INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 26, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Anchor Bank, National Association
Charter Number: 21179

1570 Concordia Avenue
Saint Paul, MN 55104-0000

Office of the Comptroller of the Currency

Minneapolis Field Office
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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 Outstanding

The Lending Test is rated: Satisfactory.
The Community Development Test is rated: Outstanding.

The major factors supporting Anchor Bank, National Association's (Anchor) ratings include:

- The bank's community development performance demonstrates excellent responsiveness to the community development needs in its assessment area particularly through community development loans and qualified investments.

- The geographic distribution of loans to small businesses reflects excellent dispersion throughout the assessment area.

- A majority of loan originations are made within the bank's assessment area.

- The distribution of loans reflects reasonable penetration among businesses of different sizes and individuals with different income levels.

Scope of Examination

Anchor's CRA examination evaluated the bank's lending and community development performance from January 30, 2007 through July 26, 2010. For the lending test, the analysis is based on a review of the bank's loan originations and purchases in 2008 and 2009 to determine primary products. As a result of the merger activity of four affiliate charters, this evaluation considers lending activity in 2008 only from the surviving charter formerly known as Anchor Bank St. Paul, NA (St. Paul). Lending activity in 2009 includes the former St. Paul, Anchor Bank Farmington NA (Farmington), Anchor Bank NA (Wayzata) and Anchor Bank Heritage NA (North St. Paul). The table below depicts the volume of loans originated and purchased during this time period.

Table 1: Anchor Loan Originations and Purchases in 2008 and 2009		
Loan Type	*Volume by #*	*Volume by $*
Business Loans	51.0%	82.3%
Agricultural Loans	0.9%	0.6%
Home Mortgage Loans	12.7%	9.9%
Consumer Loans	35.4%	7.2%

Based on originations and purchases provided by the bank

For purposes of this evaluation, the primary loan types are business loans and residential real estate loans. These products represent 64% of the number and 92% of the dollar volume of loans originated and purchased.

Our analysis of business lending is based on a sample of 60 loans extended within the bank's assessment area. Because Anchor submits residential real estate information as required by the Home Mortgage Disclosure Act (HMDA), a data integrity review was conducted to ensure accuracy of reported information. The information was found to be reliable which allowed us to include all reportable data in the analysis of this evaluation. Of the HMDA reportable residential real estate loans, home purchase represent 35%, home improvement represent 27%, and home mortgage refinance represent 38% of these loans.

The evaluation period for community development (CD) activity is January 30, 2007 through July 26, 2010. CD activities for the former St. Paul charter locations received full consideration. Activity for the other merged locations received credit as an affiliate until the date of merger.

Description of Institution

Anchor Bank, National Association is a $1.325 billion bank headquartered in Saint Paul, MN. Anchor is owned by Anchor Bancorp Inc., formerly a multi-bank holding company located in Wayzata, MN. As of December 31, 2009 the holding company assets were $1.326 billion. There was significant merger activity during the evaluation period. In November 2008, Farmington merged into St. Paul and the remaining two locations (North Saint Paul and Wayzata) merged into St. Paul in November 2009. The consolidated bank was concurrently renamed Anchor Bank, National Association.

Anchor has sixteen full-service locations and six limited service locations within the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). During the evaluation period, the bank relocated its main office from West St. Paul to the newly opened Snelling location. In addition, one branch (Pilot Knob) was closed and one opened (Burnsville). A loan production/deposit production office opened and closed during the evaluation period that was a temporary site while the Snelling location was being constructed. This office was in an upper-income geography. Anchor's automated teller machine (ATM) network consists of 17 ATMs, 16 of which are located at branches. The other ATM is located at an area shopping center. None of the ATMs are deposit taking.

Anchor offers a wide range of loans and deposit products, with an emphasis on commercial clientele. As of December 31, 2009, commercial and commercial real estate loans comprised 79% of the total loan portfolio. Net loans represent 69% of total assets with $105 million in Tier One Capital.

There are no legal or financial factors that impede Anchor's ability to help meet the credit needs in the assessment area. At their last CRA examination dated January 30, 2007, the bank received a "Satisfactory" rating.

Description of Assessment Area

Anchor's assessment area (AA) consists of six whole counties located in the Minneapolis-St. Paul MN MSA. These counties include Anoka, Dakota, Hennepin, Ramsey, Scott, and Washington. This AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. At the prior CRA examination, this bank's AA consisted of only the four counties of Dakota, Hennepin, Ramsey and Washington. In January 2009, the AA was expanded to include Anoka and Scott counties due to the merger activity of the Farmington, North St. Paul, and Wayzata charters.

The Minneapolis-St. Paul MN MSA is the 15th largest metropolitan area in the nation. The MSA is comprised of thirteen counties located in both Minnesota and western Wisconsin. Major employers within the MSA include Target Corporation, U.S. Bancorp, Xcel Energy, IBM, Piper Jaffray, RBC Dain Rauscher, ING Group and Qwest. Large healthcare employers include Allina and Fairview Hospitals.

Of the 671 census tracts (CTs) in the AA, 47 (7%) are designated as low-income, 143 (21%) are moderate-income, 310 (46%) are middle-income, and 167 (25%) are upper income. Four CTs (1%) are not applicable and include areas such as the international airport and Fort Snelling.

The six counties included in Anchor's AA are among the top seven counties in the state of Minnesota for foreclosures on residential real estate properties. Hennepin County has the highest rate followed by Anoka, Ramsey and Dakota. This decline in the housing market has a negative impact on the number HMDA reportable loans extended to qualified borrowers throughout the Minneapolis-St. Paul MSA. The increase in unemployment and inflated housing values is the primary cause for the increase in foreclosures and declining housing sales.

Based on the Department of Housing and Urban Development's (HUD) 2009 estimate, the updated median family income for the MSA is $83,900. The 2000 Census data shows that 64,815 or 6.50% of households within the AA are below the poverty level. According to the U.S. Bureau of Labor Statistics, the 2009 unemployment level in the MSA is 7.8% compared to 9.3 % nationally. The table on the following page illustrates the demographics of the AA.

Table 2: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE MINNEAPOLIS-ST. PAUL AA	
Population	
Number of Families	643,914
Number of Households	997,687
% of Low-Income Families	17.13%
% of Moderate-Income Families	18.62%
% of Middle-Income Families	25.86%
% of Upper-Income Families	38.39%
Geographies	
Number of Census Tracts	
% Low-Income Census Tracts	7.0%
% Moderate-Income Census Tracts	21.3%
% Middle-Income Census Tracts	46.2%
% Upper-Income Census Tracts	24.9%
NA	0.6%
Median Family Income (MFI)	
2000 MFI for AA	$68,136
2009 HUD-Adjusted MFI	$83,900
Economic Indicators	
2009 Unemployment Rate	7.8%
2009 Median Housing Value	$147,700
% of Households Below Poverty Level	6.5%

Table is based on 2000 census information with updated information when available.

Bank competition is strong with 172 financial institutions with offices in the MSA. Per the Federal Deposit Insurance Corporation's June 30, 2009 deposit market share report, Wells Fargo Bank NA and US Bank National Association control nearly 60% of the deposit base. Anchor has the 8th highest deposit volume, with a market share of 1.09%.

We reviewed several recent community contacts made in the bank's AA. These contacts identified the need for small business loans through development organizations and housing such as foreclosure intervention and bridge loans to nonprofit organizations for affordable housing.

Conclusions with Respect to Performance Tests

LENDING TEST

Anchor's performance under the lending test is Satisfactory. This rating is based on businesses and residential real estate lending. Greater emphasis was placed on business lending given the volume of originations.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given the size, financial condition, AA needs, and local economic conditions. Anchor is ranked fourth out of five similarly situated banks. The quarterly average LTDs are based on those from the last CRA examination (first quarter 2007) through first quarter of 2010. Ratios range from 90.47% to 98.15% with Anchor's ratio of 93.68%.

Table 3: Loan-to-deposit Institution	Assets as of 3/31/2010 ($000s)	Average LTD Ratio (%)
American Bank of St. Paul	579,592	98.15
Premier Bank	632,854	95.17
United Bankers Bank	620,530	95.10
Anchor Bank, National Association	***1,259,347***	***93.68***
Highland Bank	529,712	90.47

Source: Call report data as of March 31, 2010.

Lending in Assessment Area

Anchor's lending to borrowers within its AA meets the standard for satisfactory performance. A majority of business and residential real estate loans (87% by number and 96% by dollar) were made in the AA as illustrated below:

Table 4 – Lending in Anchor's AA										
	Number of Loans					Dollars of Loans (000's)				
Loan Type	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		$	%	$	%	
Business Loans	56	93%	4	7%	60	12,865	96%	479	4%	13,344
HMDA Loans	194	85%	35	15%	229	38	79%	10	21%	48
Totals	250	87%	39	13%	289	12,903	96%	489	4%	13,392

Source: HMDA reportable loans and business loan sample.

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

Anchor's lending to businesses of different sizes and borrowers of different incomes demonstrates reasonable penetration.

Borrower Distribution of Business Loans

Lending to businesses of different sizes is reasonable. Lending to businesses with revenues of $1 million or less is slightly below the demographic information of the AA based on the number of loans and is comparable performance in light of the strong banking competition in the AA. The table on the following page illustrates the bank's borrower distribution of business loans in the AA.

Table 5 – Borrower Distribution of Loans to Businesses				
Business Revenues	**≤$1,000,000**	**>$1,000,000**	**Unknown**	**Total**
% AA Businesses	77%	6%	17%	100%
% Bank Loans in AA by #	62%	37%	1%	100%

Source: Business loan sample; Dunn and Bradstreet data.

Borrower Distribution of Residential Real Estate Loans
Lending among borrowers of different income levels is reasonable for residential real estate loans. Anchor's home improvement and refinance loans to low-income borrowers are comparable to the demographics of the AA. Home purchase and refinance loans to moderate-income borrowers are also considered to be comparable.

Given that low- and moderate-income borrowers have a more difficult time qualifying for home mortgage loans, the recent strain in the local real estate markets, and the area poverty level is 6.5%, the lower home purchase loans to low-income borrowers and home improvement loans to moderate-income borrowers approaches the demographic.

Table 6 – Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% # of Loans	% of AA Families	% # of Loans	% of AA Families	% # of Loans	% of AA Families	% # of Loans
Home Purchase	17.1%	5.4%	18.6%	13.5%	25.9%	5.4%	38.4%	75.7%
Home Improvement	17.1%	17.7%	18.6%	3.9%	25.9%	31.4%	38.4%	47.0%
Refinance	17.1%	11.1%	18.6%	11.1%	25.9%	25.9%	38.4%	51.9%

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of Anchor's loans throughout the AA reflects excellent dispersion.

Geographic Distribution of Business Loans
Anchor's dispersion of businesses loans is excellent. Performance in both the low- and moderate-income tracts exceeds the demographics. The table on the following page depicts the lending practices of the bank during the evaluation period.

Table 7 – Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Small Business	4.3%	8.3%	16.2%	16.7%	49.0%	41.7%	30.5%	33.3%

Source: Business loan sample.

Geographic Distribution of Residential Real Estate Loans

The bank's dispersion for residential real estate loans is reasonable. Home purchase loans in low- and moderate-income tracts exceed the demographic information for the AA. Home improvement and refinance loans are comparable in the low-income tracts and slightly below demographics in the moderate-income tracts. The following table illustrates Anchor's geographic lending performance.

Table 8 - Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.7%	8.8%	14.8%	20.6%	52.4%	42.7%	31.1%	27.9%
Home Improvement	1.7%	1.9%	14.8%	7.7%	52.4%	46.2%	31.1%	44.2%
Refinance	1.7%	1.4%	14.8%	10.8%	52.4%	41.9%	31.1%	45.9%

Source: Data reported under HMDA; U.S. Census data.

Responses to Complaints

The bank has not received any CRA related complaints during the current evaluation period.

COMMUNITY DEVELOPMENT TEST

Anchor's performance under the Community Development (CD) Test is Outstanding. This performance demonstrates excellent responsiveness to the community development needs of its AA.

Number and Amount of Community Development Loans

The bank's performance in extending CD loans is excellent. During the evaluation period, Anchor had nine loans totaling over $13 million or 13.7% of the bank's Tier One Capital. Loans originated by affiliates with balances outstanding at the time of the merger are included in this total. These loans are for the purpose of affordable housing, economic development, and services for low- and moderate-income individuals.

Number and Amount of Qualified Investments

Anchor's level of qualified investments demonstrates an excellent responsiveness to the needs of the community. During the evaluation period, the bank invested in FNMA pools of mortgage loans to low- and moderate-income borrowers within the bank's AA and made numerous donations to organizations that provide affordable housing and community services for low- and moderate-income individuals.

Investments including donations attributed to the current evaluation totaled $11.7 million or 11.1% of the bank's Tier One Capital. This consists of 5 investments and 40 donations. An additional $9.6 million in current period and $1 million in prior period investments are attributed to affiliate activity. This includes 6 investments and 30 donations. Combined this activity is equal to 21.3% of Anchor's Tier One Capital.

Extent to Which the Bank Provides Community Development Services

The bank's participation in community development services is adequate. In addition to a full range of consumer and commercial banking products and services offered, ten bank employees were involved with organizations that work with business development, provide services to low- and moderate-income individuals, and provide affordable housing in the AA.

Anchor has 16 full-service locations with two branches located in moderate-income tracts and the main office located in a low-income tract in the city of St. Paul. Automated teller machines, internet banking, and telephone banking services are available to provide accessibility to all persons.

Responsiveness to Community Development Needs

As evident by the participation in community development loans, investments and services the bank has demonstrated excellent responsiveness to the identified AA needs of small business and affordable housing.

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.