



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 3, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Oakley National Bank of Buffalo
Charter Number 14311**

**910 Commercial Drive
Buffalo, MN 55313**

**Comptroller of the Currency
Minneapolis North Field Office
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:

The Oakley National Bank of Buffalo (Oakley NB) is rated Satisfactory.

- The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income levels) and businesses of different sizes.
- The bank's geographic distribution of loans throughout the assessment area is more than reasonable. Residential real estate, commercial, and commercial real estate loans are primarily originated in moderate-income geographies.
- The bank's quarterly net loan-to-deposit ratio is reasonable considering its size and the assessment area's credit needs.
- A substantial majority of loans were originated to borrowers within the assessment area.

DESCRIPTION OF INSTITUTION:

Oakley NB is a \$153 million bank headquartered in Buffalo, Minnesota. The bank operates two facilities, both of which are located in Buffalo, Minnesota. The main office and a deposit taking ATM are located at the intersection of Highways 55 and 25 with a separate branch located in the downtown area. Both facilities are located in moderate-income geographies. The bank also has three cash dispensing machines. Two of which are located in Buffalo and one is located in Corcoran, Minnesota (which is outside the bank's assessment area). There have been no changes to the bank's branch network since the prior CRA evaluation period.

The bank is owned by Klein Financial Inc., a nine-bank holding company with consolidated assets of \$1.2 billion headquartered in Chaska, Minnesota. In 2000, Klein Financial Inc. purchased Hometown Mortgage, a mortgage company. Mortgage loans originated by Hometown Mortgage did not impact the bank's CRA performance during the evaluation period. The holding company also operates a data center that provides data processing services to the bank.

As of September 30, 2003, Oakley NB's \$97 million loan portfolio was comprised of: \$51 million in commercial and commercial real estate loans (53%); \$34 million in residential real estate loans (36%); \$5 million in consumer loans (5%); \$5 million in construction loans (5%); and \$1 million in agricultural loans (1%). Since the number of Home Mortgage Disclosure Act loans and commercial loans originated were approximately the same, we considered commercial and residential real estate lending to be the bank's two primary products.

Oakley NB offers a full range of loan products including residential real estate, commercial, agricultural, and consumer loans. The bank also participates in government guaranteed or sponsored loan programs including the FHA, VA, Rural Development, Minnesota Department of

Agriculture Rural Finance Authority, and Small Business Administration.

Oakley NB offers a basic non-interest bearing checking account with no minimum balance requirement, no monthly service fee, free ATM card, free 24-hour telephone banking, and free online banking to access account. Customers can use the bank or its affiliate banks' offices in a total of sixteen locations to obtain the following services: checking and savings deposits and withdrawals; loan payments; and check cashing for checks drawn on the bank or its affiliate banks.

There are no legal, financial, or regulatory impediments limiting the bank's ability to meet the credit needs of its assessment area. Oakley NB was rated "Satisfactory" as of the prior CRA evaluation dated November 15, 1999.

DESCRIPTION OF ASSESSMENT AREA: Wright County

The bank's assessment area (AA) is located in the western portion of the Minneapolis/St. Paul Metropolitan Statistical Area #5120 (MSA). There are fourteen census tracts in the assessment area of Wright County. In the AA, six census tracts are designated as moderate-income and eight are designated as middle-income. No low- or upper-income census tracts are located in the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

Based on 1990 Census data, the population of the assessment area is 68,710. The Department of Housing and Urban Development's (HUD) 2002 Median Family Income for the MSA is \$76,700. The assessment area has less than 6% of families reporting income below the poverty level (less than 30% of the Median Family Income). The following table summarizes the income levels and geographic distribution of families located in the AA.

Income Distribution of Geographies and Families								
Wright County	Number of Census Tracts				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
	0	6	8	0	20%	25%	31%	24%

Major employers in the city of Buffalo include: the Buffalo Hospital, Super Wal-Mart, the Buffalo School District, and the Court House. The unemployment rate for Wright County is 5.1%, which falls between the state and national unemployment rates of 4.6% and 5.9%, respectively, as of October 2003.

Including Oakley NB, there are five financial institutions in Buffalo, Minnesota. The bank's primary competitors include: Wells Fargo Bank, N.A., First Federal FSB, Bankwest, and First Minnesota Bank, N.A.. Also, Wells Fargo operates a Home Mortgage office in Buffalo.

We did not identify any unmet credit needs in the AA through our contact with a trade

association. This contact indicated that Oakley NB is actively involved in the Buffalo community. Continued construction of affordable housing units was perceived to be a need in the community, along with an increase in commercial construction. Our contact also indicated that area banks are willing and able to provide financing to the community. Bank employees have been involved in many local organizations and are visible members of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA:

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

The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income levels) and businesses of different sizes. In the aggregate, Oakley NB originated 12% of the loans reported on its Home Mortgage Disclosure Act – Loan Application Register (HMDA-LAR) to low-income borrowers and 30% to moderate-income borrowers from January 1, 2000 through December 31, 2002. Lending to moderate-income borrowers reflects excellent dispersion, as the percentage of moderate-income families in the assessment area is 24.6%.

Between January 1, 2000 and December 31, 2002, the bank reported 548 originated or purchased loans totaling \$66.2 million within its assessment area on its HMDA-LAR. National bank examiners verified the accuracy of the HMDA-LAR prior to its use in the bank’s CRA evaluation.

Distribution of Home Purchase Loans					
Originated in 2000, 2001, and 2002 from HMDA-LAR data					
Income Category of Borrower	Number of Loans	Dollar of Loans (000s)	Percent by Number of Loans	Percent by Dollar of Loans	Percent of Families within the AA
Low-Income	18	1,408	9.94%	5.51%	20.10%
Moderate-Income	56	6,658	30.94%	26.05%	24.60%
Middle-Income	69	10,401	38.12%	40.69%	30.80%
Upper-Income	38	7,095	20.99%	27.76%	24.50%

Distribution of Home Improvement Loans					
Originated in 2000, 2001, and 2002 from HMDA-LAR data					
Income Category of Borrower	Number of Loans	Dollar of Loans (000s)	Percent by Number of Loans	Percent by Dollar of Loans	Percent of Families within the AA
Low-Income	10	148	20.83%	17.19%	20.10%
Moderate-Income	14	219	29.17%	25.44%	24.60%
Middle-Income	20	370	41.67%	42.97%	30.80%
Upper-Income	4	124	8.33%	14.40%	24.50%

Distribution of Refinanced Loans					
Originated in 2000, 2001, and 2002 from HMDA-LAR data					
Income Category of Borrower	Number of Loans	Dollar of Loans (000s)	Percent by Number of Loans	Percent by Dollar of Loans	Percent of Families within the AA
Low-Income	38	3,105	11.91%	7.80%	20.10%
Moderate-Income	94	9,855	29.47%	24.75%	24.60%
Middle-Income	120	14,483	37.62%	36.38%	30.80%
Upper-Income	67	12,369	21.00%	31.07%	24.50%

The distribution of loans to businesses of different revenue sizes is reasonable in comparison to 2002 demographics from Dun & Bradstreet given the bank's large lending capacity and nature of businesses requiring financing within the assessment area.

Distribution of Commercial Loans					
From a sample of loans originated from June 1, 2000 through December 31, 2002					
Annual Revenues of Businesses:	Number of Loans	Dollar of Loans (000s)	Percent by Number of Loans	Percent by Dollar of Loans	Percent of Businesses within the AA
Businesses:					
Revenues < \$1 million	14	964	70.00%	52.37%	92.97%
Revenues > \$1 million	6	877	30.00%	47.63%	7.03%

* Data is for reporting businesses only. In the assessment area, 28.92% of businesses did not report their revenue.

Geographic Distribution of Loans

The bank's geographic distribution of loans throughout the assessment area is more than reasonable. Residential real estate, commercial, and commercial real estate loans are primarily originated in moderate-income geographies.

Fifty-nine percent by number and 56% by dollar of residential real estate loans were originated to borrowers located in moderate-income geographies, while 41% by number and 44% by dollar were originated to borrowers located in middle-income geographies. The following table represents the overall geographic distribution of all residential real estate loans originated or purchased in the bank's assessment area and reported on the 2000, 2001, or 2002 HMDA-LAR.

Overall Geographic Distribution of Residential Real Estate Loans					
(all HMDA-reportable loans originated between January 1, 2000 and December 31, 2002)					
Income Level of Geography	Number of Loans	Percent by Number	Dollar (000s)	Percent by Dollar	Percent of Owner-Occupied Housing Units in Geography
Low-Income	0	0%	0	0%	0.0%
Moderate-Income	327	59%	37,843	56%	39.5%
Middle-Income	228	41%	29,599	44%	60.5%
Upper-Income	0	0%	0	0%	0.0%

The following three tables represent the geographic distribution of all residential real estate loans (home purchase, home improvement, and refinancings) originated or purchased in the bank's assessment area and reported on the 2000, 2001, or 2002 HMDA-LAR. Lending to moderate-income geographies exceeds the demographics for each loan type.

Geographic Distribution of Home Purchase Loans (originated between January 1, 2000 and December 31, 2002)					
Income Level of Geography	Number of Loans	Percent by Number	Dollar (000s)	Percent by Dollar	Percent of Owner-Occupied Housing Units in Geography
Low-Income	0	0%	0	0%	0.0%
Moderate-Income	112	62%	15,168	59%	39.5%
Middle-Income	69	38%	10,394	41%	60.5%
Upper-Income	0	0%	0	0%	0.0%

Geographic Distribution of Home Improvement Loans (originated between January 1, 2000 and December 31, 2002)					
Income Level of Geography	Number of Loans	Percent by Number	Dollar (000s)	Percent by Dollar	Percent of Owner-Occupied Housing Units in Geography
Low-Income	0	0%	0	0%	0.0%
Moderate-Income	31	65%	574	67%	39.5%
Middle-Income	17	35%	287	33%	60.5%
Upper-Income	0	0%	0	0%	0.0%

Geographic Distribution of Refinanced Loans (originated between January 1, 2000 and December 31, 2002)					
Income Level of Geography	Number of Loans	Percent by Number	Dollar (000s)	Percent by Dollar	Percent of Owner-Occupied Housing Units in Geography
Low-Income	0	0%	0	0%	0.0%
Moderate-Income	183	56%	21,776	54%	39.5%
Middle-Income	141	44%	18,534	46%	60.5%
Upper-Income	0	0%	0	0%	0.0%

Of the commercial loans sampled, 48% by number and 60% by dollar were originated to businesses located in moderate-income geographies, while 52% by number and 40% by dollar volume were originated to borrowers in middle-income geographies. The following table shows the overall geographic distribution of commercial loans sampled in the bank's assessment area.

Geographic Distribution of Commercial Loans (based on a sample of loans originated between August 1, 2001 and December 31, 2002)					
Income Level of Geography	Number of Loans	Percent by Number	Dollar (000s)	Percent by Dollar	Percent of Businesses in Geography
Low Income	0	0%	0	0%	0.0%
Moderate Income	10	48%	1,106	60%	36.5%
Middle Income	11	52%	734	40%	63.5%
Upper Income	0	0%	0	0%	0.0%

Loan-to-Deposit Ratio

The bank's quarterly net loan-to-deposit ratio is reasonable considering its size and the assessment area's credit needs. The bank's average quarterly net loan-to-deposit ratio is 75%. The quarterly net loan-to-deposit ratio has remained relatively stable and has ranged from 65%

to 89% between March 31, 2000 and September 30, 2003.

Oakley NB's quarterly net loan-to-deposit ratio is commensurate with other banks of similar size headquartered in the assessment area (with total assets between \$53 million and \$341 million). The average quarterly net-loan-to-deposit ratio for comparison banks is 79% and ranged from 58% to 107% during the 15 quarters from March 31, 2000, through September 31, 2003.

Lending in Assessment Area

Oakley NB originated a substantial majority of residential real estate and commercial loans to borrowers located in its assessment area. According to HMDA-LAR data from January 1, 2000 through December 31, 2002, 86% by number and 83% by dollar of residential real estate loans were originated to borrowers located in the assessment area. By analyzing samples of commercial loans, we determined that the majority of the loans originated were to borrowers located within the assessment area. Of the commercial and commercial real estate loans originated from June 30, 2000 to December 31, 2002, 84% by number and 62% by dollar volume were originated to borrowers located in the assessment area. The following table shows loans originated within the assessment area by number and dollar volume.

Lending Within the Assessment Area by Number and Dollar of Loans				
Type of Loan	Number of Loans	Percent by Number	Dollar of Loans (000s)	Percent by Dollars
Residential Real Estate				
Home Purchases	181	77.02%	25,562	72.62%
Home Improvements	48	92.31%	861	57.67%
Refinancing	319	91.53%	39,812	91.27%
Residential Real Estate Subtotal	548	86.31%	66,235	82.68%
Commercial and Commercial Real Estate	21	84.00%	1,840	62.23%
Total	569	86.23%	68,075	81.97%

Community Development Services

During 2002 and 2003, two bank employees were instructors for first-time homebuyer seminars sponsored by Wright County Community Action for the Home Stretch housing program offered by Minnesota Housing Finance Authority (MHFA). MHFA assists low- and moderate-income homebuyers with financing needs. Bank employees instructed during three seminars in 2002 and four seminars in 2003.

Responses to Complaints

Neither Oakley NB nor its regulatory agency has received complaints regarding the bank's CRA performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or illegal credit practices.