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 Northland Security Bank, Ramsey, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of December 29, 1997. 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: This institution is rated "Satisfactory."

Several factors support rating the bank's CRA performance satisfactory. First, based on an analysis of its loans, the bank lends to borrowers of different income levels and to businesses of various sizes. Second, the bank has a reasonable loan-to-deposit ratio. Third, the bank has extended a reasonable number of loans within its assessment area. Finally, it has a reasonable distribution of loans among geographies of different income levels.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area effectively. Northland Security Bank is a de novo institution that commenced operations August 22, 1996, and this is the bank's first CRA evaluation. Its only office is in Ramsey, Minnesota, a northern, outer-ring suburb of the Minneapolis-St. Paul, Minnesota, metropolitan area. The bank operates one 24-hour automated teller machine in its drive-up area. The bank is open from 9:00 a.m. to 5:00 p.m. Monday, Tuesday, Wednesday, and Friday and 9:00 a.m. to 6:00 p.m. Thursday. The bank's drive-up teller is open from 7:00 a.m. to 6:00 p.m. Monday through Friday and 8:00 a.m. to 12:00 p.m. Saturday. The bank has not opened or closed any offices since commencing operations.

The bank's continued growth supports its ability to meet the credit needs of the community. According to the September 30, 1997, Report of Condition ("ROC"), the bank had total assets of approximately $17.6 million. The bank's asset size has increased by approximately $11.6 million since the September 30, 1996, ROC was issued. The bank's attributes this growth to its intensive marketing efforts to increase consumer real estate and commercial lending. The bank's growth is reflected in the composition of the bank's loan portfolio. According to September 30, 1997, ROC data, the loan portfolio is composed of approximately 67% commercial, 23% consumer real estate, and 10% consumer. The bank's loan mix reflects the level of demand for specific types of loans by people and businesses within the assessment area.

The bank offers a variety of loan products to serve the credit needs of individuals and businesses in its assessment area. It extends open- and closed-end consumer, residential real estate, and commercial loans. In addition to offering these conventional loan products, the bank participates in several federal and state loan programs, such as Federal Housing Administration ("FHA"), Department of Veterans Affairs, Minnesota Housing Finance Agency ("MHFA") home improvement and home energy, and Small Business Administration ("SBA"). In addition, the bank offers availability to secondary-market real estate loans through several mortgage companies. Although this is a de novo bank, its loan products appear to be appropriate for the community's credit needs. The bank plans to develop and offer additional loan products as it grows.

DESCRIPTION OF NORTHLAND SECURITY BANK'S ASSESSMENT AREA

The bank defines its assessment area as a portion of Anoka County. As mentioned, the bank's sole office is located in Ramsey. The bank's assessment area includes 26 census tracts in the northern section of the Minneapolis-St. Paul metropolitan statistical area ("MSA"). As of the evaluation date, the bank was exempt from the requirements of Regulation C--Home Mortgage Disclosure Act because of its asset size. Individual census tract numbers and income levels are discussed later in this report. According to 1990 U.S. Census data, the assessment area's population is 119,397 and comprises 49% of Anoka County's total population. However, using 1996 estimated data from the State of Minnesota, Anoka County's population has increased from 243,641 to 278,531, a 14% increase since the 1990 census data was released. The cities of Andover, Ramsey, and St. Francis have shown the most dramatic increase in population with 1996 growth estimates ranging from 32% to 41%. Other communities in the assessment area include Anoka and Coon Rapids, which are established communities that have shown a lower level of growth of 3% and 15%, respectively. The community contacts and bank management indicated that these growth trends for Andover, Ramsey, and St. Francis, Minnesota, are expected to continue into the 21st century.

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower or geography's income is determined relative to the MSA's median family income. Low-income individuals have incomes of less than 50% of the 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 MSA's median family income. An individual with an income that is 120% or more of the MSA's median family income is considered an upper-income person. Census tracts are classified using similar categories based on the level of median family income in the geography compared with the 1990 MSA median family income of $43,063. The updated 1997 MSA median family income is $57,300. This figure is used to classify borrower's incomes.

According to the 1990 census data, one census tract in the bank's assessment area is classified low income and one census tract is classified moderate income. Of the remaining 24 census tracts in the assessment area, 21 are classified middle income and three census tracts are classified upper income.

The bank's low-income tract, 503.00, has an income level of 0% of the MSA median family income. Its population is listed as 425, and it does not have any households. As a percentage of the assessment area's population, this census tract represents less than 1%. The tract borders the Rum River in Anoka. According to 1990 census data, this population consists mainly of institutional residents. However, bank management and the community contacts stated that this area is in the process of significant residential and commercial development.

Tract 505.01 is classified as a moderate-income tract that borders the southern edge of Anoka along the Rum River. According to 1990 census data, the census tract has a population of 3,175, or 3% of the total population for the assessment area. The median family income level is $31,076, or 72.2% of the MSA's median family income. There are 1,398 households in this tract, which has a median household income of $21,582.

Tracts 501.03, 502.04, 502.05, 502.07, 502.08, 502.11, 502.12, 504.00, 505.03, 505.04, 506.01, 506.02, 506.05, 506.06, 506.07, 506.08, 507.02, 507.04, 508.05, 508.06, and 508.07 are classified as middle-income tracts. Ramsey is located in census tract 502.04. There are 32,004 households in these tracts, and they are dispersed throughout the assessment area. According to 1990 census data, the population of the middle-income census tracts is 99,971, or 83% of the assessment area's total population. The median family income level ranges from $34,495 to $49,809. As a percentage of MSA median family income, the census tracts range from 80.1% to 115.7%. The median household income ranges from $30,285 to $49,322.

Tracts 502.06, 507.07, and 507.08 are classified as upper-income tracts. According to 1990 census data, the population of these three census tracts is 15,826, or approximately 14% of the assessment area's total population. The median family income level of these three tracts ranges from $51,691 to $54,230. As a percentage of MSA median family income, the three tracts range from 120.0% to 125.9%. The median household income ranges from $48,078 to $52,911.

According to 1990 census data, the assessment area's median household income is $41,796 while the median family income is $44,316. Both figures are slightly higher than the MSA median household and family incomes of $36,468 and 43,063, respectively. Of the 38,186 households in the assessment area, approximately 13% are low income, 14% are moderate income, 27% are middle income, and 46% are upper income. Of the 31,590 families in the assessment area, approximately 11% are low income, 19% are moderate income, 34% are middle income, and 36% are upper income. Approximately 5% of the households and 4% of the families have incomes below the poverty level; the percentages of such households and families are slightly lower in the assessment area than in the MSA.

Examiners made contacts with a local government official and a private development individual as part of the CRA evaluation process. Information obtained from these individuals and bank management was used in evaluating the bank's CRA performance.

Ramsey is a suburban community that has aggressively pursued housing growth and development of its commercial and industrial parks. The consumer real estate home sites range from starter homes to executive-style homes located on a golf course. The community contacts estimated that there have been 400 new homes built in the area over the last three years. City officials have developed two business parks available for commercial/industrial use. According to the community contacts, there are approximately 30 businesses waiting for space availability. The goal of the community is to provide controlled growth in order to retain the rural flavor of the community. One area of public concern is the traffic problems that come with rapid growth. Therefore, there are several projects in the development stage to address this issue. The city has also developed a capital improvement plan that will fund needed improvement projects over the next six years.

According to bank management and the community contacts, the area's economic conditions are very strong with steady growth. The new businesses in Ramsey's industrial parks have created more than 100 new employment opportunities. Although many residents still commute to work in the Minneapolis-St. Paul area, the demand for employment in the assessment area is beginning to draw workers from the outlying areas as the need for qualified individuals continues to grow. According to the community contact, substantial commercial growth has caused a severe labor shortage in the assessment area's manufacturing and industrial sectors. To address this employment shortage, businesses have developed a cooperative program with Anoka-Hennepin Technical College. The program provides students not only initial employment opportunities but on-the-job skills training, which in turn enables them to secure a better than average job after graduation. As noted previously, other communities in the assessment area are experiencing similar growth patterns.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Analysis of the bank's lending levels takes into account that the institution opened only 16 months before this CRA evaluation. Given the bank's de novo nature, its lending level meets the standards for satisfactory performance. Much of the analysis on the following pages is based on a statistical sample of 94 consumer loans and 55 commercial loans originated since the bank opened. The criteria discussed below were reviewed in determining the rating. In assigning an overall rating, the greatest weight was placed on the net loan-to-deposit ratio and the assessment of lending to borrowers of different income levels and businesses and farms of different sizes. 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 meets the standards for satisfactory performance. Since the September 30, 1996, ROC, the bank's average net loan-to-deposit ratio is 73.4%. According to the September 30, 1997, ROC, the bank's net loan-to-deposit ratio is 73.6%. The bank's net loan-to-deposit ratio reflects its plan for steady growth in loans. Management believes that the loan-to-deposit ratio will continue to increase as the bank becomes more visible in the assessment area. The following table, based on quarterly ROC data, shows the steady increase in the bank's net loan-to-deposit ratio since the bank commenced operations August 22, 1996. With the exception of the quarter ending June 30, 1997, net loans and deposits have grown at a steady pace. As of June 30, 1997, deposits increased by a nominal amount as compared with the increase in net loans. Management attributed this to competitive factors and instituted an aggressive deposit marketing campaign as a result.

DATE	DEPOSITS (In thousands)	NET LOANS (In thousands)	NET LOAN-TO-DEPOSIT RATIO
September 30, 1997	$15,126	$11,135	73.6%
June 30, 1997	$11,656	$9,763	83.8%
March 31, 1997	$11,434	$8,178	71.5%
December 31, 1996	$6,950	$5,548	79.8%
September 30, 1996	$3,343	$1,952	58.4%

As of its September 30, 1997, Uniform Bank Performance Report ("UBPR"), the bank's 73.6% net loan-to-deposit ratio is only slightly below its national peer group average of 75.3%. The bank's ratio places it in the 56th percentile compared with its peers. The following chart shows the asset size and average net loan-to-deposit ratio for the bank and two small independent banks located north of the Twin Cities metropolitan area.

BANK	TOTAL ASSETS (as of September 30, 1997) (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
Northland Security Bank Ramsey, Minnesota	$17,561	73.4%
Landmark Community Bank, National Association Isanti, Minnesota	$52,544	70.4%
Preferred Bank Big Lake, Minnesota	$29,410	64.4%

As shown above, the bank's quarterly average net loan-to-deposit ratio compares favorably with the ratios of its competitors. Management indicated that competition among financial institutions in the assessment area is very strong. There are numerous financial institutions with branch offices in Ramsey and the surrounding communities that actively provide credit to all segments of its community. Information is not available for several of the bank's larger competitors. Furthermore, the September 30, 1997, UBPR indicates the bank's average net loans-to-assets ratio is 63.4%. The average net loans-to-assets ratio for all banks in Minnesota having assets less than or equal to $25 million is 62.2%. Accordingly, the bank devotes a similar percentage of assets to net loans as comparable-sized institutions in Minnesota.

The bank's net loan-to-deposit ratio is reasonable. The analysis revealed that the bank's ratio is increasing, is slightly higher than local competitors' ratios, and is comparable with the national peer group's average. Further, the evaluation did not reveal any unmet credit needs. For these reasons, the bank's net loan-to-deposit ratio meets the standard for a satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

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 14 months reveals that the bank extended a majority of its loans inside the assessment area. The following table shows the percentage of loans inside and outside the assessment area based on total number and loan amount in each major loan category.

DISTRIBUTION OF LOANS INSIDE AND OUTSIDE OF THE ASSESSMENT AREA								
Loan Type	**Inside Assessment Area**				**Outside Assessment Area**			
	Number of Loans	%	Amount of Loans (In thousands)	%	Number of Loans	%	Amount of Loans (In thousands)	%
Consumer	60	64	$1,007	45	34	36	$1,242	55
Small Business	30	55	$1,207	35	25	45	$2,245	65
Total	90	60	$2,214	39	59	40	$3,487	61

This level of concentration in the assessment area meets the standards for satisfactory performance. Due to the de novo nature of the bank, much of the credit came to the bank from customers who followed the bank's lenders from other institutions. Although the chart above shows the bank currently has only 64% consumer and 55% small business loans in the assessment area, bank management is actively developing credit opportunities within the assessment area. As previously mentioned, the expansion of local commercial and industrial development sites as well as the current housing growth is increasing lending opportunities within the assessment area.

Based on the level of consumer and commercial loans in 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 is reasonable and meets the standards for satisfactory performance. As previously mentioned, CRA groups income levels into four categories: low, moderate, middle, and upper. The following table illustrates the distribution of consumer loans in the CRA sample by borrower income level.

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 Loans				
Total Number of Loans	12%	15%	47%	27%
Total Amount of Loans	11%	12%	46%	31%
*Income level is based on 1997 median family income of $57,300 for the Minneapolis-St. Paul MSA.				

The data in the table indicate that the bank originated 27% of its consumer loans in the sample to low- and moderate-income borrowers. In addition, 23% of the total amount of the bank's consumer loans were made to low- and moderate-income borrowers. As previously mentioned in the Description of Assessment Area section, approximately 27% of the households in the bank's assessment area are classified as low- and moderate-income according to the 1990 census figures. It appears that the bank's level of consumer lending matches the percentage of low- and moderate-income borrowers in the assessment area. The bank participates in several government loan programs to serve the needs of low- and moderate-income borrowers. For example, the bank actively participates in the FHA and MHFA home improvement and energy programs. These loan programs are directed toward low- and moderate-income individuals.

The number of loans originated for middle-income borrowers exceeds the percentage of households in that category. Approximately 27% of the households in the bank's assessment area are classified as middle-income. The bank's level of lending to middle-income borrowers (47%) appears reasonable when considering this segment of the population has shown a substantial amount of growth since the 1990 census data was issued. The bank's level of lending in this category is likely closer to the percentage of such borrowers now living in the assessment area.

As previously discussed, commercial loans comprise approximately 67% of the bank's loan portfolio. Small business loans are defined as loans with original principal amounts of $1 million or less. Eighty percent of the small business loans in the bank's assessment area were to borrowers with gross annual revenues of $1 million or less. In addition, 93% of the bank's commercial loans were for amounts less than or equal to $100,000. The bank actively participates with SBA's 504-loan program. The bank's lending patterns reflect the characteristics of the small business lending market that is developing in the assessment area.

Based on the bank's reasonable level of consumer lending to low- and moderate-income individuals, its participation in real estate loan programs, and the 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 reasonable and meets this category's standards for satisfactory performance. As previously discussed, the bank's assessment area includes one low-income and one moderate-income census tract. The assessment area has 21 middle-income tracts; approximately 84% of the assessment area's population resides in these tracts. Approximately 14% of the assessment area's population resides in the upper-income census tracts while only 3% of the population resides in the moderate-income census tract. Less than 1% of the population resides in the low-income census tract. As the following chart indicates, the bank has the majority of its loans in the middle- and upper-income tracts.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL				
Loan Type	**Low-Income**	**Moderate-Income**	**Middle-Income**	**Upper-Income**
Consumer				
Total Number of Loans	0%	2%	82%	17%
Total Amount of Loans	0%	1%	82%	16%
Small Business				
Total Number of Loans	0%	0%	87%	13%
Total Amount of Loans	0%	0%	85%	15%

A tract-by-tract analysis reveals that the bank's loans are reasonably distributed throughout the middle- and upper-income census tracts. The distribution of consumer and business loans indicates that a significant majority of the loans were made in the middle-income census tract. The high percentage of institutionalized residents in the assessment area's low-income census tract mitigates concern over the lack of lending. However, bank management and the community contacts indicated that this area is in the process of residential development, so loan demand may increase in the future. The moderate-income census tract also has a relatively small population. The population level, coupled with the fact that there are numerous financial institutions located closer to the moderate-income census tract than the bank, mitigates the low level of lending in this area.

The high percentage of loans originated in the middle-income census tract is reasonable given the demographics. As previously stated, approximately 84% of the assessment area's population resides in the middle-income census tracts. It appears the bank's level of lending closely mirrors the population of these tracts.

As previously discussed, the population of the three upper-income census tracts is approximately 14%. The distribution of consumer and commercial loans in these tracts is 17% and 13%, respectively. According to the 1996 estimates, the population is this area has shown the most significant growth; therefore, lending is expected to continue to increase throughout these census tracts.

Based on the tract-by-tract analysis, the bank's de novo status, as well as the bank's limited opportunity to lend in the low- and moderate-income census tracts, the bank meets the standards for satisfactory performance in this category.

GENERAL

The evaluation did not reveal any substantive violations of fair lending laws or regulations. In addition, the bank has not received any CRA-related complaints since commencing operation.

PUBLIC DISCLOSURE

December 29, 1997
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Northland Security Bank
Name of Depository Institution

092749590000
Identification Number of Institution

Ramsey, 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.