



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 17, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Zapp National Bank of St. Cloud
Charter Number 15401**

**1015 West Saint Germain Street
St. Cloud, Minnesota 56301**

**Office of the Comptroller of the Currency
Alexandria Duty Station
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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.

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 Community Reinvestment Act (CRA) performance of **Zapp National Bank of St. Cloud** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of October 17, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

Zapp National Bank's rating is based on the following factors:

- ◆ The bank has a good record of extending credit to businesses of different sizes.
- ◆ The bank's loan-to-deposit ratio is strong.
- ◆ A majority of the bank's loans are extended within the assessment area.

The following table indicates the performance level of Zapp National Bank of St. Cloud with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	ZAPP NATIONAL BANK OF ST. CLOUD PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	x		
Lending in Assessment Area		x	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		x	
Geographic Distribution of Loans		x	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Zapp National Bank of St. Cloud is a \$209 million bank located in the central Minnesota city of St. Cloud and is recognized in the community by the trade name "Zapp Bank." The bank has two branches, one in St. Cloud and another in the neighboring city of Sartell. All three locations provide complete deposit and consumer loan products and services. Commercial loans and services are available at the main bank and by appointment at the most convenient branch.

The bank is owned by Zappco, Inc., a three bank holding company located in St. Cloud with assets of \$302 million. The two affiliate banks border Zapp Bank's assessment area. Another affiliate, Zapp Data, provides data processing for the banks. Zappco owns and operates twenty-eight automated teller machines (ATM's), eighteen of which are located in the St. Cloud area.

Zapp Bank defines itself as a full service bank offering a wide variety of deposit and loan products and services. Using 6/30/96 financial information, gross loans represent approximately 70% of total assets. The primary lending focus is small and medium size business loans and residential real estate mortgages. The loan portfolio consists of commercial and industrial (26%), commercial real estate (38%), construction and development (9%), residential real estate (15%), and other consumer loans (12%).

The bank was rated "Outstanding Record of Meeting Community Credit Needs" at the last CRA examination, August 8, 1992. There are no legal or financial impediments limiting Zapp Bank's ability to help meet the credit needs of the community.

DESCRIPTION OF ZAPP NATIONAL BANK'S ASSESSMENT AREA

Zapp Bank's assessment area (AA) includes portions of Stearns, Benton, Sherburne and Wright Counties. Population within the AA is 184,668. The area includes forty contiguous Census Tracts (CT's) which are part of two Metropolitan Statistical Areas (MSA's), the St. Cloud and Minneapolis/St. Paul MSA's.

The bank's assessment area and primary business focus is centered in the St. Cloud MSA, but extends into a portion of the Minneapolis/St. Paul MSA. Twenty-seven of the forty CT's are in the St. Cloud MSA, and the remaining CT's are on the northwest edge of the Minneapolis/St. Paul MSA. Cities within the AA include but are not

limited to St. Cloud, Waite Park, Sartell, Cold Spring, Sauk Rapids and Becker. (Please refer to the map of the AA area in the bank's public file.) The AA complies with the requirements of the CRA and does not arbitrarily exclude low- and moderate-income areas.

According to 1990 U.S. Census data, 45,084 families reside in the AA with a median family income of \$35,125. Family incomes within the AA are: 17% low income; 19% moderate income; 28% middle income; and 36% upper income. The AA consists of one low income CT; two moderate income CT's; thirty-one middle income CT's; five upper income CT's; and one undefined income CT. The undefined tract consists wholly of a state prison.

The low income tract includes the downtown St. Cloud business center. The area is sparsely populated and the majority of the loans are business related. The moderate income tracts are predominately rural, sparsely populated, and are of greater distance to the bank's offices than other census tracts.

The local economy is strong and in a period of expansion. Manufacturing, construction, and retail employment figures have all been increasing over the last three years. Major employers include a major catalog merchandiser, a grocery distributor, St. Cloud State University, the St. Cloud school district, and the health care industry.

Competition within the AA is strong and includes twenty-one banks or bank branches, five savings and loans, seven finance companies, twelve mortgage brokers, and four credit unions. Included in the competition numbers are two regional bank branches and a branch of a large thrift.

The primary credit needs of the area include rental and affordable housing for low income families, and commercial credit to small businesses. We determined this by contacting a St. Cloud development official and reviewing the St. Cloud Housing and Redevelopment Authority (HRA) housing needs analysis. The median house value is \$70,750 with a median age of 23 years. Prices of existing houses continue to increase and the number of lower-costs houses on the market is low. Rental housing needs continue to increase as students and new residents provide a stable and increasing pool of tenants.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

Zapp Bank's loan-to-deposit ratio is strong. The loan-to-deposit (LTD) ratio has been stable and averaged 78% since the last CRA examination. The average ranks the bank seventh of the twenty-one banks within the assessment area, with LTD ratios ranging from 47% to 90%. We also compared the bank's LTD ratio to similarly sized (\$200 - \$350 million) community banks located in central and southern Minnesota. Zapp Bank ranks eighth out of twenty in this comparison, with the ratios ranging from 51% to 90%.

Lending in the Assessment Area

Zapp Bank originates a majority of its loans within the assessment area. The bank completed an internal analysis of all loans originated 8/1/95 through 7/31/96 (excluding credit card loans and secondary market residential real estate loans) to determine the number of loans and the dollar volume of loans originated within the assessment area. The analysis determined the bank originated 81% of the number of loans and 74% of the dollar volume of loans within the assessment area during this time frame. Our sample of consumer and business loans verified the bank's analysis.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Zapp Bank has a good record of lending to individuals of different income levels and to businesses of different sizes. The loan portfolio mix is representative of the demographics of the assessment area and reflects the bank's efforts in helping to meet the credit needs of individuals and small businesses. The following two charts illustrate lending within the residential real estate, consumer instalment, and business loan portfolios. The charts represent a sample of 252 loans, or 14% of loans the bank originated in the last year.

Table One represents a sample of 50 business loan originations totaling \$3,232,964. The table illustrates the number and dollar volume percentages of loans extended to businesses of different annual sales sizes.

Table One

Annual Gross Sales	% of Number of Loans	% of Dollar Volume
<\$100,000	14%	8.8%
\$100,000-\$250,000	14%	7.5%
\$250,000-\$500,000	22%	12.2%
\$500,000-\$1,000,000	22%	8.8%
>\$1,000,000	28%	62.7%

Table Two represents a sample of 101 consumer real estate loan originations totaling \$7,999,000; and 101 consumer instalment loan originations totaling \$553,000. The table illustrates the number and dollar volume percentages of loans extended to borrowers of different income levels.

Table Two

Borrower Income Level	% of Population	Real estate loans:		Consumer loans:	
		% Number	% Dollar	% Number	% Dollar
Low	16.89%	3.0%	1.3%	21%	18%
Moderate	19.61%	5.9%	3.8%	26%	20%
Middle	27.82%	29.7%	25.2%	28%	27%
Upper	35.67%	61.4%	69.7%	25%	35%

Real estate lending levels to low- and moderate-income persons is low in comparison to the income characteristics of the assessment area. This is attributed to increasing housing values and the limited availability of lower-cost housing stock.

Geographic Distribution of Loans

The distribution of loans reflects reasonable dispersion throughout the bank's assessment area. A bank prepared analysis of total loans (excluding secondary market residential real estate) originated 8/1/95 through 7/31/96 indicates lending in all census tracts. We reviewed the bank's analysis and found it to be accurate. Table Three illustrates the analysis and represents 1,772 loans totaling \$68,259,978.

Table Three

Census tract type:	# of CTs	% of CTs	# of Loans %s	\$ Volume of Loans %
Low	1	2.5%	3%	13%*
Moderate	2	5.0%	2%	1%**
Middle	31	77.5%	75%	76%
Upper	5	12.5%	20%	10%
NA - Prison	1	2.5%	NA	NA

* The low income tract includes the downtown St. Cloud business center; the area is sparsely populated and the majority of the loans are business related.

** The moderate income tracts are predominately rural, sparsely populated, and are of greater distance to the bank's offices than other census tracts.

Record of Compliance with Antidiscrimination Laws

Based on our review, the bank is complying with antidiscrimination laws. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.