

PUBLIC DISCLOSURE

June 7, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Anchor Bank Saint Paul
Certificate Number: 12922**

**6 West Fifth Street
Saint Paul, Minnesota 55102**

Federal Deposit Insurance Corporation

**2345 Grand Boulevard, Suite 1200
Kansas City, Missouri 64108**

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 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 **Anchor Bank Saint Paul, Saint Paul, Minnesota**, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **June 7, 2004**. 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 345.*

INSTITUTION RATING

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

Anchor Bank Saint Paul (ABSP)'s overall performance is reasonable in relation to the small bank performance criteria as discussed below.

- The bank's average net loan-to-deposit (LTD) ratio, which is a key measure of the bank's overall level of lending, is reasonable given the institution's asset size, financial condition, and the credit needs of the assessment area (AA). The bank's net LTD ratio has averaged 76 percent since September 30, 1999. This ratio is also reasonable in comparison to the average net LTD ratio of four similarly situated institutions located in or near the bank's AA.
- A substantial majority of the commercial loans reviewed by regulatory personnel were originated within the AA, illustrating the bank's commitment to meeting the credit needs of the AA.
- Overall, the bank's geographic distribution of lending reflects reasonable dispersion throughout the AA. The bank's commercial lending percentages in the low- and moderate-income geographies in the bank's AA are reasonable in comparison to pertinent demographic data for these geographies.
- Given the demographics of the AA, the bank's overall loan distribution within its AA by borrower income reflects reasonable penetration among businesses of different revenue sizes. The bank's commercial lending percentage to businesses with gross annual revenues of less than or equal to \$1 million is reasonable in comparison to pertinent demographic data.
- ABSP has not received any CRA-related complaints since the previous CRA Performance Evaluation on August 9, 1999.

DESCRIPTION OF INSTITUTION

ABSP is a financial institution with \$49,295,000 in total assets, as of March 31, 2004. The bank is a subsidiary of a five-bank holding company, Anchor Bancorp, Inc., Wayzata, Minnesota. At the last evaluation, the bank was operating under the name, "The Bank of Saint Paul."

ABSP's main office is in Saint Paul, Minnesota and the bank does not have any branches. ABSP has not opened or closed any offices since the previous CRA Performance Evaluation on August 9, 1999. ABSP has cash dispensing automated teller machines (ATMs) in the lobby of its office, Embassy Suites Hotel, Black Dog Restaurant, and Parkview Golf Course. The ATM at Parkview Golf Course in Eagan, Minnesota was established in 2002.

ABSP offers various types of credit, including commercial, residential real estate, and consumer loans. As of March 31, 2004, the bank's Report of Condition reflected net loans of \$33,815,000 and total deposits of \$40,420,000, resulting in a net LTD ratio of 84 percent. Commercial loans (including loans secured by nonfarm nonresidential properties and commercial and industrial loans) account for 71 percent of the dollar volume of the outstanding portfolio, as of March 31, 2004. The remainder of the bank's portfolio is concentrated in residential real estate at 16 percent, and other loans (including construction and land development, loans secured by multi-family residential properties, consumer loans, and all other loans) at 13 percent, based on dollar volume of the outstanding portfolio, as of March 31, 2004. Since commercial loans are the prevalent credit category, and since this is the loan product on which the bank's business strategy focuses, examination personnel concentrated on this product line for evaluation purposes.

Aside from statutory lending limits, the institution is not subject to any financial or legal impediments that would restrict its ability to meet the credit needs of its AA. ABSP offers credit and deposit services that are consistent with its size and resources.

A review of FDIC records and the bank's CRA Public File did not reveal any complaints relating to the bank's CRA performance since the previous CRA Performance Evaluation. ABSP received a CRA rating of "Satisfactory" at the August 9, 1999, FDIC CRA Evaluation.

DESCRIPTION OF THE ASSESSMENT AREA (AA)

The Community Reinvestment Act of 1977, as amended, requires banks to identify one or more AAs within which its regulatory agency will evaluate the bank's performance. The area(s) defined by the bank must include its main office, branches, and other deposit-taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The AA must always consist of one or more whole geographies. Effective with the use of 2000 Census data, all such geographies are identified as census tracts (CTs). These CTs represent statistical subdivisions of a county.

How Median Family Income Is Used Throughout This Analysis:

The 2000 Census Median Family Income (MFI) for the Minneapolis-Saint Paul Minnesota-Wisconsin metropolitan statistical area (MSA) was \$65,825. This income figure is used to determine the income level, based on the 2000 Census, for those geographies located in the Minneapolis-Saint Paul metropolitan area.

Definition of CT Category:

<i>Low-income -</i>	Less than 50 percent of the MFI for the Minneapolis-St. Paul MSA
<i>Moderate-income -</i>	50 percent to less than 80 percent of the MFI for the Minneapolis-St. Paul MSA.
<i>Middle-income -</i>	80 percent to less than 120 percent of the MFI for the Minneapolis-St. Paul MSA.
<i>Upper-income -</i>	120 percent or higher of the MFI for the Minneapolis-St. Paul MSA.

ABSP's designated AA consists of Dakota, Hennepin, Ramsey, and Washington Counties in the Minneapolis-Saint Paul MSA. There have been no changes in the bank's AA since the previous evaluation. The AA consists of 571 CTs, with 87 CTs in Dakota County, 298 CTs in Hennepin County, 136 CTs in Ramsey County, and 50 CTs in Washington County. Of these 571 CTs, 47 CTs are classified as low-income, 135 CTs as moderate-income, 245 CTs as middle-income, 140 CTs as upper-income, and 4 CTs are currently unclassified, based on 2000 Census data. The low-income CTs are located in Hennepin County and Ramsey County. The moderate-income CTs are located throughout each county in the AA. The unclassified CTs are located in Hennepin, Ramsey, and Washington Counties. The bank's AA does not arbitrarily exclude any low- or moderate-income CTs and its AA is in compliance with the CRA regulation.

The bank's office is located in Ramsey County CT 0342.00, which is classified as moderate-income. ABSP has four cash-dispensing ATMs. Three of these ATMs are located in Ramsey County moderate-income CT 0342.00, they include: one ATM located in the bank's main office at 6 West Fifth Street in Saint Paul, another located in the Embassy Suites Hotel at 175 East 10th Street in Saint Paul, and the third located in Black Dog Restaurant at 308 Prince Street in Saint Paul. The fourth ATM is located in Dakota County CT 0607.31, an upper-income CT. This ATM is located at Parkview Golf Course, 1310 Cliff Road in Eagan, Minnesota.

Dakota County includes the communities of Apple Valley, Burnsville, Coates, Eagan, Farmington, Hampton, Hastings, Inver Grove Heights, Lakeville, Lilydale, Mendota, Mendota Heights, Miesville, New Trier, Randolph, Rosemount, South Saint Paul, Sunfish Lake, Vermillion, and West Saint Paul. The population of Dakota County was 355,904, according to 2000 Census data. This is an increase of 29.3 percent since the 1990 Census. The unemployment rate of Dakota County, as of April 2004, is 3.6 percent, which is less than the state average of 4.5 percent and the U.S. average of 5.4 percent.

Hennepin County includes the communities of Bloomington, Brooklyn Center, Brooklyn Park, Champlin, Corcoran, Crystal, Dayton, Deephaven, Eden Prairie, Edina, Excelsior, Golden Valley, Greenfield, Greenwood, Hamel, Hopkins, Independence, Long Lake, Loretto, Maple Grove, Maple Plain, Medicine Lake, Medina, Minneapolis, Minnetonka, Minnetonka Beach, Minnetrista, Mound, New Hope, Orono, Osseo, Plymouth, Richfield, Robbinsdale, Rogers, Shorewood, Spring Park, Saint Anthony, Saint Bonifacius, Saint Louis Park, Tonka Bay, Wayzata, and Woodland. The population of Hennepin County was 1,116,200, according to 2000 Census data. This is an increase of 8.1 percent since the 1990 Census. The unemployment rate of Hennepin County, as of April 2004, is 3.9 percent, which is also less than the state and U.S. averages.

Ramsey County includes the communities of Arden Hills, Falcon Heights, Gem Lake, Lauderdale, Little Canada, Maplewood, Mounds View, New Brighton, North Oaks, North Saint Paul, Roseville, Shoreview, Saint Paul, Vadnais Heights, and White Bear Lake. The population of Ramsey County was 511,035, according to 2000 Census data. This is an increase of 5.2 percent since the 1990 Census. The unemployment rate of Ramsey County, as of April 2004, is 4.2 percent, which is less than the state and U.S. averages.

Washington County includes the communities of Afton, Bayport, Birchwood, Cottage Grove, Dellwood, Forest Lake, Hugo, Lake Elmo, Lake Saint Croix Beach, Lakeland, Lakeland Shores, Landfall, Mahtomedi, Marine on Saint Croix, Newport, Oak Park Heights, Oakdale, Pine Springs, Saint Marys Point, Saint Paul Park, Stillwater, Willernie, and Woodbury. The population of Washington County was 201,130, according to 2000 Census data. This is an increase of 15.4 percent since the 1990 Census. The unemployment rate of Washington County, as of April 2004, was 3.8 percent, which is less than the state and U.S. averages.

Major employers in the Saint Paul community include the State of Minnesota, Saint Paul Public Schools, Health East Care System/St. Joseph's Hospital, and US Bank. The industries with the highest percentages of employment are: Professional and Business Services, Government, Educational and Health Services, Manufacturing, and Retail Trade. The area in which ABSP operates is home to a large number of competing financial institutions ranging from small locally owned banks to regional lenders to sizeable multi-state financial institutions.

Examination personnel reviewed information obtained through interviews with two residents of the bank's AA regarding the general economy and credit needs of the AA, and the performance of local financial institutions operating in the AA. These contacts indicated that the area is experiencing fast growth and; therefore, land availability is limited and the overall demand for housing is high. This increase in land prices makes it difficult for many families to obtain affordable housing in certain areas. Likewise, the high growth rate means that opportunities for lending are also high. In addition, the Minneapolis-Saint Paul metropolitan area has a growing minority population; specifically Hmong and Hispanics. The contact stated the following as being obstacles for minority business owners: 1) undercapitalization, 2) limited credit history, 3) lack of business experience, and 4) lack of strategic planning and marketing experience. A significant number of new minority-owned businesses in the metropolitan area have recently emerged. Many of these businesses are small, local service and retail operations. The contact also mentioned that there are many minority-owned businesses in low- and

moderate-income areas in Saint Paul and Minneapolis. The contact mentioned the following as opportunities for financial institutions to participate in minority-owned business growth: investments, loan programs, committees, and consulting activities.

In 2003, 187,157 non-farm businesses from the AA reported certain information to D&B (formerly known as Dun & Bradstreet), with 124,114 non-farm businesses reporting revenue information. Of the 187,157 respondents, 5 percent were located in low-income CTs, 19 percent in moderate-income, 48 percent in middle-income, 28 percent in upper-income, and less than one percent was located in the unclassified CTs. Of the 124,114 non-farm businesses that reported revenue information to D&B, 91 percent reported gross annual revenues of \$1 million or less. The largest non-farm business categories in the AA (based on number) were service-related (40 percent) and non-classifiable establishments (19 percent).

Table 1 below summarizes the AA’s non-farm businesses according to gross annual revenues and by geography income category, as reported to D&B. This information will be used to evaluate the bank’s commercial lending under Criterion 3 (Geographic Distribution Analysis) and Criterion 4 (Borrower Profile Analysis).

Table 1 – Stratification of Non-Farm Businesses by Gross Annual Revenues and Geography Income Category					
Gross Annual Revenues		≤ \$1 million Number	> \$1 million Number	Not Reported Number	Total Number
Income Category	Low-Income Geographies	5,530	666	3,052	9,248
Income Category	Moderate-Income Geographies	20,624	2,363	12,013	35,000
Income Category	Middle-Income Geographies	53,846	5,883	29,749	89,478
Income Category	Upper-Income Geographies	32,821	2,281	18,026	53,128
Income Category	Unclassified Geographies	82	18	203	303
	Total Non-Farm Businesses	112,903	11,211	63,043	187,157

Source: D&B (2003 using 2000 Census boundaries and income designations)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Criterion 1: Loan-to-Deposit Ratio

ABSP's average net LTD ratio of 76 percent is reasonable given the institution's asset size and the credit needs of the AA. This net LTD ratio was calculated over the 19 quarters from September 30, 1999 to March 31, 2004. Additionally, the bank's average net LTD ratio compares reasonably to the average net LTD ratio of four "similarly situated lenders." Similarly situated lenders are defined as financial institutions that are located in or near the AA and are the most comparable to the subject bank based on asset size, market served, product offerings, and loan portfolio composition. The similarly situated institutions used in this evaluation had average quarterly net LTD ratios ranging from 64 percent to 92 percent for the time period discussed above.

During the period from September 30, 1999, to March 31, 2004, ABSP's net LTD ratio has ranged from a low of 60 percent, as of September 30, 1999, to a high of 94 percent, as of June 30, 2003. Net loans for the same period ranged from a low of \$21,262,000 on September 30, 1999, to a high of \$40,735,000 on June 30, 2003, while total deposits ranged from a low of \$35,345,000 on September 30, 1999, to a high of \$43,722,000 on March 31, 2003.

Loan Review Procedures for Performance Criteria 2, 3, and 4

Conclusions for Performance Criterion 2 (Assessment Area Concentration), Criterion 3 (Geographic Distribution Analysis), and Criterion 4 (Borrower Profile Analysis) are primarily based on examiner review of the universe of commercial loans on the bank's April 30, 2004 loan trail balance that were originated between January 1, 2003, and April 30, 2004. The analysis focused on this loan product as it represents a majority (71 percent) of the bank's loan portfolio based on dollar volume, as of March 31, 2004. In addition, an analysis of this loan product will likely provide the most meaningful insight into the bank's CRA performance because of the availability of pertinent demographic data. An example of this demographic data includes the stratification of businesses in the AA based on gross annual revenues. The analysis of this loan product was conducted within the context of the AA's economy, credit needs, and competition among financial institutions. Consumer and residential loans were not reviewed during this evaluation since they represent a relatively small percentage of the loan portfolio and are not specifically emphasized by the bank's business strategy.

For Criterion 3 (Geographic Distribution Analysis), particular focus was given to the dispersion of the loans reviewed in relation to the low- and moderate-income geographies in the bank's AA. For Criterion 4 (Borrower Profile Analysis), particular focus was given to lending to small businesses in the AA. For an explanation of how the income designation of a particular geography is determined, refer to the discussions entitled *How Median Family Income is Used Throughout This Analysis* and *Definition of Income CT Category* on page 4 of this evaluation.

The universe of commercial loans used in this analysis consisted of 63 loans totaling \$12,413,000 that were on the bank's April 30, 2004, loan trail and were originated by the bank between January 1, 2003, and April 30, 2004.

In drawing conclusions under Criteria 3 and 4, the analysis of lending activity based on the number of loans, rather than on the dollar volume, is emphasized, as this analysis more clearly represents the bank's lending efforts. Generally, loans to smaller businesses are for smaller dollar amounts than loans to larger businesses. Therefore, an analysis using the dollar volume of loans would not provide a representative picture of the bank's

Criterion 2: Assessment Area Concentration

ABSP's overall performance regarding lending within its AA is considered more than reasonable. Based on the number and dollar volume of loans, a substantial majority of the commercial loans were originated within the AA, illustrating the bank's commitment to meeting the credit needs of the AA.

The bank's performance was evaluated through an analysis of location information recorded by the bank with respect to the commercial loans previously discussed. Based on the number of loans, 97 percent of the commercial loans were originated within the AA.

Table 2 – Assessment Area Concentration										
Loan Type	Number of Loans					Dollar Volume of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		(000s)	%	(000s)	%	
Commercial	61	97%	2	3%	63	\$12,197	98%	\$216	2%	\$12,413

Source: Bank records

Criterion 3: Geographic Distribution Analysis

Overall, the bank's geographic distribution of lending reflects a reasonable dispersion throughout the AA. This conclusion was based on the geographic distribution of the commercial loans reviewed that were originated within the bank's AA.

Table 3, on the following page, illustrates the geographic distribution of the bank's commercial lending, by both number and dollar volume, for loans that were originated within the AA. This table also includes 2003 D&B data relative to the percentages of businesses in the AA by geography income category and 2000 Census data relative to the percentages of geographies in the AA by geography income category.

Table 3– Distribution of Commercial Loans by Income Category of the Geography						
Geography Income Category	Geographies (% of #)	D&B Data for Non-Farm Businesses (% of #)	Number of Loans		Dollar Volume of Loans (000's)	
			#	%	\$	%
Low	8%	5%	3	5%	\$113	1%
Moderate	24%	19%	18	30%	\$2,511	21%
Middle	43%	48%	29	47%	\$6,387	52%
Upper	25%	28%	11	18%	\$3,186	26%
Unclassified	*	*	0	0%	\$0	0%
Total	100%	100%	61	100%	\$12,197	100%

Source: D&B (2003 using 2000 Census boundaries and income designations), U.S. Census (2000), and bank records

The bank's commercial lending percentage in the low-income geographies in the AA (5 percent based on the number of loans) equals the percentage of businesses in these geographies (D&B data) and is below the percentage of geographies in the bank's AA that are designated as low-income (8 percent).

The bank's commercial lending percentage in the moderate-income geographies in the AA (30 percent based on the number of loans) is above the percentage of businesses in these geographies (19 percent according to D&B data) and the percentage of geographies in the bank's AA that are designated as moderate-income (24 percent). As previously discussed, the bank's office is located in a moderate-income CT; it should be noted that the number of loans located in moderate-income CTs includes loans made in close proximity to the bank office.

Criterion 4: Borrower Profile Analysis

The distribution of the bank's commercial lending in its AA reflects a reasonable penetration among businesses of different revenue sizes. The bank's lending performance was evaluated through further review of those loans from the universe of commercial loans that were originated within the AA. In performing this analysis of commercial lending, gross annual revenues reported on borrower tax returns, operating statements, or applications were used. When these documents were not available, bank personnel familiar with the borrower estimated the borrower's gross annual revenues.

As shown in Table 4 on the following page, 77 percent of the commercial loans sampled were extended to businesses with gross annual revenues of \$1 million or less. The bank's lending percentage compares reasonably to the percentage of businesses in the AA that had gross annual revenues of \$1 million or

less, according to 2003 D&B data (91 percent). Therefore, the distribution of the bank’s commercial borrowers, based on gross annual revenues, demonstrates that the bank is meeting the credit needs of small businesses in the AA. Bank management stated that the bank’s business strategy targets small businesses and the bank believes it is meeting the credit needs of small businesses in its AA.

Table 4 – Commercial Lending to Businesses of Different Revenue Sizes					
Gross Annual Revenues	D & B Data Non-Farm Businesses (% of #)	Number of Loans		Dollar Volume of Loans (000’s)	
		#	%	\$	%
< \$250,000	75%	27	44%	\$6,023	49%
\$250,000 to < \$500,000	9%	9	15%	\$1,050	9%
\$500,000 to ≤ \$1 million	7%	11	18%	\$1,559	13%
> \$1 million	9%	14	23%	\$3,565	29%
Total	100%	61	100%	\$12,197	100%

Source: D&B (2003) for non-farm businesses that reported gross annual revenues and bank records

Criterion 5: Responses to CRA-Related Complaints

ABSP has not received any CRA-related complaints since the previous CRA Evaluation on August 9, 1999.

Compliance with Fair Lending Laws

No violations of the substantive provisions of antidiscrimination laws or regulations were identified during this CRA evaluation.