



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

November 15, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Hudson
Charter Number 95**

**1835 Radio Drive
Woodbury, MN 55125**

**Comptroller of the Currency
Minneapolis South
920 Second Avenue South Suite 800
Minneapolis, MN 55402**

NOTE: This document is an evaluation of this 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. 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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loan originations are made within the bank's assessment area.
- The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank's community development performance demonstrates satisfactory responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services.

SCOPE OF EXAMINATION

We evaluated the First National Bank of Hudson's (FNB) Community Reinvestment Act performance under the Lending and Community Development Tests. In evaluating the bank's lending performance we reviewed lending data for the bank's three primary loan products. We reviewed residential mortgage data (including both purchase and refinance loans) and small business loans for the period January 1, 2003 through September 30, 2005. The evaluation of this data was completed using two separate analysis periods due to the changes in the demographics for the bank's assessment area (AA) from 2003 to 2004. Loans originated in 2003 were compared to the 2000 census data using 2003 demographics and loans originated in 2004 and 2005 were compared to the 2000 census data using 2004 demographics.

The evaluation covers the period from the date of the previous CRA Examination, February 13, 2002, through November 15, 2005. The Lending Test evaluated home mortgage and small business lending from January 1, 2003 through September 30, 2005 and the Community Development Test covered community development loans, investments and services during the entire evaluation period. Prior to conducting this evaluation, we tested the accuracy of the bank's HMDA and small business lending data. We found the data to be accurate and used the data in the evaluation. We reviewed the bank's community development loans, investments and services based on information provided by the bank. We used only those that met the regulatory definition for community development in our analysis of the Community Development Test. For demographic analysis for the Community Development Test, we used the most recent available demographic data.

DESCRIPTION OF INSTITUTION

FNB is a \$387 million interstate bank chartered in Woodbury, Minnesota. FNB is owned by Charter 95 Corporation, a one-bank holding company located in St. Paul, Minnesota.

FNB has eight full-service branches with locations in both Minnesota and Wisconsin. The Minnesota branches are located in Woodbury, North Branch and Stacy and the Wisconsin branches are located in Baldwin, Ellsworth, Hammond and two locations in Hudson. In addition to these full-service branches, the bank operates a limited-service branch office at a nursing home in Hudson. The bank is legally headquartered in Woodbury but conducts the majority of its operations out of its downtown Hudson office. The bank also operates four automated teller machines (ATMs) in Hudson and one ATM each in Woodbury, Baldwin, Ellsworth, Hammond, North Branch, and Stacy, as well as River Falls and Roberts, Wisconsin. Only the ATM at FNB's downtown Hudson office accepts deposits.

FNB is a full-service bank and offers a wide variety of banking products. As of September 30, 2005, the bank's \$317 million loan portfolio consisted of 45% commercial loans, 44% residential real estate loans, 7% consumer loans, 2% agricultural loans and 2% other loans. Net loans made up 82% of total assets and Tier I Capital was \$36 million.

There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs in its AA. At its last CRA examination dated February 13, 2002, the bank was rated Satisfactory. At that examination, the bank was evaluated under the Small Bank performance test. This examination is being completed under the Intermediate Small Bank performance test.

DESCRIPTION OF FNB'S ASSESSMENT AREA

FNB's AA includes the counties of Washington, Chisago and Isanti in Minnesota, and Pierce and St. Croix counties in Wisconsin. The five counties are all part of the Minneapolis-St. Paul, Minnesota-Wisconsin MSA and comprise the northern and eastern portions of the MSA. The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

The Minneapolis-St. Paul metropolitan-statistical area (MSA) is the 15th largest metropolitan area in the nation according to 2000 census population figures. The MSA is comprised of 13 counties located in both Minnesota and Wisconsin. The area economy is strong and centered in several major industries including health care, medical device manufacturers, high-tech electronics, finance, insurance, the arts, printing/publishing, as well as the processing and transportation of agricultural products. The area is home to nineteen Fortune 500 companies and several of the world's largest private companies. The portions of the AA that comprise the outer areas of the Minneapolis-St. Paul MSA are more rural and agricultural-based, but continue to experience change as the population in the MSA grows and consumers move further out from the metro area in search of less crowded conditions and more affordable real estate.

Since 1990, FNB's AA has seen significant population growth. The total number of persons within the AA has increased over 31% to 373,477. Total families and households have also increased significantly to 100,907 and 133,748, respectively, both representing an increase of over 34%. The strong economy, significant population growth, and generally favorably interest rate environment has kept the housing market strong and continued to drive up housing prices. The median home price for the MSA was \$187,000 at the end of 2003 compared to \$175,000 in 2002, an increase of nearly 7%. While the MSA is ranked 3rd in the nation in housing affordability, there continues to be a limited supply of affordable housing in some portions of the AA.

Based on 2000 census data using 2003 demographics, FNB's AA included 81 census tracts. Within the AA, there are no tracts designated as low-income, six (7.41%) designated as moderate-income, 50 (61.73%) designated as middle-income, 23 (28.40%) designated as upper-income, and two (2.47%) with no income designation. Changes based on the 2004 demographics reduced the number of moderate-income census tracts to five (6.17%) and increased the number of upper-income census tracts to 24 (29.63%). The other income tract demographics remained unchanged.

The 2000 weighted-average median-family income for FNB's AA increased dramatically from the 1990 census to \$69,074, representing an increase of approximately 60%. This is slightly below the 2000 weighted-average HUD updated MSA median-family of \$74,800. There are 5,406 or 4% of households below poverty level in the AA. Unemployment is low at 1.69% and significantly less than the national average. Owner-occupied housing represents 80% of housing stock within the AA.

Bank competition is strong with approximately 55 financial institutions with offices in the AA. Of those financial institutions, FNB had the third highest volume of deposits and a 6.96% deposit market share. The competition includes offices of large nation-wide and regional banking companies, smaller, locally owned financial institutions, and mortgage companies.

We contacted one person who works within the business community of the Hudson area. The contact mentioned the vibrant economy and the continuing growth of the community, but also noted a need for more affordable housing. She stated that the degree of involvement in the community by area financial institutions is very good.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank's performance under the Lending Test is satisfactory. We based this conclusion on residential home purchase and refinance loans, and small loans to businesses. We placed more emphasis on the bank's residential refinance loans as this represented the largest percentage (over 55%) of the three primary products.

Loan-to-Deposit Ratio

The quarterly loan-to-deposit ratio of 93.65% is reasonable given the bank's size, financial condition, and AA credit needs. FNB ranked fourth of the similarly situated banks which are defined as those national and state chartered banks with total assets between \$275 and \$425 million with branches located within FNB's AA.

Institution	Assets (as of September 30, 2005)	Average LTD Ratio (4 th Quarter 2001 – 3 rd Quarter 2005)
Central Bank, Stillwater, Minnesota	\$344,316	107.52%
Bremer Bank, Brainerd, Minnesota	\$311,246	99.15%
Western Bank, Saint Paul, Minnesota	\$380,655	97.05%
The First National Bank of Hudson, Woodbury, Minnesota	\$386,566	93.65%
Mainstreet Bank, Forest Lake, Minnesota	\$332,489	93.32%
Peoples Bank of Commerce, Cambridge, Minnesota	\$289,058	89.49%
S&C Bank, New Richmond, Wisconsin	\$412,241	83.68%
Anchor Bank, West St. Paul, Minnesota	\$320,051	80.58%
First National Bank of River Falls, River Falls, Wisconsin	\$277,785	74.17%

Lending in Assessment Area

The level of lending in the AA is reasonable. Based on all residential home purchase and refinance loans and small loans to businesses originated between January 1, 2003 and September 30, 2005, the majority of loans, 86.49% by number and 87.81% by dollar amount, were made within FNB's AA.

Loan Type	Total Loans Reviewed							
	In Assessment Area				Out of Assessment Area			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Home Purchase	627	80.80%	101,729	83.36%	149	19.20%	20,302	16.64%
Refinancing	2000	91.32%	267,883	91.70%	190	8.68%	24,243	8.30%
Small Business	793	80.26%	73,007	81.20%	195	19.74%	16,908	18.80%
Total	3,420	86.49%	442,619	87.81%	534	13.51%	61,453	12.19%

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

The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.

As shown in the following table, FNB's distribution of lending to low-income borrowers is excellent for residential purchase loans and good for residential refinance loans, considering the family poverty level in the AA of 5.36%. Distribution of lending to moderate-income borrowers is excellent compared to the percentage of loans made by the bank.

Residential Real Estate Loans

Borrower Income Level	Low		Moderate		Middle		Upper	
	2003	2004-2005	2003	2004-2005	2003	2004-2005	2003	2004-2005
Year								
% of AA Families	14.4	14.24	18.85	18.66	28.34	28.33	38.41	38.78
% Home Purchase loans by bank	16.00	11.36	26.29	24.69	25.14	35.06	32.57	28.89
% Refinance loans by bank	8.74	11.08	24.54	23.74	34.45	33.81	32.18	31.37

The borrower distribution of business loans is excellent. The percentage of business loans made by FNB to small businesses (those with revenues of \$1,000,000 or less) is significantly more than the portion of small businesses in the AA.

Business Loans				
Business Revenues	<\$1,000,000		>\$1,000,000	
Year	2003	2004-2005	2003	2004-2005
% of AA Businesses	67.21	68.54	32.79	31.46
% of Bank loans in AA	84.33	81.5	15.67	18.5

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. There are no low-income census tracts in the bank's AA.

The bank's lending of residential real estate loans is excellent for moderate-income tracts compared to the demographic data. The bank made residential purchase and refinance loans either above or close to the percentage of owner-occupied residences within the AA.

Residential Real Estate Loans						
Census Tract Income Level	Moderate		Middle		Upper	
	2003	2004-2005	2003	2004-2005	2003	2004-2005
% of AA Owner Occupied	5.51	4.10	68.12	67.83	26.38	28.08
% Home Purchase loans by bank	5.43	4.71	67.93	68.24	26.63	27.06
% Refinance loans by bank	5.62	3.96	64.01	70.16	30.37	25.88

FNB's lending to businesses located in moderate-income geographies is adequate, as noted in the following table. The percentage of small loans to businesses located in moderate-income geographies is significantly less than the percentage of businesses located in those census tracts.

This is due, in part, to the high amount of competition among established banks within the AA. In addition, the moderate-income tracts within the AA have experienced very little growth, so the bank's opportunity to make new loans within these areas is limited. The bank's location relative to some of the moderate-income tracts also negatively impacts its ability to make loans in those areas.

Business Loans

Census Tract Income Level	Moderate		Middle		Upper	
	2003	2004-2005	2003	2004-2005	2003	2004-2005
Year	2003	2004-2005	2003	2004-2005	2003	2004-2005
% of AA Businesses	7.34	5.99	68.12	67.98	24.51	25.99
% Bank's business loans	4.00	2.85	73.00	80.08	23.00	17.07

Response to Complaints

The bank has not received any complaints regarding its CRA performance since the last examination.

Community Development Test

The bank's performance under the Community Development Test is rated Satisfactory.

The bank's community development performance demonstrates reasonable responsiveness to community development needs in its AA through community development loans, qualified investments, and community development services. While the entire Minneapolis-St. Paul MSA has numerous investment opportunities available, the counties comprising FNB's AA present limited opportunities. In our analysis we considered the AA needs and the availability of opportunities for community development in the bank's AA.

Community Development Loans

FNB has an adequate level of community development loans. During the evaluation period, FNB originated or purchased six community development loans totaling \$2.7 million. Five of these loans were to renovate and/or build senior housing where the majority of the occupants are low- or moderate-income persons. The other community development loan was to help fund housing and weatherization programs directed to low- or moderate-income families. Four of these loans were for projects located within the bank's AA and address the need for affordable housing in the AA. The other two loans were made in the broader area that includes other counties that are part of the Minneapolis-St. Paul MSA.

Qualified Investments

FNB had an adequate level of qualified community development investments. During the evaluation period, the bank's qualified investments included 39 donations totaling \$143,236 to organizations located in the bank's AA. These donations included funds to organizations such as Operation HELP, Habitat for Humanity, various food shelters, and economic development corporations. All funds are specifically targeted to benefit LMI persons within the AA. The bank also made two investments in the regional area of the MSA totaling \$502,846. Investments include mortgage backed securities comprised of loans to moderate-income

borrowers and the funding of building renovations for a qualified non-profit organization which provides services targeted to low- and moderate-income persons.

Community Development Services

The bank provides a satisfactory level of community development services through its branches, products, and activities with local organizations that support qualified community development activities.

All of FNB's branches are located in middle-income census tracts with the exception of the Woodbury branch, which is located in an upper-income census tract. Although moderate-income census tracts make up 6.17% of the tracts in the AA, only 4.58% of the population are located in those tracts. Middle-income census tracts account for 68.41% of the population of the AA with upper income tracts representing 26.55% of the total population. While FNB does not have any branches in those moderate-income census tracts, their branch locations are located so as to be accessible to all persons. In addition to their full-service branch and ATM locations, FNB also offers Internet banking and telephone banking for added availability to the bank's products.

FNB offers a full-range of consumer and commercial banking products and services at all its branches. The bank participates in several loan programs to assist LMI home buyers such as WHEDA loans and a Fannie Mae program called My Community Mortgage, which limits the amount of down-payment required for lower-income borrowers. In addition, FNB participates in a deposit product called an Individual Development Account which is a matched savings account designed to help low-income families accumulate funds for education, home ownership or business development. Low-income individuals save monthly and FNB and others fund the program to match their savings.

Through its employees, FNB is also involved in a variety of community development services. Many of the bank's employees are involved with non-profit organizations that provide services for LMI individuals. Employees serve on Boards of Directors of local organizations including Habitat for Humanity, various Chambers of Commerce and Economic Development Corporations.

A bank employee is a board member of the Woodbury Community Land Trust whose purpose is to find affordable housing for families of low- and moderate-income in Woodbury. The goal of this non-profit community organization is to increase and permanently preserve a variety of homes to ensure a broad economic base in support of economic development.

One other employee is an Executive Director of the Lake and Pines Community Council, which provides WIC programs, emergency food and shelters and training programs targeted to LMI persons.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.