

## **PUBLIC DISCLOSURE**

August 9, 2004

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Commercial Bank  
8500 Normandale Lake Boulevard  
Bloomington, MN 55437-3800  
RSSD #2802945

**Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue, P.O. Box 291  
Minneapolis, MN 55480-0291**

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*Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a “**Glossary of Common CRA Terms**” is attached as Appendix A at the end of this performance evaluation.*

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

The bank's Community Reinvestment Act ("CRA") performance is satisfactory. The bank's CRA performance was evaluated using the Small Bank CRA Evaluation Procedures. The rating is based on several factors.

- First, the bank lends to businesses of different revenue categories. The majority of the bank's small business loans were originated to entities with gross annual revenues of \$1 million or less. The bank's level of lending to small businesses of different income levels is good.
- Second, the geographic distribution of the bank's loans is good.
- Third, given the bank's asset size and financial condition and the assessment area's credit needs, the bank's net loan-to-deposit ratio is satisfactory.
- Finally, the bank originated a majority of loans in its assessment area.

## DESCRIPTION OF INSTITUTION

Based on its size and financial condition, First Commercial Bank, Bloomington, Minnesota, satisfactorily meets the credit needs of small businesses in its assessment area. The bank received a satisfactory rating at its previous CRA performance evaluation, conducted May 15, 2000.

*Offices.* First Commercial Bank is primarily a commercial lending institution that commenced operations on July 15, 1999. The bank operates one office located in Bloomington, Minnesota, a southwestern suburb of Minneapolis, Minnesota. The bank moved its office to a new location approximately one and a half miles from its previous location on July 31, 2004. The bank does not have a drive-up teller window nor does it own and operate any automated teller machines. The bank's business hours are from 8 a.m. to 5 p.m., Monday through Friday. As an alternate banking means, the bank offers Internet banking to its customers. Customers can access their accounts via the Internet to view account activity and balances. Customers may also transfer funds between accounts. The bank's web site also promotes the bank's products.

*Loan portfolio.* According to the March 31, 2004, Report of Condition the bank's assets totaled \$42 million, an increase of \$32 million or 354% since the previous CRA evaluation. The bank's loan portfolio totaled \$37 million, an increase of approximately \$31 million or 517% since the previous CRA evaluation. Commercial loans are the largest component of the loan portfolio at 70%. The remainder of the loan portfolio consists of 20% consumer residential real estate, 2% consumer, and 7% other loans. The composition of the loan portfolio has shifted slightly since the previous evaluation. The bank continues to be primarily a commercial lender, with the percentage of commercial loans in the bank's portfolio increasing from 62% to 70%. The percentage of bank's residential real estate loans has also increased while the bank's consumer loans have decreased since the previous evaluation.

*Credit products.* The bank offers a variety of commercial loan products to fulfill the credit needs of businesses within its assessment area. These products include operating lines of credit, loans for equipment, and loans secured by real estate. In addition, the bank has the ability to offer loans guaranteed by the U.S. Small Business Administration, although it rarely receives requests for such loans. The bank actively works with other financial institutions in the Twin Cities metropolitan area on loan participations. Through these participations, the bank purchases portions of loans originated by other financial institutions and also sells all or portions of loans to other financial institutions.

The bank largely originates consumer loans as an accommodation to its existing commercial customers to continue fulfilling their credit needs. The bank offers single-payment and installment loans, home equity lines of credit, personal lines of credit, overdraft protection, and residential real estate loans. The bank does not offer agricultural loans.

## DESCRIPTION OF FIRST COMMERCIAL BANK'S ASSESSMENT AREA

*Assessment area.* The bank has defined its assessment area as Hennepin, Dakota, and Ramsey counties in their entirety. These three counties include two major cities, Minneapolis and St. Paul, and several first-, second-, and third-ring suburbs. In addition, all three counties are included in the 13-county Minneapolis-St. Paul, Minnesota, metropolitan statistical area ("MSA").

Although the Office of Management and Budget recently revised definitions for the nation's MSAs as published in Office of Management and Budget bulletin dated June 6, 2003, the only change for the Minneapolis-St. Paul MSA is that the four-digit MSA code 5120 changed to a five-digit MSA code of 33460.

The bank's assessment area, according to the 2000 U.S. Census data, includes 521 census tracts ("CT"). The majority of those CTs (298) are located in Hennepin County. Ramsey County has 136 CTs, while Dakota County has 87 CTs. The assessment area includes 47 low-income CTs, 130 moderate-income CTs, 213 middle-income CTs, and 129 upper-income CTs. For two of the CTs located in the assessment area, the income level is unknown. CT 250 in Hennepin County is the Minneapolis-St. Paul International airport. CT 374.04 in Ramsey County is Pig's Eye Island, which is uninhabited. The bank's new office location in Bloomington, Minnesota, is located in an upper-income CT. The bank's prior office location was also located in an upper-income CT. The bank's CT is surrounded by upper- and middle-income CTs.

The bank redefined its assessment area since the previous CRA evaluation. At the previous CRA evaluation, the bank's assessment area included 28 CTs in Hennepin County that surrounded the bank's office.

*Population.* According to the 2000 U.S. Census data, the total population of the bank's defined assessment area of Hennepin, Ramsey, and Dakota counties is 1,983,139. The total population increased 10.6% from 1,793,423 according to the 1990 U.S. Census data. Hennepin County is the most populous county in the bank's assessment area at 1,116,200, followed by Ramsey County with 511,035, and Dakota County with 355,904.

*Income.* For purposes of classifying CT income levels, this evaluation uses the relevant area's median family income from the 2000 U.S. Census. For purposes of CRA, small businesses are defined as those businesses having gross annual revenues of \$1 million or less. Additional definitions for terms used in the CRA evaluation can be found in the glossary in Appendix A.

Table 1 lists demographic characteristics of the bank's assessment area.

**TABLE 1  
2000 ASSESSMENT AREA DEMOGRAPHICS**

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families Below Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	47	9.0	23,480	4.8	7,019	29.9	87,990	18.2
Moderate Income	130	25.0	95,899	19.8	9,537	9.9	89,243	18.4
Middle Income	213	40.9	217,298	44.8	6,194	2.9	119,682	24.7
Upper Income	129	24.8	148,057	30.5	1,998	1.3	187,819	38.7
Income Unknown	2	0.4	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>521</b>	<b>100.0</b>	<b>484,734</b>	<b>100.0</b>	<b>24,748</b>	<b>5.1</b>	<b>484,734</b>	<b>100.0</b>
	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		<i>#</i>	<i>%</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	50,238	12,357	2.3	24.6	35,424	70.5	2,457	4.9
Moderate Income	188,822	94,636	17.8	50.1	88,389	46.8	5,797	3.1
Middle Income	358,696	253,086	47.6	70.6	97,771	27.3	7,839	2.2
Upper Income	211,266	172,008	32.3	81.4	34,845	16.5	4,413	2.1
Income Unknown	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>809,022</b>	<b>532,087</b>	<b>100.0</b>	<b>65.8</b>	<b>256,429</b>	<b>31.7</b>	<b>20,506</b>	<b>2.5</b>
	<i>Total Businesses by Tract</i>	<i>Businesses by Tract and Revenue Size</i>						
		<i>Less Than or Equal to \$1 Million</i>		<i>Over \$1 Million</i>		<i>Revenue Not Reported</i>		
		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	2,803	5.1	2,146	5.0	572	5.9	85	4.5
Moderate Income	10,831	19.8	8,423	19.6	2,036	21.0	372	19.5
Middle Income	25,846	47.3	20,092	46.7	4,914	50.6	840	44.1
Upper Income	15,095	27.6	12,318	28.6	2,176	22.4	601	31.6
Income Unknown	48	0.1	29	0.1	14	0.1	5	0.3
<b>Total Assessment Area</b>	<b>54,623</b>	<b>100.0</b>	<b>43,008</b>	<b>100.0</b>	<b>9,712</b>	<b>100.0</b>	<b>1,903</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>78.7</b>			<b>17.8</b>	<b>3.5</b>
	<i>Total Farms by Tract</i>	<i>Farms by Tract and Revenue Size</i>						
		<i>Less Than or Equal to \$1 Million</i>		<i>Over \$1 Million</i>		<i>Revenue Not Reported</i>		
		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	5	1.0	5	1.1	0	0.00	0	0.0
Moderate Income	35	7.2	31	6.6	3	20.0	1	16.7
Middle Income	305	62.5	296	63.4	6	40.0	3	50.0
Upper Income	143	29.3	135	28.9	6	40.0	2	33.3
Income Unknown	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>488</b>	<b>100.0</b>	<b>467</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>
<b>Percentage of Total Farms:</b>				<b>95.7</b>			<b>3.1</b>	<b>1.2</b>

*Economy.* In addition to discussions with bank management, examiners contacted government representatives familiar with the economic characteristics and credit needs of the assessment area. According to bank management and the community contacts, the overall economy in the bank's assessment area is stable. Bloomington, as well as other cities in the bank's assessment area, serves as corporate headquarters to several large companies. There are several major employers and various industries throughout the MSA. Some of the major employers in the bank's assessment area include 3M

Company; University of Minnesota; DataCard Corporation; B.I. Performance Service; Seagate Technology, Inc.; Carlson Companies, Inc.; Northwest Airlines, Inc.; tenants of the Mall of America; local hospitals; and local governments. The contacts stated the counties within the bank's assessment area are already largely developed. As a result, redevelopment, as opposed to new development, is a primary concern for most cities in the assessment area.

According to the Minnesota Department of Employment and Economic Development, unemployment in Minnesota, the MSA, and more specifically, the bank's three-county assessment area, remains below the national average. The July 2004 unemployment rates for Hennepin, Ramsey, and Dakota counties were 4.3%, 4.5%, and 3.7%, respectively. The July 2004 unemployment rates for the MSA and the state were 4.2% and 4.7%, respectively. These rates compare favorably to the national unemployment rate of 5.7% for July 2004.

Banking competition in the Twin Cities metropolitan area is relatively strong. Numerous bank and nonbank financial institutions serve the credit needs of residents and businesses in the bank's assessment area. The Twin Cities metropolitan area lending market is dominated by several large national financial institutions. These financial institutions as well as numerous community banks located throughout the bank's assessment area are active consumer, real estate, and commercial loan originators. Bank management and the community contacts indicate there are several opportunities for banks of all sizes to be involved in meeting the credit needs of the community. The contacts further stated local banks are doing an adequate job of meeting these needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of the businesses in its assessment area is fully satisfactory. This evaluation is based on a statistical sample of the bank's business loans, which represent the bank's major product line.

Table 2 illustrates the bank's total loan activity from May 1, 2003, to April 30, 2004.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>%</i>	<i>Total Dollar Amount of Loans</i>	<i>%</i>
Consumer	12	17	\$667,570	4
Residential Real Estate	8	11	\$1,453,000	8
Small Business	50	72	\$15,933,062	88

The bank's CRA performance evaluation is based on a statistical sample of small business loans originated during the 12-month period between May 1, 2003, and April 30, 2004. The sample contained 50 small business loans.

Examiners analyzed the following criteria to determine the bank's CRA rating:

- Loan-to-deposit ratio
- Lending inside the assessment area
- Lending to businesses of different sizes

- Geographic distribution of loans
- Record of responding to complaints about the bank's CRA performance

In assigning the rating, examiners placed the greatest weight on the bank's level of lending to small businesses of different sizes.

### LOAN-TO-DEPOSIT RATIO ANALYSIS

Given the bank's asset size and financial condition and the assessment area's credit needs, the bank's net loan-to-deposit ratio is satisfactory. The loan-to-deposit ratio is one way of measuring whether the bank is reinvesting deposits it receives from customers back into the community in the form of loans. Since the previous CRA evaluation, the bank's quarterly net loan-to deposit ratio has ranged from 85% to 112%. For the 16 calendar quarters preceding the evaluation, the bank's quarterly average net loan-to-deposit ratio is 99%. The bank's quarterly average net loan-to-deposit ratio was 93% at the bank's last CRA evaluation.

The following table lists the bank's and its competitor's total assets and the quarterly average net loan-to-deposit ratios.

<b>TABLE 3 BANK AND COMPETITOR DATA</b>		
<b><i>Bank and Location</i></b>	<b><i>Total Assets</i></b>	<b><i>Quarterly Average Net Loan-to-Deposit Ratio</i></b>
First Commercial Bank Bloomington, Minnesota	\$41.6 million	99% (16 quarters)
Crown Bank Edina, Minnesota	\$124.8 million	95% (16 quarters)
Venture Bank Bloomington, Minnesota	\$94.3 million	82% (10 quarters)

As Table 3 shows, the bank's average quarterly net loan-to-deposit ratio is higher than the ratios of its local competitors. In addition to the competitor banks noted above, the bank competes against many larger and smaller financial institutions within the assessment area. Bank management indicated competition among financial institutions in the assessment area is very strong.

*Peer group data.* The bank's net loan-to-deposit ratio compares favorably with its national peer group. The March 31, 2004, Uniform Bank Performance Report indicates the bank's net loan-to-deposit ratio is 109% while the national peer group's is 58%. The bank's national peer group consists of all insured commercial banks having assets less than or equal to \$50 million in a metropolitan area with one full-service office.

Based on the quarterly average net loan-to-deposit ratio, the bank's overall level of lending reflects good responsiveness to meeting the credit needs in the assessment area. The bank's ratio is higher than the ratios of its local competitors and compares favorably with the bank's national peer group.

### COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The CRA emphasizes the importance of banks serving the credit needs of the individuals and businesses residing within their assessment area. By lending within their assessment areas, banks help to fulfill the



financial needs of the community. The bank's lending activity within its assessment area is very good. The statistical sample of small business loans shows that the bank originates a substantial majority of its loans to businesses located in its assessment area.

Table 4 shows the percentage of sampled loans the bank originated to businesses in the bank's assessment area.

<b>TABLE 4</b>		
<b>LENDING WITHIN THE BANK'S ASSESSMENT AREA</b>		
<i>Loan Type</i>	<i>Total Number Originated</i>	<i>Total Amount Originated</i>
Small Business	70%	70%

Overall, the bank's lending activity within its assessment area is satisfactory.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

For purposes of CRA, examiners consider the extent to which banks lend to low- and moderate-income borrowers and to businesses or farms of varied sizes in the bank's assessment area. For this evaluation, examiners considered the bank's level of lending to businesses of different sizes.

The bank has a good record of originating small business loans to businesses with gross annual revenues of \$1 million or less. CRA defines small business loans as commercial loans with original principal amounts of \$1 million or less. The following table shows the distribution of small business loans by dollar amount in the assessment area. The loan amount is a way to determine whether the bank actively originates smaller loans typically requested by smaller business entities.

<b>TABLE 5</b>				
<b>SMALL BUSINESS LENDING IN THE ASSESSMENT AREA</b>				
<i>Small Business Originations</i>	<i>≤ \$100,000</i>	<i>&gt; \$100,000 to ≤ \$250,000</i>	<i>&gt; \$250,000 to ≤ \$1 million</i>	<i>Total Originations</i>
Percentage of Small Business Loans	23%	28%	49%	100%
Percentage of Loans to Businesses With Revenues Less Than \$1 Million	63%	50%	71%	63%

As illustrated in Table 5, the bank originated 63% of its small business loans to entities with gross annual revenues of \$1 million or less. In comparison, aggregate data reported by financial institutions subject to the reporting requirements of CRA for 2003<sup>1</sup> reveal that 31% of the reported loans were small business loans to entities with gross annual revenues of \$1 million or less. According to the 2003 data published by Dun & Bradstreet, 79% of the businesses in the assessment area had gross annual revenues of \$1 million or less. Although slightly lower, the percentage of the bank's lending compares favorably with the demographic characteristics of small businesses in the assessment area. In addition, there is a reasonable distribution of small business loans in each loan amount category. Overall, the bank's lending to entities of different sizes in varying amounts is fully satisfactory.

<sup>1</sup>Financial institutions subject to the reporting requirements of CRA are independent institutions that had assets of \$250 million or more as of the last two calendar year-ends and institutions affiliated with companies that had banking or thrift assets of \$1 billion or more as of the last two calendar year-ends.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank’s loans in the assessment area is very good and does not reveal any unexplained gaps in lending patterns. As mentioned previously, the bank’s assessment area consists of 521 CTs, of which 34% are low- and moderate-income tracts. The majority of the bank’s loans were originated to businesses located in Hennepin County, followed by Ramsey and Dakota counties. The following table shows the distribution of the bank’s sampled loans by level of income tract.

<b>TABLE 6 DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY INCOME LEVEL OF CT*</b>										
<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Income Not Available</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Small Business	14%	24%	26%	26%	34%	33%	26%	17%	0%	0%
<i>Demographic Data</i>										
Number of CTs	47		130		213		129		2	
Percentage of CTs	9.0%		24.9%		40.9%		24.8%		0.4%	
Percentage of Small Businesses**	3.9%		15.3%		37.0%		22.6%		0%	
*Income classification of geographies based on 2000 median family income of \$64,885 for the Minneapolis-St. Paul MSA.										
**According to 2003 data published by Dun & Bradstreet.										

As Table 6 illustrates, the bank actively lends in all levels of CTs in its assessment area. The bank’s level of lending to small businesses operating in low- and moderate-income CTs is good. The data in Table 6 shows the bank originated 40% of its small business loans to businesses located in low- and moderate-income tracts, which exceeds the percentage of businesses located in low- and moderate-income tracts in the bank’s assessment area. The bank’s level of lending to businesses operating in the low- and moderate-income tracts also exceeds the percentage of low- and moderate-income tracts at 34%.

The bank’s data compares favorably to the 2003 CRA aggregate data and reveals that the bank’s small business lending activity in low- and moderate-income CTs in the assessment area exceeds the aggregate. The aggregate reporters originated 4.4% of the total business loans in low-income CTs and 17.9% in moderate-income CTs while the bank originated 14% and 26% in low- and moderate-income CTs, respectively.

The bank’s level of lending reflects good responsiveness to the credit needs of small businesses located in the low- and moderate-income CTs located in the bank’s assessment area. Overall, the bank has a good record of lending in CTs of all income levels in its assessment area.

GENERAL

The bank has not received any CRA-related complaints since the previous evaluation. In addition, the evaluation did not reveal violations of the substantive provisions of the fair housing and fair lending laws and regulations.

## Appendix A Glossary of Common CRA Terms

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)

**Assessment Area** - The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated teller machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

**Block Numbering Areas ("BNA")** - BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

**Census Tracts** - Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

**Community Development** - Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

**Community Development Loan** - A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank):

- has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan, and
- benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

**Community Development Service** - A service that has as its primary purpose community development is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area, and has not been claimed by other affiliated institutions.

**Consumer Loans** - Loans to individuals for household, family, and other personal expenditures. These loans do not include real estate-secured loans.

**Dun & Bradstreet Data** - Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. This data can be sorted by geographies.

**Income Level** - Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In non-MSA areas, the level is based on the statewide, non-MSA median income.

- **Low Income** - Less than 50 percent of the area median income.
- **Moderate Income** - At least 50 percent and less than 80 percent of area median income.
- **Middle Income** - At least 80 percent and less than 120 percent of the area median income.
- **Upper Income** - At least 120 percent or more of the area median income.

**Metropolitan Statistical Area (“MSA”)** - A federally designated geographical unit consisting of an urbanized area with a central city of at least 50,000 residents and a regional population of 100,000. MSAs may cross state boundaries.

**Qualified Investment** - A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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

**Small Business Loan** - A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

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

**Small Farm Loan** - A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”