank in the 57th percentile in comparison with its peers. Based on the data from the bank's quarterly ROC for the eight calendar quarters since the last evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 73.4%. The following chart summarizes the bank's quarterly loan-to-deposit ratio and its components since the last evaluation, dated July 29, 1996.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO-DEPOSIT RATIO
June 30, 1996	$40,785	$55,106	74.01%
September 30, 1996	$40,990	$57,445	71.36%
December 31, 1996	$42,366	$63,181	67.05%
March 31, 1997	$44,731	$58,293	76.12%
June 30, 1997	$49,306	$61,353	80.36%
September 30, 1997	$47,877	$65,193	73.44%
December 31, 1997	$51,109	$69,710	73.32%
March 31, 1998	$51,214	$71,048	72.08%

As the data indicate, with the exception of the quarter ending September 30, 1997, the bank has successfully increased its loan portfolio in each calendar quarter since the last evaluation. Net loans have increased by 25.5% since the last evaluation. During the same period, the bank's deposits have increased every quarter except for the quarter ending March 31, 1997. The bank's deposits have grown by 28.9% since the last evaluation. The steady growth in loans reflects the excellent small business economy of the Twin Cities metropolitan area and strong commercial loan demand. The steady growth of deposits reflects the strong economy and aggressive bank marketing. According to the bank's portfolio, commercial loans total 81% of the bank's loan portfolio; approximately 30% of the commercial loans consist of commercial real estate and approximately 40% consist of working capital and commercial lines of credit.

The bank's average loan-to-deposit ratio is relatively high and comparable to the quarterly average ratios of its local competitors. Based on quarterly ROC data from June 30, 1996, to March 31, 1998, the following table identifies the asset size and quarterly averages loan-to-deposit ratios for the bank and its competitors.

BANK AND LOCATION	TOTAL ASSETS (March 31, 1998) (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
Dakota Bank Mendota Heights, Minnesota	$79,053	73.47%
Cherokee State Bank of St. Paul St. Paul, Minnesota	$154,875	60.48%
Signal Bank, National Association West St. Paul, Minnesota	$259,653	78.20%
Southview Bank South St. Paul, Minnesota	$49,999	71.40%
Anchor Bank West St. Paul, Minnesota	$104,236	73.67%
Bremer Bank, N.A. South St. Paul, Minnesota	$365,867	79.10%

In addition to the competitor banks listed above, three regional or superregional banks, two of which have corporate headquarters in Minneapolis, 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 directly competes against one smaller bank and four larger banks in the assessment area. The bank's quarterly average net loan-to-deposit ratio is higher than its smaller local competitor and one larger competitor, however, its ratio is lower than that of three of its competitors. In general, the bank's quarterly average net loan-to-deposit ratio is consistent with and compares favorably to 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, several of the applicants referred to the mortgage company received loans. The bank's loan-to-deposit ratio data do not reflect the loans originated as a result of the bank's referral policy. The bank also sells loan participations; these loans are not reflected in the bank's net loan-to-deposit ratio.

The bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. As discussed previously, the bank has increased its loan portfolio by 25.5% since the last evaluation and has maintained a strong, stable net loan-to-deposit ratio despite a 28.9% growth in its deposit base. Furthermore, the bank's quarterly net loan-to-deposit ratio compares favorably with the local competitors.

<u>COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA</u>

The bank's lending activity in the assessment area meets the standards for satisfactory performance. A review of the statistical sample of loans originated by the bank during the past six months reveals that the bank extended a majority of its loans inside the assessment area. The following table shows the percentage of loans within the assessment area based on the total number and loan amount in each major loan category.

LOANS ORIGINATED INSIDE THE ASSESSMENT AREA		
Loan Type	**Total Number of Loans**	**Total Dollar Amount of Loans**
Consumer	77%	80%
Small Business	69%	65%

However, since the last evaluation, the bank's lending activity in the assessment area has declined slightly. The last evaluation revealed that the bank extended 75% of its small business loans and 83% of its consumer loans in the assessment area. 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. Based on the concentration of loans originated within the assessment area, the bank meets 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 individuals of different income levels and to businesses of different sizes meets the standards for satisfactory performance. As previously mentioned, CRA groups income levels into four categories: low, moderate, middle, and upper. The following table shows the percentages of consumer loans made 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**
Consumer				
Total Number of Loans	30%	14%	20%	36%
Total Amount of Loans	11%	7%	31%	51%
*Income level is based on the 1998 median family income for the Minneapolis-St. Paul MSA of $60,800.				

As previously described in the Description of Assessment Area section, low-income households and families represent 21.9% and 17.7% of the assessment area's population, respectively. Moderate-income households and families represent 17.2% and 18% of the assessment area's population, respectively. The data in the table indicate that the bank originated a reasonable percentage, 44%, of its consumer loans to low- and moderate-income borrowers. The distribution of loans by dollar amount is skewed because of a few very large loans to upper-income borrowers. This figure is somewhat higher than the combined demographic distribution of low- and moderate-income households and families in the assessment area and reflects relatively strong loan demand. There is no apparent reason for the relatively strong lending to low-income borrowers but only modest lending to moderate-income borrowers. Also, as stated previously, no unmet credit needs were identified during the evaluation.

The bank has a good record of providing small business loans to businesses with gross annual revenues of $1 million or less. The bank's CRA loan sample also has a reasonable distribution of small business loans of different sizes. For the purposes of this evaluation, small business loans are identified as commercial loans with original principal amounts of $1 million or less. The loans sampled reveals that the bank originated 85% of its small business loans to entities with gross annual revenues of $1 million or less. Of these loans to these entities, the bank extended 57% for amounts of $100,000 or less, 24% for amounts between $101,000 and $250,000, and 19% for amounts between 251,000, and $1,000,000. In terms of dollar amount of loans, 18% were for less than $100,000, 24% were for amounts between $100,000 and $250,000, and 58% were for amounts for more than $250,000. The bank's commercial lending patterns reflect the characteristics of the small business lending niche market it has developed in the Twin Cities.

Aggregate data reported by banks in the MSA subject to data-reporting requirements of CRA provide an assessment of the level of demand for business credit in the MSA. The level for such credit in the MSA is strong. In 1996, reporting institutions made 2,071 loans (36% of the total number of loans reported) with original amounts totaling $85,033,000 to businesses with revenues under $1 million. These lenders also made five loans with original balances of $417,000 to farms with revenues under $1 million in 1996. The sizes of the small business and small farm loans in the assessment area made by reporting lenders are shown below.

Small Business Loans (In Thousands)	=$100,000	>$100,000 but =$250,000	>$250,000
Small business			
Number of loans	4,881	373	436
Percent of total	85.8%	6.5%	7.7%
Amount of loans	83,852	64,397	245,230
Percent of total	21.3%	16.4%	62.3%
Small farm			
Number of loans	3	3	0
Percent of total	50%	50%	0%
Amount of loans	97	473	0
Percent of total	17.0%	83%	0%

While the vast majority, 85.8%, of the small business loans in the Bank's assessment area were for less than $100,000, these loans represented only 21.3% of the dollar volume of loans made by reporting institutions. The 436 loans greater than $250,000 represented 62.3% of the dollar volume of small business loans. As can be seen in the previous table, demand for small farm loans in the Bank's assessment area is weak. In 1996, aggregate lenders only made six small farm loans totaling $570,000. The bank does not offer agricultural loans. As noted previously, the distribution of the bank's loans in the sample period reflects a higher concentration of the number of loans in the higher dollar amounts. This reflects the presence of multiple advances to a few large customers during the sample period. In terms of the distribution of loans by dollar amount, the bank's activity reflects a higher concentration in the middle category than exists for aggregate lenders and lower concentrations at the large and small ends. This reflects the bank's focus on lending to mid-sized businesses.

Based on the bank's reasonable level of consumer lending to low- and moderate-income individuals and its strong level of small business lending, the bank meets this category's standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout the assessment area is adequate and generally meets the standards for satisfactory performance. However, the bank's consumer lending performance in the low- and moderate-income census tracts is lower than expected given the population data and is barely reasonable. 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 CT INCOME LEVEL				
Loan Type	**Low Income**	**Moderate Income**	**Middle Income**	**Upper Income**
Consumer				
Total Number of Loans	0%	14%	48%	38%
Total Amount of Loans	0%	6%	49%	45%
Small Business				
Total Number of Loans	6%	14%	53%	27%
Total Amount of Loans	2%	7%	56%	36%

As mentioned, the bank's consumer lending performance in the low- and moderate-income census tracts is lower than expected given the population data and is barely reasonable. The bank's small business lending in the low-income CTs in the assessment area is somewhat higher. As the chart above shows, none of the consumer loans in the sample were to residents of the low-income CTs and approximately 6% of the bank's small business loans were originated in the low-income CTs. As previously mentioned, the total population in the low-income census tracts within the assessment area is 32,751, which is 4.4% of the total assessment area population. The bank's consumer and small business lending activity to residents in the moderate-income CTs is higher. The chart above shows that 14% of both the consumer and small business loans in the sample were to residents of the moderate-income CTs in the assessment area. The total population in the moderate-income CTs is 119,353, which is 16.04% of the total assessment area population. On a combined basis, the bank's consumer lending in the low- and moderate-income CTs is somewhat lower than the percentage of population in those tracts and the bank's small business lending approximates the low- and moderate-income tracts' population level.

The 1996 aggregate data reported by banks in the MSA subject to data-reporting requirements of CRA provide an assessment of the distribution by CTs of business credit in the MSA. At the time of the examination, the 1997 aggregate data were not available. The distribution of commercial loans through the tracts of various income levels in the assessment area is shown in the table below.

Commercial Loans (In thousands)	**=$100,000**		**>$100,000 but =$250,000**		**>$250,000**		**Revenues =$1 million**	
Tracts	#	$	#	$	#	$	#	$
Low income	211	3,104	21	3,557	29	17,480	89	4,968
% of total	4.3%	3.7%	5.6%	5.5%	6.7%	7.1%	4.3%	5.8%
Moderate income	513	9,279	26	4,913	59	30,856	207	8,744
% of total	10.5%	11.1%	7.0%	7.6%	13.5%	12.6%	10.0%	10.3%
Middle income	2,766	46,681	224	38,702	234	132,127	1,158	46,729
% of total	56.7%	55.7%	60.1%	60.2%	53.7%	53.9%	55.9%	55.0%
Upper income	1,391	24,788	102	17,225	114	64,767	617	24,592
% of total	28.5%	29.5%	27.3%	26.7%	26.1%	26.4%	29.8%	28.9%
Total	4,881	83,852	373	64,397	436	245,230	2,071	85,033
% of total	100%	100%	100%	100%	100%	100%	100%	100%

As noted previously, 8.0% of the tracts in the Bank's assessment area are low-income tracts, 20.2% are moderate-income tracts, 52.1% are middle-income tracts, and 19.7% are upper-income tracts. Aggregate lenders made fewer loans in each category to low- and moderate-income tracts than would be expected based on the percentage of tracts and population that are low and moderate income. A review of the aggregate small business loan activity showed that a total of 4.6% and 10.5% of all loans were made in low- and moderate-income tracts, respectively. This is below the bank's level of small business lending in low- and moderate-income tracts in the bank's assessment area.

The distribution by CT of the bank's lending is also the result of its organizational structure. The bank's CRA data discussed above reflect statistically sampled consumer and commercial loans from the bank's entire loan portfolio. As previously discussed, the bank currently 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 CTs, but do include four moderate-income CTs, representing 10.85% of the population residing in moderate-income census tracts in the bank's assessment area. However, these residents represent only 5.06% of the residents of Dakota County who reside in the bank's assessment area. The bank's Dakota County offices originate approximately 75% of the bank's entire loan portfolio. As a result, the number of loans to borrowers residing in low- and moderate-income CTs reflects the weighting 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 CTs and 34 of the 38 moderate-income census tracts within the bank's assessment area. As previously discussed, the bank operates two branch offices in St. Paul: one at 1425 Maryland Avenue East and 2310 West Seventh Street. These two Ramsey County offices account for approximately 25% of the bank's loan portfolio.

The bank's lending activity to residents and businesses located in low- and moderate-income CTs 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 as many credit applications from residents and businesses located in these areas as it does from residents of the other areas where it has offices. This is likely the result of the branches' locations as well as the fact that bank faces stiff banking competition in both areas of St. Paul in which it operates branches. In addition, according to community contacts, 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, although low, is adequate under the circumstances and barely meets the standards for satisfactory performance in this category.

GENERAL

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

PUBLIC DISCLOSURE

June 8, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dakota Bank
Name of Depository Institution

09273915
Identification Number of Institution

Mendota Heights, Minnesota
Address of Institution

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