



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

---

## **PUBLIC DISCLOSURE**

**January 12, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Anchor Bank Heritage National Association  
Charter Number 13973**

**2700 East Seventh Avenue  
North St. Paul, MN 55109**

**Comptroller of the Currency  
Minneapolis South  
920 Second Avenue South Suite 800  
Minneapolis, MN 55402**

**NOTE: This document is an evaluation of this 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. 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.**

## **INSTITUTION'S CRA RATING**

### **This institution is rated Satisfactory.**

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans by number and dollar within its assessment area.
- The bank has a good distribution of credit among commercial borrowers of different sizes and an excellent distribution of credit among residential real estate borrowers of different income levels.
- The geographic distribution of commercial loans reflect a good dispersion throughout the assessment area. Geographic distribution of residential real estate loans reflect an excellent dispersion throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

Anchor Bank Heritage, N.A. (Anchor) was a \$226 million institution as of December 31, 2002. Anchor has their main office located in North St. Paul, Minnesota, a city of 12,000 persons. They have two full-service branch locations. The Woodbury branch is located 13 miles south of the main bank and the Arden Hills branch, which opened in October, 2003, is located approximately 11 miles northwest of the main bank. Anchor also has branch activities being conducted at two nursing homes within their AA, one in Woodbury and the other in Mahtomedi. These activities consist of going to the facilities twice a week to provide general banking activities for the residents.

The North St. Paul bank and the Arden Hills branch are both located in Ramsey County, while the branch located in Woodbury, and both nursing home facilities, are located in Washington County. The bank offers telephone and Internet banking to its customers. This service provides customers with 24-hour access to deposit and loan account information. It also allows customers to make transfers between accounts. Anchor has twenty-five ATMs located throughout their assessment area, none of which accept deposits.

Anchor offers a wide range of loan and deposit products which are designed to meet the community's needs. As of December 31, 2002, the bank's \$152 million loan portfolio consisted of 81% commercial loans, 14% residential real estate loans, 4% consumer loans and 1% other loans. As of December 31, 2002, net loans made up 66% of total assets. The bank's primary lending focus is commercial and residential real estate loans.

Anchor Bancorp, Inc. is a five-bank holding company that owns Anchor Bank Heritage, N.A. The other four Anchor Bank charters are located in Wayzata, St. Paul, West St. Paul and Farmington, Minnesota. As of December 31, 2002, Anchor Bancorp, Inc. had assets of \$908 million. The bank does not have any affiliate relationships that impact the bank's CRA performance.

There are no financial, legal or other factors that impede Anchor's ability to meet its CRA

obligations. The bank's last CRA rating was a "Satisfactory Record of Meeting Community Credit Needs" dated November 2, 1998.

## **DESCRIPTION OF ASSESSMENT AREA**

Anchor's assessment area (AA) includes all of Ramsey and Washington counties. Both counties are part of the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). Based on the 1990 census data, 14 of Anchor's AA census tracts (CTs) are low-income (8%), 36 CTs are moderate-income (21%), 86 CTs are middle-income (50%) and 31 CTs are upper-income (18%). 2 CTs in Anchor's AA (2%) do not have income data available. Anchor's AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Based on 1990 census information, 19.01% of the families within this AA are low income, 18.63% moderate income, 26.79% middle income and 35.56% upper income. The 1990 census median family income for the AA was \$43,063. Based on the Department of Housing and Urban Development's 2002 estimate, the updated median family income for the AA is \$76,700.

The 1990 census data indicates that 21,488 households (8%) are below the poverty level. The 2000 census shows that that number has declined to 20,449 households (7%). The Census Bureau indicated that in 1999, 7.9% of persons in Minnesota were below the poverty level, compared to 12.4% nation-wide. The same data indicated that 10.6% and 2.9% in Ramsey and Washington Counties, respectively, are below poverty level.

The Census Bureau indicates the population of the entire AA has increased 12.5% from 1990 to 2000. The fastest growing county during this timeframe was Washington County at 37.9%. The population in Ramsey County increased by only 5.2%. This is consistent with the metro area expansions into the suburban areas which are quickly becoming populated with new residential developments while its residents commute to other parts of the metro for work.

The median value of owner occupied housing units in 2000 per census data for the State of Minnesota was \$122,400. This compares with Ramsey County at \$126,400 and Washington County at \$156,200. In Anchor's AA, the 1990 census data indicated 63% of the housing units were owner occupied which has increased to 67% per the 2000 census data. Our community contact indicated that the city of North St. Paul offers very affordable housing in comparison to other parts of the metro area with several options for entry-level housing. Their current concerns are revitalizing older homes and the development of additional life-cycle housing, such as condominiums and assisted living.

According to the Minnesota Workforce Center, unemployment levels in the State of Minnesota as of December 31, 2003 were at 4.5%, compared to 4.1% in Ramsey County and 3.6% in Washington County. The nationwide unemployment rate as of December 31, 2003 was 5.4%. Major employers in the AA include Interlogix (electrical equipment manufacturing), Target, Aetrium (semiconductor and other electric component manufacturing), Lillie Suburban Newspapers, Berwald Roofing and Delta Engineering. Our community contact indicated that some area businesses are considering moving their manufacturing operations to other countries to reduce costs. This would be detrimental to the area and they are anticipating almost 400 area

employees will lose their jobs in the near future due to relocation of one of their major employers. They are also working to redevelop the downtown commercial business district to make it more attractive for new businesses to the area.

Bank competition in Anchor’s AA is strong. There are more than 50 financial institutions with a presence in Anchor’s AA. Anchor is ranked 11<sup>th</sup> in deposit market share with 1.76% according to June, 2003 deposit information obtained from the Federal Deposit Insurance Corporation.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank’s size, financial condition and local credit needs. The bank’s quarterly average loan-to-deposit ratio for the 17 quarters since the previous CRA exam is 78.38%. Similarly situated banks with a presence in the AA are those with total assets between \$223 and \$259 million. Quarterly average loan-to-deposit ratios for similarly situated banks range from 71.81% to 94.04% over the same time frame. The loan-to-deposit ratio does not take into account loans sold by banks on the secondary market, which for Anchor totaled \$43 million in 2001 and \$58 million in 2002.

Institution	Assets (as of 12/31/02)	Average Loan-to-Deposit Ratio; 4Q98 – 4Q02
NORTH STATE BANK	\$259 million	71.81
CHEROKEE STATE BANK	\$230 million	72.00
ANCHOR BANK WEST ST. PAUL	\$253 million	74.34
ANCHOR BANK NORTH ST. PAUL	\$226 million	78.38
LAKE ELMO BANK	\$223 million	84.22
CENTRAL BANK	\$239 million	94.04

### Lending in Assessment Area

Based on a sample of 20 commercial loans and 20 residential real estate first mortgage loans, Anchor originates a majority of its loans to borrowers by number and dollar located within its defined AA. The sample determined that of loans originated from January, 2001 through December, 2002, 57.50% by number and 54.17% by dollar were made to commercial and residential real estate customers located within the bank’s AA. The following table shows loans originated inside and outside their AA by number and dollar volume.

	Number of Loans		Dollar of Loans	
	Inside	Outside	Inside	Outside

Loan Type	#	%	#	%	\$	%	#	%
<b>Commercial</b>	13	65	7	35	779,362	48.59	824,740	51.41
<b>Residential Real Estate</b>	10	50	10	50	2,229,900	56.44	1,721,300	43.56
<b>TOTALS:</b>	<b>23</b>	<b>57.50%</b>	<b>17</b>	<b>42.50%</b>	<b>3,009,262</b>	<b>54.17%</b>	<b>2,546,040</b>	<b>45.83%</b>

### Lending to Commercial Borrowers of Different Revenue Sizes and Residential Real Estate Customers of Different Income Levels.

Anchor has a good distribution of credit among businesses of different revenue sizes. Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to more than a million dollars. A random sample of 20 commercial files indicates the following breakdown of annual revenues.

<b>Borrower Distribution of Loans to Businesses</b>		
<b>Business Revenues</b>	<b>&lt; \$1,000,000</b>	<b>&gt; \$1,000,000</b>
% of AA Businesses*	58.63%	5.77%
% of Bank Loans in AA by #	70%	30%
% of Bank Loans in AA by \$	67.34%	32.66%

\*per 2002 Business Demographic Data;  
35.59% of businesses did not report revenues

Anchor has an excellent distribution of credit among residential real estate borrowers of different income levels. The following table compares the percentage of families based on income level located within the AA to those loans made by the bank from the selected loan sample of 20 residential real estate first mortgage loans.

<b>Borrower Distribution of Residential Real Estate Loans</b>								
<b>Borrower Income Level*</b>	<b>Low (0 - \$38,350)</b>		<b>Moderate (\$38,351 - \$61,360)</b>		<b>Middle (\$61,361 - \$92,040)</b>		<b>Upper (\$92,041 and over)</b>	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate	19.01%	10%	18.63%	30%	26.79%	15%	35.56%	45%

\*per 2002 HUD Estimated Median Family Income for Minneapolis-St. Paul MSA

### Geographic Distribution of Loans

The geographic distribution of commercial loans reflect a good dispersion through the AA and geographic distribution of residential real estate loans reflect an excellent dispersion throughout the AA. All of Anchor's bank locations are in either middle or upper income CTs; however, the random sample of files selected indicated that Anchor is lending in moderate-income CTs within their AA to business and residential customers. While our sample did not include any loans to customers located in low-income CTs, none of the low-income CTs are in close proximity to any of Anchor's bank locations. We did not identify any conspicuous gaps in lending to low- or moderate-income CTs. The following tables reflect the demographics of the area to the bank's

actual lending, based on a random sample of 20 commercial loans and 20 residential real estate first mortgage loans.

<b>Geographic Distribution of Loans to Businesses in Assessment Area</b>								
<b>Census Tract Income Level*</b>	<b>Low 8%</b>		<b>Moderate 21%</b>		<b>Middle 50%</b>		<b>Upper 18%</b>	
<b>Loan Type</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>						
<b>Commercial</b>	5.80%	0%	13.48%	10%	57.52%	50%	22.85%	40%

\*2% of the Census Tracts in this AA are N/A; % of AA Businesses in these CTs are .35%

<b>Geographic Distribution of Residential Real Estate Loans in Assessment Area</b>								
<b>CT Income Level*</b>	<b>Low 8%</b>		<b>Moderate 21%</b>		<b>Middle 50%</b>		<b>Upper 18%</b>	
<b>Loan Type</b>	<b>% of AA Owner Occupied Housing Units</b>	<b>% of Number of Loans</b>						
<b>Residential Real Estate</b>	2.34%	0%	13.80%	15%	61.94%	55%	21.92%	30%

\*2% of the Census Tracts in this AA are N/A

### **Responses to Complaints**

Anchor has not received any complaints about its performance in helping meet assessment area credit needs during this evaluation period.

### **Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices.