



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 5, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**First American Bank, N.A.
Charter Number 11818
1100 West Saint Germain Street
St. Cloud, MN 56301**

**Supervisory Agency: Office of the Comptroller of the Currency
Midwestern District
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, MN 55402-3393**

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.

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GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Assessment Area - *The geographic area in which an institution's CRA performance is assessed. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.*

Census Tract - *A smaller, statistical area within a MSA (also known as a "geography"). The United States Census Bureau defines these boundaries with every 10-year census in an attempt to group homogeneous populations. A census tract has an average population of 4,000.*

Community Development Loan - *A loan with a primary purpose of community development.*

Community Development Purpose - *Community development is defined as affordable housing (including multifamily rental housing) for low- and moderate-income (LMI) individuals; community services targeted for LMI individuals; activities that promote economic development by financing businesses or farms that meet certain size and revenue standards prescribed by regulation; and, activities that revitalize or stabilize LMI geographies. With one exception, community development loans specifically exclude loans reported in Home Mortgage Disclosure Act (HMDA) or CRA (small loans to businesses and farms) Disclosure Statements. Multi-family rental housing loans can be reported under HMDA and count as a community development loan.*

Community Development Service - *A service, related to the provision of financial services, with a primary purpose of community development.*

Home Mortgage Disclosure Act (HMDA) - *A statute that requires certain mortgage lenders to file annual summary reports of their lending activity in the following types of loans: government-guaranteed home purchase and home improvement loans, conventional home purchase loans and home improvement loans, refinanced home purchase and home improvement loans, and loans for the purchase of multi-family dwellings. The reports include applicant information (race, gender, and income), the requested loan amount and the outcome of the loan request (i.e. made, turned down, withdrawn). (This definition paraphrases HMDA provisions. Legal requirements are specified in 12 U.S.C. 2801 and 12 C.F.R. 203, both as amended.)*

Income Levels - *The regulation prescribes various income levels, relating to individuals, families and geographies: low-income = less than 50% of the median; moderate-income = at least 50%, but less than 80% of the median; middle-income = at least 80%, but less than 120% of the median; and upper-income = 120% or more of the median.*

Median Family Income - *The median family income is determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.*

Metropolitan Statistical Area (MSA) - *An area containing a city (or an urbanized area) with a minimum population of 50,000 and a total metropolitan population of at least 100,000. MSAs generally consist of one or more counties with a high degree of interaction.*

Qualified Investment - *A lawful investment with a primary purpose of community development.*

Small Business or Small Farm - *A business or farm with gross annual revenues of \$1 million or less.*

Small Loan to a Business or Farm - *A loan of \$1 million or less to any business and a loan of \$500,000 or less to any farm.*

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 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 **First American Bank, N.A. (FAB)**, prepared by the **Office of the Comptroller of the Currency (OCC)** as of **February 5, 1998**. The evaluation covers the period January 25, 1995, through February 5, 1998. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated "**Satisfactory Record of Meeting Community Credit Needs.**" The institution was previously rated "Outstanding Record of Meeting Community Credit Needs" on January 25, 1995. At the current evaluation, the OCC examined FAB using the Lending, Investment and Service Tests for large banks pursuant to the revised CRA Regulation. The following table indicates FAB's performance level with respect to each of these tests.

First American Bank, N.A.			
Performance Levels	Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs To Improve			
Substantial Noncompliance			

*Note: The lending test is weighted more heavily than the investment and service tests in the overall rating.

We rated FAB "Satisfactory Record of Meeting Community Credit Needs" based on its:

- o **adequate responsiveness to small business credit needs;**
A substantial majority (86%) of 1996 small loans to businesses are in the assessment area. The geographic distribution of these loans is consistent with market demographics. A majority (55%) of these loans are to small businesses. A majority (79%) of these small business loans have origination amounts less than \$100,000. The bank's market share of small loans to businesses is consistent across businesses of different size.
- o **good responsiveness to consumer credit needs;**
A substantial majority (84%) of a consumer loan sample is in the assessment area. The distribution of consumer credit to low- and moderate-income borrowers exceeds market demographics.
- o **reasonable level of community development grants and donations; and,**
- o **comprehensive and accessible retail banking services.**

DESCRIPTION OF THE INSTITUTION

First American Bank, N.A. (FAB) is a \$334 million commercial bank located in central Minnesota. The main office is located in the City of St. Cloud. FAB has three full-service branches - one in St. Cloud (West Branch), one in a grocery store in the City of Sauk Rapids and one in the City of Rice. All facilities have full-service automated teller machines (ATMs) on premise. The bank has six additional full-service ATMs. All branch facilities and ATMs are within ten miles of the main office.

FAB offers a full range of credit products and financial services, but its market niche is commercial lending. As of June 30, 1997, FAB's loan portfolio totals \$208 million and represents 83% of bank deposits. By outstanding dollars, the loan portfolio consists of commercial (51%), residential (25%), consumer (14%), agricultural (6%) and municipal (3%) loans.

FAB is owned by the Bremer Financial Corporation (BFC), a \$2.9 billion holding company headquartered in St. Paul, Minnesota. BFC has 14 national bank subsidiaries (with more than 80 banking locations) throughout Minnesota, North Dakota and Wisconsin. Other non-bank affiliates include trust, insurance, management and operations service companies. BFC is owned by the Otto Bremer Foundation, a charitable trust. As a charitable trust, the Otto Bremer Foundation must disperse at least 5% of its assets for charitable causes annually.

There are no financial, legal, or other factors which impede the bank's ability to meet its CRA obligations. In 1996, FAB had net income of \$3.8 million and a return on average assets of 1.21%.

DESCRIPTION OF THE ASSESSMENT AREA

FAB's assessment area includes Benton County, the eastern half of Stearns County, the western edge of Sherburne County and the northern tip of Wright County. Benton and Stearns Counties comprise the St. Cloud MSA. Sherburne and Wright Counties are part of the Minneapolis/St. Paul MSA. The population of the assessment area is 157,461.

The assessment area complies with regulatory requirements. The area includes all of FAB's offices and ATMs, as well as a substantial portion of its loans. The area does not arbitrarily exclude any low or moderate income areas.

The income distribution of census tracts within the assessment area is rather homogeneous. Of 36 census tracts, only one is low-income. This tract is in downtown St. Cloud. On a percentage basis, it contains none of the families or housing units in the assessment area. There is one tract of unknown income. It consists entirely of a state reformatory. The remaining tracts are middle- and upper-income geographies. The table on the next page depicts the distribution of census tracts, families and housing units in the bank's assessment area by census tract income level.

DESCRIPTION OF THE ASSESSMENT AREA (Continued)

Table 1

DISTRIBUTION OF CENSUS TRACTS, FAMILIES AND HOUSING UNITS BY CENSUS TRACT INCOME LEVEL FAB ASSESSMENT AREA						
Census Tract Income Level	Census Tracts		Families		Housing Units	
	#	%	#	%	#	%
Low-income	1	3%	20	0%	313	0%
Moderate-income	0	0%	0	0%	0	0%
Middle-income	29	80%	32,750	87%	51,005	88%
Upper-income	5	14%	4,866	13%	6,826	12%
Unknown*	1	3%	0	0%	0	0%
TOTALS	36	100%	37,636	100%	58,144	100%

Data Source: 1990 Census

* The remainder of this evaluation excludes this tract from the assessment area to facilitate clearer presentation of data.

Approximately one-third of the families in the St. Cloud assessment area are low- or moderate-income. The Department of Housing and Urban Development's 1997 median family income estimate for the St. Cloud MSA is \$43,300. At the 1990 census it was \$32,693. The 1997 median family estimate for the Minneapolis/St. Paul MSA is \$57,300. At the 1990 census it was \$43,063. The following table details the distribution of families by income level. It also shows the distribution excluding families below poverty level. This more accurately reflects the distribution of families who could potentially afford to borrow:

Table 2

DISTRIBUTION OF FAMILIES BY INCOME LEVEL FAB ASSESSMENT AREA					
Family Income Level	Families (#)	Families (%)	Families Below Poverty (#)	Families (#) - Excluding Those Below Poverty	Families (%) - Excluding Those Below Poverty
Low-income	6,259	17%	2,541	3,718	11%
Moderate-income	6,986	18%		6,986	20%
LMI Subtotal	13,245	35%		10,704	31%
Middle-income	10,261	27%		10,261	29%
Upper-income	14,125	38%		14,125	40%
Unknown	5	0%		5	0%
TOTALS	37,636	100%	2,541	35,095	100%

Data Source: 1990 Census

DESCRIPTION OF THE ASSESSMENT AREA (Continued)

The local economy is strong. St. Cloud is the fastest growing metropolitan area in Minnesota. Since 1970, the population has grown more than 40%. The area is attractive to businesses because wages and housing costs remain below levels in Minneapolis/St. Paul (located approximately 65 miles away). Services, retail trade, manufacturing and government are all major sources of employment. The manufacturing base is diversified. St. Cloud is home to leading companies in granite production, optical lens manufacturing and paper production. Unemployment runs less than state/national averages and the city is experiencing a labor shortage.

Most of the businesses (71%) and farms (88%) in the bank's assessment area have annual sales less than \$1 million. The following tables detail the distribution of businesses and farms by sales volume and census tract income level:

Table 3

DISTRIBUTION OF BUSINESSES BY SALES VOLUME FAB ASSESSMENT AREA					
Census Tracts # & (%)	CENSUS TRACT INCOME LEVEL	Businesses - < \$1 million in sales # & (%)	Businesses - > \$1 million in sales # & (%)	Businesses - sales not reported # & (%)	Total Businesses # & (%)
1 (3%)	Low-income	222 (4%)	34 (1%)	44 (1%)	300 (6%)
29 (83%)	Middle-income	2,933 (60%)	481 (10%)	759 (15%)	4,173 (85%)
5 (14%)	Upper-income	314 (7%)	50 (1%)	56 (1%)	420 (9%)
35 (100%)	TOTALS	3,469 (71%)	565 (12%)	859 (17%)	4,893 (100%)

Data Source: 1995 Dunn & Bradstreet

Table 4

DISTRIBUTION OF FARMS BY SALES VOLUME FAB ASSESSMENT AREA					
Census Tracts # & (%)	CENSUS TRACT INCOME LEVEL	Farms - < \$1 million in sales # & (%)	Farms - > \$1 million in sales # & (%)	Farms - sales not reported # & (%)	Total Farms # & (%)
1 (3%)	Low-income	1 (1%)	0 (0%)	0 (0%)	1 (1%)
29 (83%)	Middle-income	149 (78%)	6 (3%)	13 (7%)	168 (88%)
5 (14%)	Upper-income	17 (9%)	2 (1%)	2 (1%)	21 (11%)
35 (100%)	TOTALS	167 (88%)	8 (4%)	15 (8%)	190 (100%)

Data Source: 1995 Dunn & Bradstreet

DESCRIPTION OF THE ASSESSMENT AREA (Continued)

Competition among financial institutions in the assessment area is strong. Approximately 50 banks, savings institutions, finance companies, mortgage brokers and credit unions serve this area. Competition includes branches of two regional banks and a large thrift.

As part of this evaluation we contacted a local government official in the assessment area. Other community contacts conducted by regulators within the last two years include another government official and a business group representative. These community members express a need for the creation and financing of affordable housing. The population expansion has significantly increased the demand for, and cost of, housing in the area. Other community credit needs include small business loans. Local financial institutions, including FAB, offer a variety of credit products to meet these needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Lending Test

Our lending test evaluation is based on FAB's 1996 CRA Disclosure (small commercial loans), 1996 HMDA Disclosure, and a sample of recent consumer loan originations. Under the revised CRA, 1996 was the first year banks had to collect small commercial loan data. Reliable, year-to-date 1997 commercial and mortgage loan information was not available for our review. The bank does not include consumer loans in its CRA Disclosure. Consumer loans are a major product based on number of originations. Therefore, we sampled direct instalment loan originations (the bank's primary consumer product) between May 1 and August 30, 1997. This time period was chosen because the information was readily available and comprehensive.

FAB's major credit products are commercial and consumer loans. In 1996, commercial loans comprised the largest share of originations by dollar volume (52%). Consumer loans comprised the largest share of originations by number (78%). The next table details the bank's 1996 originations by loan type.

Table 5

FAB LOAN ORIGINATIONS - 1996				
Loan Type	#	%	\$ (000s)	%
Commercial Loans				
Small Loans to Businesses (CRA Data)	272	8%	41,139	31%
Small Loans to Farms (CRA Data)	73	2%	3,210	2%
Large Loans to Businesses/Farms	15	1%	24,933	19%
Commercial Loan Subtotal	360	11%	69,282	52%
Consumer Loans	2,583	78%	34,431	26%
Home Mortgage Loans (HMDA)	352	11%	29,568	22%
TOTALS	3,295	100%	\$133,281	100%

Data Source: Bank Records

FAB makes a substantial majority of its loans inside the assessment area. Table 6 details the distribution of loans subject to public disclosure. In all categories, the percentage of loans made inside the assessment area exceeds 75%, by both number and dollar volume.

Lending Test (Continued)

Table 6

FAB LOAN ORIGINATIONS IN THE ASSESSMENT AREA 1996 HMDA AND SMALL COMMERCIAL LOANS												
	HMDA				Small Loans to Businesses				Small Loans to Farms			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%	#	%	\$ (000s)	%
In	304	86%	24,873	81%	233	86%	35,916	87%	57	78%	\$2,423	75%
Out	48	14%	4,695	19%	39	14%	5,223	13%	16	22%	787	25%
TOTALS	352	100%	29,568	100%	272	100%	41,139	100%	73	100%	\$3,210	100%

Data Source: 1996 Bank HMDA and CRA Disclosures

Commercial Loans

The bank is responsive to the credit needs of commercial borrowers in its assessment area. In 1996, FAB originated 233 small loans to businesses totaling \$35.9 million. It also originated 57 small loans to farms totaling \$2.4 million. The bank did not purchase any loans of this type in 1996.

A majority of the 1996 small commercial loan originations are to small businesses (55%) and small farms (86%). Small farm lending is relatively consistent with market demographics, but small business lending is less. The bank's percentage of small commercial loan originations to small businesses is 55%*. And, as previously illustrated in Table 3, small businesses account for 71% of all businesses in the assessment area. Although the bank's percentage is less than market demographics, it parallels the aggregate performance of other lenders subject to the reporting requirements for small commercial loans in the assessment area. The percentage of small loan originations to small businesses for other reporting lenders is 55% as well. The following table shows the income distribution of FAB's 1996 small commercial loan originations.

Table 7

INCOME DISTRIBUTION OF SMALL LOANS TO BUSINESSES AND FARMS IN THE ASSESSMENT AREA 1996 ORIGINATIONS									
Borrower Income Level	Business Loan Originations			Farm Loan Originations			Total Originations		
	Count #	%	Amount (000s)	Count #	%	Amount (000s)	Count #	%	Amount (000s)
Revenues <= \$1 million	127	55%*	\$15,344	49	86%	\$1,622	176	61%	\$16,966
Revenues > \$1 million	106	45%*	\$20,572	8	14%	\$801	114	39%	\$21,558
Unknown Revenues	0	0%	\$0	0	0%	\$0	0	0%	\$0
TOTALS	233	100%	\$35,916	57	100%	\$2,423	290	100%	\$38,524

Data Source: Bank's 1996 CRA Disclosure

*FAB finances one of its large dealer relationships with individual loans instead of a floor plan line. Combining these loans would reduce the ratio of loans to large businesses to 38% and increase ratio of loans to small businesses to 62%.

Lending Test (Continued)

FAB is willing to make small loans as evidenced by the size distribution of its small commercial loan originations to small businesses and small farms. A substantial majority of these loans were in amounts less than \$100,000. Approximately 79% of small business loans had an origination amount less than \$100,000. For small farms, this ratio was 92%. The next table shows the distribution of small business and small farm loans by several size categories.

Table 8

DISTRIBUTION OF SMALL LOANS TO SMALL BUSINESSES AND FARMS IN THE ASSESSMENT AREA 1996 ORIGINATIONS								
Loan Size	SMALL BUSINESSES				SMALL FARMS			
	Number #	Percent %	Amount \$(000's)	Percent %	Number #	Percent %	Amount \$(000's)	Percent %
< \$100,000	101	79%	3,522	25%	45	92%	946	58%
\$100,001 to \$250,000	17	13%	3,476	25%	4	8%	675	42%
>= \$250,001	10	8%	6,918	50%	0	0%	0	0%
TOTALS	128	100%	13,916	100%	49	100%	1,621	100%

Data Source: Bank Records (The data in this table doesn't exactly reconcile to Table 7, but these differences are not material.)

Market share information also supports the bank's willingness to lend to businesses of different income levels. FAB's market share with regard to smaller income borrowers is generally consistent with its overall market share as illustrated by Table 9. This information is based on data supplied by lenders subject to CRA reporting requirements (financial institutions with assets of \$250 million or more, or affiliated with a bank holding company that has assets of \$1 billion or more). The data does not represent all lenders who provide small loans to businesses and farms in the assessment area.

Table 9

BANK MARKET SHARE IN THE ASSESSMENT AREA 1996 SMALL COMMERCIAL LOAN ORIGINATIONS	
Product & Income Category	
SMALL LOANS TO BUSINESSES	Overall Market Share = 18.36%
<i>Revenues <= \$1 Million</i>	18.30%
<i>Revenues > \$1 Million</i>	18.40%
SMALL LOANS TO FARMS	Overall Market Share = 13.04%
<i>Revenues <= \$1 Million</i>	11.78%
<i>Revenues > \$1 Million</i>	38.10%

Data Source: 1996 FFIEC Aggregate CRA Data and 1996 Bank CRA Disclosure

Lending Test (Continued)

The distribution of commercial loans by geography is reasonable. With the exception of lending to small businesses in middle-income tracts, the distribution of business loans parallels assessment area demographics. Table 9 shows the distribution of small loans to businesses in 1996 by census tract income level. This analysis is not meaningful for farm loans as the low-income tract in the assessment area has only one farm.

Table 10

DISTRIBUTION OF 1996 SMALL LOANS TO BUSINESSES BY CENSUS TRACT INCOME LEVEL IN THE ASSESSMENT AREA								
	Low Income CTs (3% of all CTs)		Middle Income CTs (83% of all CTs)		Upper Income CTs (14 % of all CTs)		Totals	
	#	%	#	%	#	%	#	%
Revenues <= \$1 Million	8	6%	84	66%	35	28%	127	100%
Revenues > \$1 Million	0	0%	93	88%	13	12%	106	100%
TOTAL	8	3%	177	76%	48	21%	233	100%

Data Source: Bank Records

Consumer Loans

FAB is responsive to consumer credit needs in its assessment area. As previously indicated in Table 5, the bank originated 2,583 consumer loans totaling \$34.4 million in 1996. Most consumer loans are in the assessment area. To determine this, we sampled 400 direct instalment loan originations, FAB's primary consumer product. The sample represented 100% of the bank's direct instalment loan originations between May 1 and August 30, 1997. Of this sample, at least 335 originations (84%) were in the assessment area.

The distribution of consumer credit by borrower income level is good. To determine this, we sampled 83 (25%) of the 335 loan originations referred to in the previous paragraph. The distribution of loans to low- and moderate-income borrowers exceeds the demographics of the assessment area as illustrated in Table 11.

Lending Test (Continued)

Table 11

INCOME DISTRIBUTION OF CONSUMER LOANS IN THE ASSESSMENT AREA SAMPLE OF 1997 ORIGINATIONS			
Borrower Income Category	Consumer Loan Sample		Families in Income Category
	#	%	
<i>Low-income Borrowers</i>	23	28%	17%
<i>Moderate-income Borrowers</i>	15	18%	18%
LMI Subtotal	38	45%	35%
<i>Middle-income Borrowers</i>	15	18%	27%
<i>Upper-income Borrowers</i>	20	24%	38%
<i>Borrowers with Unknown Income</i>	10	12%	0%
TOTALS	83	100%	100%

* Refer to Table 2

The distribution of credit by geography is not a meaningful analysis for consumer credit (or home mortgage loans). The one low-income census tract in the assessment area contains none of the families, on a percentage basis. The remaining census tracts are middle- or upper-income (refer to Table 1 for additional detail).

Home Mortgage Loans

FAB has made some inroads into HMDA lending, considering the bank's primary focus of serving commercial credit needs and vigorous competition. HMDA loan originations in the assessment area substantially increased in 1996 as the Table 12 on the next page shows. The number of conventional home purchase loans almost doubled and the number of refinance loans more than quadrupled. FAB management attributes the increase to marketing strategies and an additional lender. Government home purchase loan originations changed very little, but this is most likely due to the market being dominated a three lenders who accounted for more than 55% of the government home purchase originations in 1996. Overall, FAB ranks among the top ten lenders for HMDA loan originations in the assessment area, but it does not have a significant market share (<6%) in any HMDA product. The bank did not purchase any HMDA-reportable loans in 1995 or 1996.

A very high percentage of the bank's HMDA loans are in the assessment area. As previously shown in Table 6, 86% of 1996 HMDA originations were inside the assessment area. In 1995, this ratio was 87%. Despite increased originations and a high percentage of lending inside the assessment area, the bank's overall responsiveness to home mortgage credit needs is weak.

Lending Test (Continued)

Table 12

HMDA LOAN ORIGINATIONS IN THE ASSESSMENT AREA				
Product	1995		1996	
	Number	\$ (000's)	Number	\$ (000's)
<i>Government Home Purchase</i>	54	\$3,546	52	\$3,888
<i>Conventional Home Purchase</i>	56	6,067	96	9,000
<i>Refinance</i>	36	3,524	156	11,985
TOTALS	146	\$13,137	304	\$24,873

Data Source: Bank Records

The distribution of HMDA loans among borrowers of different income levels is not very favorable as Table 13 illustrates. For the previous two years, the percentage of FAB's home mortgage lending to low-income borrowers (5%) falls well below assessment area demographics (11% of the families are low income). This is partly attributable to the lack of affordable housing. However, the bank's percentage of low-income lending also falls short of other lenders' aggregate performance - 7% in 1995 and 8% in 1996. In the moderate-income sector, bank performance (22% in 1995 and 19% in 1996) is more in line with market demographics (20%), but still falls short of other lenders' aggregate performance (23% in 1995 and 24% in 1996).

The disparity is evident in both the home purchase and refinance products. In 1996, FAB's percentage of home purchase loans to LMI borrowers was 31.9% while other lenders' aggregate performance was 37.5%. In the refinance product, FAB's percentage of loans to LMI borrowers was 16.0% while other lenders' aggregate performance was 25.2%.

FAB management believes the refinance disparity is due to the bank's use of a streamlined refinance program through the Federal Housing Administration (FHA). This refinance program does not require borrower income information. In 1996, the bank refinanced 17 loans under this program and the percentage of refinanced loans to borrowers with unknown income almost doubled. Theoretically, many of these loans could be to LMI borrowers. FHA loan programs do not have income caps but the low down payment requirement makes them attractive to first-time home buyers.

FAB management did not offer any explanation for the home purchase disparity. However, we believe the bank's compensation program may be a contributing factor. Mortgage lenders are generally compensated by commission based on loan dollars originated. This creates an incentive for lenders to make larger loans, because the work necessary to close a mortgage loan does not typically vary based on loan size. Low- and moderate-income borrowers are more likely to require smaller mortgage loans.

Lending Test (Continued)

Table 13

LOAN DISTRIBUTION IN THE ASSESSMENT AREA 1995 & 1996 HMDA ORIGINATIONS						
Product & Income Category	1995		1996		Families in Income Category	Adjusted Families* in Income Category
	Other Lenders	FAB	Other Lenders	FAB		
LOW-INCOME BORROWERS	7%	5%	8%	5%	17%	11%
<i>Home Purchase</i>	8.2%	6.4%	8.5%	6.8%		
<i>Refinance</i>	4.6%	2.8%	5.5%	3.8%		
MODERATE-INCOME BORROWERS	23%	22%	24%	19%	19%	20%
<i>Home Purchase</i>	26.0%	25.5%	29.0%	25.7%		
<i>Refinance</i>	18.8%	11.1%	19.7%	12.2%		
MIDDLE-INCOME BORROWERS	36%	27%	34%	30%	27%	29%
<i>Home Purchase</i>	36.2%	27.3%	34.6%	29.7%		
<i>Refinance</i>	35.4%	25.0%	34.6%	30.1%		
UPPER-INCOME BORROWERS	32%	45%	32%	38%	37%	40%
<i>Home Purchase</i>	29.4%	40.9%	27.2%	33.8%		
<i>Refinance</i>	36.3%	55.6%	36.3%	42.9%		
BORROWERS WITH UNKNOWN INCOME	2%	1%	2%	8%	0%	0%
<i>Home Purchase</i>	0.1%	0.0%	0.8%	4.1%		
<i>Refinance</i>	4.8%	5.6%	3.9%	10.9%		

Data Sources: 1995 & 1996 FFIEC Aggregate HMDA Data, 1995 & 1996 Bank HMDA Disclosure Statements, and 1990 Census Data

*This percentage is adjusted for the number of families in the assessment area below the poverty level as it is highly unlikely they could afford to borrow. Refer to Table 2 in the Assessment Area section of this evaluation for additional detail.

Market share information (Table 14) also indicates FAB is not serving the home mortgage credit needs of LMI borrowers as well as upper income borrowers. FAB's LMI market share is typically less than its overall market share for each type of product and market share generally increases as the borrower's income level increases. In 1996 for example, the bank had an approximate 5% market share in home purchase loans. Within that loan category, the market share ranged from 4% for low income borrowers to 6% for upper income borrowers. The bank's overall 1996 market share for refinance loans was approximately 6%. Within that loan category, market share ranged from 4% for low income borrowers to 7% for upper income borrowers. Ideally, market share ratios should be relatively consistent across income levels.

FAB has not yet achieved proportionate market shares in the low and moderate income sectors, however it improved penetration of these sectors between 1995 and 1996. For home purchase loans, low income market share increased from 2.95% to 3.98% and moderate income market share increased from 3.71% to 4.39%. For refinance loans, low income market share increased from 1.72% to 4.11% and moderate income market share increased from 1.67% to 3.68%. Some of this improvement is likely attributable to improved HMDA reporting systems, rather than better performance.

Lending Test (Continued)

Table 14

BANK MARKET SHARE IN THE ASSESSMENT AREA 1995 & 1996 HMDA ORIGINATIONS		
Product & Income Category	1995	1996
HOME PURCHASE	Overall Market Share = 3.79%	Overall Market Share = 4.93%
<i>Low-income Borrowers</i>	2.95%	3.98%
<i>Moderate-income Borrowers</i>	3.71%	4.39%
<i>Middle-income Borrowers</i>	2.88%	4.27%
<i>Upper-income Borrowers</i>	5.18%	6.06%
<i>Borrowers with Unknown Income</i>	0.00%	21.43%
REFINANCE	Overall Market Share = 2.81%	Overall Market Share = 5.80%
<i>Low-income Borrowers</i>	1.72%	4.11%
<i>Moderate-income Borrowers</i>	1.67%	3.68%
<i>Middle-income Borrowers</i>	2.00%	5.09%
<i>Upper-income Borrowers</i>	4.23%	6.78%
<i>Borrowers with Unknown Income</i>	3.23%	14.78%

Data Source: 1995 and 1996 FFIEC Aggregate HMDA Data

Community Development Lending

FAB has reported no community development loans over the evaluation period.

Innovative/Flexible Loan Programs

FAB offers a unique small business program called the "St. Cloud Business Manager" which offers an alternative funding source for account receivable financing. In the previous three years, seven businesses have utilized this program in an amount exceeding \$6.2 million.

FAB is a "Preferred" Small Business Administration (SBA) lender. It originated 33 loans totaling \$5.5 million over the evaluation period. The 1996 originations are included in the small commercial loan data previously presented.

The bank participates in several affordable housing programs through the Minnesota Housing Finance Authority (MHFA) and the St. Cloud Housing Redevelopment Authority (HRA). Over the evaluation period, FAB originated 24 MHFA home purchase loans totaling more than \$1.2 million. These originations are included in the HMDA data previously presented. FAB also originated 30 HRA loans totaling more than \$2 million and 20 MHFA home energy/improvement loans totaling \$152,799.

INVESTMENT TEST

The bank has an adequate level of investment based on its community development grant and donation activity. FAB and the affiliated Otto Bremer Foundation made 16 qualified grants/donations totaling \$243,100 over the evaluation period. These investments benefitted LMI individuals in the bank's assessment area. This level of investment represents approximately 2% of the bank's net income over the evaluation period. The level of investment in the most recent year (1997) was higher at approximately 3.6% of net income.

SERVICE TEST***Retail Banking Services***

FAB's delivery systems are reasonably accessible to all portions of the assessment area. The bank has not opened or closed any offices since the previous CRA evaluation. The main office is located in a low-income census tract in downtown St. Cloud. The three branches are located in middle income tracts. ATMs are dispersed throughout St. Cloud and surrounding suburbs in convenient and high traffic locations, including local universities, Super America gas stations and a Walmart. Four of the nonbranch ATMs are located in upper-income tracts and two are in middle-income tracts.

Services, including branch hours, are tailored to the convenience and needs of the assessment area. Bank services include 24 hour telephone banking, interpretation services in eight languages, telephone banking for hearing impaired customers, and a "Bank-at-Work" program which currently benefits about 300 employees at 21 different companies.

Community Development Services

FAB has provided few, if any, community development services over the evaluation period.

FAIR LENDING

Examiners did not identify any instances of illegal discrimination or discouragement in the concurrent compliance review.