PUBLIC DISCLOSURE

March 29, 1999
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Minnesota BANKFIRST
Name of Depository Institution

2144216
Identification Number of Institution

Minneapolis, Minnesota
Address of Institution

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

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Minnesota BANKFIRST, Minneapolis, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of March 29, 1999. 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 CFR Part 228.

COMMON DEFINITIONS USED IN THIS REPORT

Wholesale Bank

A wholesale bank is defined as a bank that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers, and for which a designation as a wholesale bank is in effect, in accordance with section 228.25(b) of Regulation BB. A wholesale bank may make some retail loans without losing its wholesale designation if the activity is incidental and done on an accommodation basis.

MSA

An "MSA" means a metropolitan statistical area or a primary metropolitan statistical area as defined by the Office of Management and Budget.

Assessment Area

A geographic area defined by the bank in accordance with section 228.41(b) of Regulation BB. The "Assessment Area" for a wholesale bank must consist generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking automated teller machines ("ATMs").

Community Development

Community development is defined as (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community development services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs or have annual revenues of $1 million or less; and (4) activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan

A loan that has as its primary purpose community development and benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment areas.

Community Development Service

A service that (1) has community development as its primary purpose; (2) is related to the provision of financial services; and (3) has not been considered in the evaluation of the bank's retail banking services under section 228.24(d) of Regulation BB.

Qualified Investment

A lawful investment, deposits, membership share, or grant that has community development as its primary purpose.

Geography

A geography means a census tract ("CT") or block numbering area ("BNA") delineated by the United States Bureau of the Census in the most recent decennial census (1990).

Income Levels

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower or geography's income for Minnesota BANKFIRST's CRA evaluation is determined relative to the Minneapolis-St. Paul MSA's median family income. Low-income individuals have incomes of less than 50% of the Minneapolis-St. Paul MSA's median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the Minneapolis-St. Paul MSA's median family income. An individual with an income that is 120% or more of the Minneapolis-St. Paul MSA's median family income is considered an upper-income person.

CTs are classified using similar categories based on the level of median family income in the geography compared with the 1990 Minneapolis-St. Paul MSA median family income of $43,063. The HUD estimated 1998 median family income for the Minneapolis-St. Paul MSA is $60,800; this figure is used to classify borrowers' incomes.

INSTITUTION'S CRA RATING: "Satisfactory."

Minnesota BANKFIRST is a wholesale bank that has displayed a good level of meeting the community development needs of its assessment area. At this CRA evaluation, the bank's record of meeting community credit needs was determined using the Community Development Test for Wholesale and Limited-Purpose Banks. Under this evaluation method, a bank's record of helping to meet community credit needs is measured by reviewing its community development loans, investments, and services. This evaluation covers the period from July 6, 1998, through March 29, 1999. The bank received a Substantial Noncompliance rating as a result of its last CRA performance evaluation dated July 6, 1998. That evaluation was conducted using the small bank CRA evaluation criteria.

The bank's community development performance through qualified investments and community development services is generally responsive to community needs in the assessment area, most notably affordable housing issues. The bank has made qualified investments, grants, and contributions since the previous CRA evaluation. In addition, the bank has provided services, including some that are innovative, which benefit low- and moderate-income individuals and promote economic development within low- and moderate-income neighborhoods. The bank's total qualified investments equaled 2.57% of average assets and 26.29% of tier 1 capital for 1998.

DESCRIPTION OF INSTITUTION

Minnesota BANKFIRST operates one office in downtown Minneapolis, Minnesota. The bank does not own any ATMs; however, it participates in a nationwide ATM system, which allows customers access to ATM cash-dispensing services. The bank's office is open from 8:00 a.m. to 4:30 p.m. Monday through Friday except for official bank holidays. The bank is a wholly owned subsidiary of BANKFIRST Corporation, Inc., a two-bank holding company, which also owns BANKFIRST, Sioux Falls, South Dakota. The bank has not opened or closed any offices since the previous evaluation, dated July 6, 1998.

Minnesota BANKFIRST's charter entitles it to provide full banking services. However, on November 27, 1998, the Federal Reserve Bank of Minneapolis approved the bank's request to be designated as a wholesale bank under CRA. The bank continues to offer a full array of deposit products through its office but it does not engage in any retail banking and does not offer any loan products to the general public.

According to the bank's December 31, 1998, quarterly Report of Condition ("ROC"), the bank's total assets were $134.9 million, net loans were $71.4 million, and total deposits equaled $116.2 million. At the last evaluation, the bank's total assets were approximately $70.5 million, net loans were $22.5 million, and total deposits equaled $64.5 million. Since the last evaluation, the bank's assets have increased by approximately 91%, net loans have increased by approximately 217%, and total deposits have increased by approximately 80%. The increase in net loans is primarily attributed to the bank's purchase of credit card receivables from its affiliated bank in Sioux Falls, South Dakota. The bank does not engage either directly or indirectly in any aspect of the credit decision for these credit card receivables. The majority of loans listed in the December 31, 1998, ROC are credit card receivables that the bank has purchased from its affiliated bank in Sioux Falls. The increase in deposits is the result of the bank's intensive marketing efforts to increase deposits. Management stated that the bank continues to act as a source of financial strength and liquidity for its affiliated bank in South Dakota. As indicated, the bank does not offer loans nor does it market any credit products.

DESCRIPTION OF MINNESOTA BANKFIRST'S ASSESSMENT AREA

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

The bank defines its assessment area as 7 of the 11 counties in the Minneapolis-St. Paul MSA, which is located in east central Minnesota. The counties in the assessment area are Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

The following table summarizes the key demographic features of the bank's seven-county metropolitan assessment area and the Minneapolis-St. Paul MSA.

Based on 1990 Census Data

DEMOGRAPHIC INFORMATION	Assessment Area Data	MSA Data
Population	2,288,721	2,538,834
Number of Families	588,153	653,492
Number of Households	875,833	960,504
Number of Housing Units	922,224	1,015,235
Number of Owner-Occupied Units	594,035	661,159
Number of Owner-Occupied Units in Low-income CTs	11,213	11,213
Number of Owner-Occupied Units in Moderate-income CTs	57,147	76,133
Percent of Households That are Families	67.2%	68.0%
Percent of Housing Owner Occupied	64.4%	65.1%
Percent of Housing Rented	30.5%	29.5%
Percent of Housing Vacant	5.1%	5.4%
Median Housing Age (years)	34	33
Median Housing Value (1990 Census)	$89,156	$87,982
Affordability Ratio[1]	.41	.41
Population Aged 17 and Younger	592,278	669,409
Population Aged 65 and Over	224,448	249,493
Median Family Income	$43,786	43,063
Median Household Income	$36,785	$36,468
Percent of Families That are:		
Low income	16.4%	16.8%
Moderate income	18.1%	18.6%
Middle income	27.6%	27.8%
Upper income	38%	36.9%
Percent of Households That are:		
Low income	21.1%	21.3%
Moderate income	16.8%	17.0%
Middle income	22.4%	22.7%
Upper income	39.7%	39.0%

The bank's sole office is located in the central business district in downtown Minneapolis, which is in middle-income CT 44.0 of Hennepin County. According to the 1990 U.S. Census data, the assessment area's population is 2,288,721 and comprises 90% of the MSA's total population. While there were regional differences, the largest age groups in the Twin Cities metropolitan area were between 20 and 39 years old. People over 70 years old were concentrated in the central cities and inner-ring suburbs. According to the Metropolitan Council for the seven-county metropolitan area, the population increased by approximately 9% to 2,629,221 by 1996. The Metropolitan Council data also indicate that while the seven-county metropolitan area's population grew by 9% since 1990; the central cities' population decreased by 1% and the inner-ring suburbs grew by 1% during that time.

[1]This ratio is defined as the median household income divided by the median housing value. The higher the ratio, the more affordable the housing is considered to be.

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

According to the 1990 U.S. Census data, the assessment area's median household and family incomes are $36,785 and $43,786, respectively. There are 875,833 households and 588,153 families residing in the assessment area. There are 594,035 owner-occupied households in the assessment area. Of these, 1.9% are located in low-income tracts, and 9.6% are in moderate-income tracts. Middle-income tracts contain 62.6% of the owner-occupied households, and upper-income tracts have 25.9% of owner-occupied households. Approximately 7.9% of the households and 5.8% of the families residing in the assessment area have incomes below the poverty level. The number of households and families with incomes below the poverty level within the assessment area parallels such households and families in the entire Minneapolis-St. Paul MSA.

Members of the community familiar with housing, small business, and economic development issues and activities in the assessment area were interviewed as part of the CRA evaluation. Community contacts indicated that the Twin Cities metropolitan area continues to benefit from a period of unprecedented economic vitality, with extremely low unemployment rates and annual budget surpluses. 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 and interest rates for customers.

The local lending market is dominated by two multistate bank holding companies, one of which has corporate headquarters in Minneapolis, Minnesota. These two financial institutions, as well as numerous community banks located throughout the bank's assessment area, are active consumer, real estate, and commercial loan 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.

Unemployment continues to be at historically low levels and is lower than in other major metropolitan areas. As of March 1999, the unemployment rate was extremely low at 1.9% in the metropolitan region and 2.6% in the state. This compares favorably with the national unemployment rate of 4.4%. According to the Minnesota Department of Economic Security, Research, and Statistics Office ("MDES"), the employment trends continue to be strong in business services and health services. According to the report, Minnesota's employment opportunities continue to expand. By the end of 1996, the Twin Cities metropolitan area's employment had increased by 14% from 1990 levels. The MDES data also indicated that in the seven-county metropolitan area, the services industry was the single largest industry, employing 34% of the area's employed residents. Retail trade and manufacturing also employed a significant number of workers. Adding to the strength of the economy, a steady personal income growth continues to fuel the surge in retail sales. The Bureau of Labor Statistics reported that the 5.5% increase in pay Minnesota experienced between 1995 and 1996 was the largest percentage increase in the nation.

The Metropolitan Council indicated that in 1990, the median value of owner-occupied housing in the Twin Cities was $88,700. Data compiled by the Minneapolis Area Association of Realtors indicates that the weighted median sales price for homes sold in 1996 was $123,000. The central cities median sales price was approximately $90,000, while the southern and western suburbs had the highest median sales prices.

Community contacts indicate that in the Twin Cities, the demand for affordable rental housing units greatly exceeds supply, especially for large units. Contacts also stated that that two key issues need to be addressed before an increase in affordable homeownership opportunities can occur: producing more reasonably priced homes and preparing more low- and moderate-income families to become homeowners. Accordingly, there is a need for financial homeownership counseling.

According to a Twin Cities metropolitan area affordable housing nonprofit corporation, the Twin Cities area is in the midst of an affordable housing shortage. The organization indicates that while there are over 75,000 renter households with annual incomes below $10,000 in the Twin Cities, only 36,800 housing units with rents affordable at this income level are available. The shortage of affordable housing hits individuals and families receiving public assistance the hardest. For example, the organization indicates that at current benefit levels, a parent with two children receiving welfare cannot afford a typical two-bedroom apartment--even if the entire grant is spent on rent. In addition, working families are affected by the lack of affordable housing. In order to afford the same two-bedroom apartment, a family would have to earn $24,800 per year, well above the wage level of many service sector jobs.

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Minnesota BANKFIRST has demonstrated a reasonable or good level of commitment to community development since the last evaluation through its participation in two areas under the community development test--qualified investments and community development services. These activities have community development, as previously defined, as their primary purpose. As stated previously, the bank's total qualified investments equaled 2.57% of average assets and 26.29% of tier 1 capital for 1998. The bank's level of investments indicates its commitment to meeting the community development credit needs in its assessment area. In addition, the bank has provided an innovative community development service since the last evaluation to a credit union located in a low-income area of Minneapolis.

As discussed, institutions with a wholesale designation are assessed on their record of helping to meet the credit needs of their assessment area(s) under the community development test. The test evaluates the record of engaging in community development lending, qualified investments, or community development services.

Qualified Investments

Minnesota BANKFIRST has made qualified investments, including grants and contributions totaling $3,118,882.59, within its assessment area since the previous evaluation. The majority of the investment funds relate to affordable housing. Given the assessment area's affordable housing shortage, these qualified investments are notable, although not innovative. The bank's qualified investments consist of the following:

- The bank purchased a $3,080,943 Federal National Mortgage Association ("FNMA") mortgage pass-through security that consists of mortgages in the Minneapolis-St. Paul MSA. FNMA packages these bonds as part of its CRA program, and guarantees that at least 90% of the mortgages in each bond pool are to low- and moderate-income borrowers. A review of the mortgages included in this bond indicates that 20% were to low-income borrowers and 80% to moderate-income borrowers. A review also revealed that 40% of the mortgages were located within low- or moderate-income CTs in the MSA;

- The bank invested $25,000 in a certificate of deposit from a minority-owned credit union located in a moderate-income CT that provides services primarily to low- and moderate-income residents of the Hamline-Midway area of St. Paul.

- The bank donated $10,000 to an organization that provides matching grant funds for home improvements available only to low- and moderate-income households in St. Paul.

- The bank donated $1,000 to the United Way of Minneapolis Area to be used specifically to provide financial assistance for organizations that provide social services for low- and moderate-income people in the greater Minneapolis area.

- The bank sold several computers and software to a low-income neighborhood community development organization in Minneapolis. The bank incurred a $139.59 loss from the sale, which it booked as an in-kind contribution.

- The bank donated $1,000 to a credit union located in a low-income CT in Minneapolis. This credit union has been designated by its federal financial regulator as a community development credit union and provides services primarily to low- and moderate-income people.

- The bank donated $250 to the Minnesota chapter of the Association of Community Organizations for Reform Now ("ACORN"), a grassroots community organization that represents low- and moderate-income communities. The funds were to aid ACORN in staging its semiannual Bankfair, which provides banking and financial-related information to low- and moderate-income members of Minneapolis and St. Paul.

- The bank offers a beginning savings program targeted to low- and moderate-income children in the Sumner-Glenwood neighborhood in Minneapolis. Under this program, the bank provides matching funds of up to $25 per student if students attend two financial education classes. As of the date of the evaluation, the bank has provided matching funds for 18 students totaling $450.

- The bank donated $100 to an area consortium of community developers. This nonprofit community development organization is active in economic development and revitalization efforts in low- and moderate-income areas throughout Minneapolis.

The bank's performance in providing community development investments in the assessment area is good in light of the competition in the assessment area for these investments and its asset size. As discussed previously, the Minneapolis-St. Paul MSA has an estimated population of 2,629,221. The Minneapolis-St. Paul credit market is very competitive. Numerous bank and nonbank financial institutions serve the credit needs of residents and businesses located in the bank's assessment area. The bank is relatively small compared to many of the financial institutions that operate in the assessment area and compete for qualified community development activities. In addition, the bank is the newest entrant into the community development market in the Minneapolis-St. Paul MSA. The bank's level of investments is high compared to capital and assets. In addition, the bank's investment in FNMA bonds is responsive to community credit needs. However, the bank's investments are not complex and do not reflect leadership. Under these circumstances, the bank's level of community development investments in the Minneapolis-St. Paul MSA is reasonable.

Community Development Services

Minnesota BANKFIRST personnel have also contributed time and financial expertise since the last evaluation to the following organizations that benefit low- and moderate-income individuals and small businesses in the assessment area:

- The bank has provided innovative community development service since the last evaluation to a credit union located in a low-income area of Minneapolis. This credit union has been designated by its federal financial regulator as a community development credit union. The bank is providing financial and managerial expertise to the credit union by dedicating a significant percentage of an officer's time specifically for those purposes. The bank's officer provides valuable assistance on financial matters by serving on the credit union's supervisory committee. The officer has also extensively reviewed the credit union's loan portfolio. The credit union primarily serves low- and moderate-income people.

- The bank offers a student financial education and mentor program in conjunction with the beginning savings program for low- and moderate-income children discussed previously under the Qualified Investments section of this evaluation. The financial management classes focus on money management, budgeting, and savings programs.

In addition, since the previous evaluation, the bank's president and other officers and staff have met regularly with various grassroots and community development organizations seeking information on viable community development opportunities in the Minneapolis-St. Paul MSA.

GENERAL

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

APPENDIX A

SCOPE OF EXAMINATION

The CRA review covered the time period of July 6, 1998, through March 29, 1999. The scope encompassed a review of the bank's CRA performance in its assessment area. The CRA products reviewed were the bank's qualified investments, grants and contributions, and community development services.