



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**October 14, 2003**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Community National Bank  
Charter Number 16929**

**5481 St. Croix Trail  
North Branch, MN 55056**

**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**

**This institution is rated Satisfactory.**

Community National Bank's has demonstrated solid performance in meeting the credit needs of its assessment area. This is best evidenced by:

- Excellent loan volume, as evidenced by a quarterly average net loan-to-deposit ratio that is strong when compared with other local banks of similar size.
- The origination of a substantial majority of its residential real estate and commercial loans to borrowers within its assessment area.
- An excellent distribution of loans in moderate-income geographies.
- A reasonable distribution of loans to businesses of different sizes, specifically small businesses, and a strong distribution of loans to borrowers of different incomes, specially low- and moderate-income.

## **DESCRIPTION OF INSTITUTION**

Community National Bank (CNB) is a \$104 million community bank located in North Branch, Minnesota. In addition to the main office in North Branch, the bank operates full-service branch locations in Lino Lakes, Minnesota and Vadnais Heights, Minnesota. CNB does not operate any deposit-taking automated teller machines (ATMs).

CNB is 100 percent owned by Community Investment Services, Incorporated, a one-bank holding company.

CNB's primary lending focus continues to be residential real estate and commercial lending. As of June 30, 2003, CNB's \$95 million loan portfolio was comprised of: \$46 million in commercial and commercial real estate loans (49%), \$20 million in residential real estate loans (21%), \$20 million in construction loans (21%), \$3 million in consumer loans (3%), \$3 million in agricultural loans (3%), and \$3 million in other loans (3%). Total net loans represent 84% of total assets. For purposes of this evaluation, we considered residential real estate and commercial loans to be the primary product lines.

There are no legal, financial, or regulatory impediments limiting the bank's ability to meet the credit needs of its assessment area. CNB was rated "Satisfactory" as of the prior CRA evaluation dated April 19, 1999.

## **DESCRIPTION OF THE ASSESSMENT AREA**

CNB's assessment area (AA) is located in the northern portion of the Minneapolis/St. Paul Metropolitan Statistical Area #5120 (MSA). There are 531 census tracts in the AA, consisting of all census tracts in Anoka, Chisago, Hennepin, Isanti, Ramsey, and Washington counties. In the AA, 52 census tracts are designated as low-income, 93 are designated as moderate-income, 277 are middle-income, and 109 are upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

According to 1990 U.S. Census Data, the total population for the assessment area is 1,964,175 persons. Approximately 94% of the housing units in the AA are occupied, with 63% being owner occupied. The 1990 Census Data indicates a median housing value of \$92,303. However, housing values in the area have risen considerably, resulting in an updated median value of approximately \$150,000. The 1990 Census Data reported a Median Family Income for the MSA of \$43,063, while the updated Department of Housing and Urban Development's (HUD) 2002 Median Family Income for the MSA is \$76,700. The AA has 8% of families reporting income below the poverty level (less than 30% of the Median Family Income). The following table summarizes the income levels of individual census tracts and families located within the bank's assessment area:

<b>Income Distribution of Geographies and Families</b>							
Number of Census Tracts				Percentage of Families by Income Level			
Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
52	93	277	109	17%	19%	27%	37%

Source: U.S. Census Data (1990)

Competition for loans and deposits in the AA is strong as many large and community banks, credit unions, savings institutions, and mortgage companies maintain main and/or branch offices within the AA. Due to the size of the AA, it is more meaningful to discuss competition in geographic proximity to CNB's main office and branch locations. Competition in these areas is still strong, with several financial institutions nearby.

Major employers in the AA are too numerous to mention as virtually every sector of the economy is represented. Major employers in the city of North Branch include: Independent School District (480 employed), Tanger Outlet center (400), Green Acres nursing home (172), and Nelson's Supermarket (110). Andersen Window Corporation just recently announced plans to open a manufacturing plant in North Branch that will initially employ 135 people. The average unemployment rate for the six counties in the AA is 4.5%, which is slightly higher than the state of Minnesota average of 4.1%, yet significantly below the national average of 5.6%.

As part of this examination, examiners contacted a City of North Branch official to gain additional information on the community and the bank's performance. According to the contact, the primary credit needs for the community continue to be consumer, residential real estate, and small business loans. He estimates that larger commercial and industrial loans are also becoming more prevalent as the city's industrial park grows. Our contact did not identify any unmet credit needs in the community. It was our contact's opinion that local financial institutions were demonstrating excellent performance in meeting the credit needs of the community.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

CNB's net loan-to-deposit ratio is excellent given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 105.29 percent over the 18 quarters from March 31, 1999 to June 30, 2003.

CNB's net loan-to-deposit ratio is strong when compared with other community banks of similar size (with total assets between \$75 and \$115 million) in the assessment area. CNB ranks first among a total of seven similarly situated banks chartered in the assessment area. The average quarterly net loan-to-deposit ratio for comparison banks is 80 percent and ranged from 54 percent to 91 percent over the same 18 quarters from March 31, 1999 to June 30, 2003.

## Lending in Assessment Area

CNB 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, 1999 through December 31, 2002, 94 percent by both number and dollar volume of residential real estate loans were originated to borrowers located in the assessment area. By analyzing a sample of commercial and commercial real estate loans, we determined that a majority of the loans originated were to borrowers located in the assessment area. Of the commercial and commercial real estate loans originated from January 1, 1999 to December 31, 2002, 87 percent by number and 81 percent by dollar volume were originated to borrowers in the assessment area. The following table shows loans originated inside the assessment area by number and dollar volume:

<b>Lending in the Assessment Area by Number and Dollar Amount (000s)</b>				
Type of Loan	Number of Loans	Percent by Number	Dollar of Loans (000s)	Percent of Dollars
<i>Home Purchase</i>	74	95%	\$8,534	93%
<i>Home Refinance</i>	29	97%	\$3,270	96%
<i>Home Improvement</i>	44	92%	\$796	93%
<b>Residential Real Estate Subtotal</b>	<b>147</b>	<b>94%</b>	<b>\$12,600</b>	<b>94%</b>
<b>Commercial and Commercial Real Estate</b>	<b>26</b>	<b>87%</b>	<b>\$5,531</b>	<b>81%</b>
<b>Total</b>	<b>173</b>	<b>93%</b>	<b>\$18,131</b>	<b>90%</b>

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

## Geographic Distribution of Loans

CNB's geographic distribution of loans throughout the assessment area is reasonable. Given the size of the AA, it is not practical to expect lending penetration in all census tracts. However, the bank is lending in a reasonable number of tracts. Examiners reviewed HMDA-LAR data from 1999, 2000, 2001, and 2002 and sampled twenty-two commercial loans to borrowers in the bank's assessment area that were originated between January 1, 2000 and December 31, 2002.

The geographic distribution of commercial loans throughout the assessment area represents excellent performance. Commercial lending in the moderate-income census tracts is particularly strong, where 18 percent by number and 42 percent by dollar volume of loans were originated to businesses located in moderate-income census tracts compared to the business demographic of 10 percent of businesses in the assessment area located in moderate-income census tracts. The following table details the overall geographic distribution of commercial loans sampled:

<b>Geographic Distribution of Commercial Loans by Income Level</b>					
CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Businesses by CT Category
Low	1	5%	\$300	6%	6%
Moderate	4	18%	\$2,075	42%	10%
Middle	17	77%	\$2,533	52%	56%
Upper	0	0%	\$0	0%	28%
Total	22	100%	\$4,908	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

The geographic distribution of residential real estate loans throughout the assessment area is also excellent, specifically with regard to lending in moderate-income census tracts. Examiners reviewed all loans reported on the bank's HMDA-LAR during the examination period. The following tables detail the geographic distribution of residential real estate loans by product type and total:

<b>Geographic Distribution of Home Improvement Loans by Income Level</b>					
CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	2%
Moderate	10	23%	\$147	18%	12%
Middle	34	77%	\$649	82%	61%
Upper	0	0%	\$0	0%	25%
Total	44	100%	\$796	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

<b>Geographic Distribution of Home Purchase Loans by Income Level</b>
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CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	2%
Moderate	14	19%	\$1,522	18%	12%
Middle	57	77%	\$6,789	79%	61%
Upper	3	4%	\$223	3%	25%
Total	74	100%	\$8,534	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

<b>Geographic Distribution of Home Refinance Loans by Income Level</b>					
CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	2%
Moderate	8	28%	\$708	22%	12%
Middle	19	65%	\$2,234	68%	61%
Upper	2	7%	\$328	10%	25%
Total	29	100%	\$3,270	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

<b>Geographic Distribution of Total Residential Real Estate Loans (Home Purchase, Home Improvement, Home Refinance) by Income Level</b>
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CT Income Level	Number	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Owner-Occupied Homes by Tract Category
Low	0	0%	\$0	0%	2%
Moderate	32	22%	\$2,377	19%	12%
Middle	110	75%	\$9,672	77%	61%
Upper	5	3%	\$551	4%	25%
Total	147	100%	\$12,600	100%	100%

Source: HMDA LAR bank records (verified by examiners) and U.S. Census Demographic Data (1990)

The lack of residential real estate lending penetration in the low-income census tracts is due to the few number of homes in those census tracts and the geographic distance of those census tracts from the bank's main office and branches.

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

CNB's distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable, particularly when considering its primary product lines of residential real estate and commercial lending.

The distribution of commercial loans to businesses of different revenue sizes is reasonable. Based on the sample of 22 loans, CNB originated 55 percent by number and 57 percent by dollar volume of its commercial loans to businesses with annual revenues less than \$1 million. This is compared to 2002 assessment area demographics of 90 percent of reporting businesses having annual revenues less than \$1 million. The following table compares the bank's commercial lending activity by borrower revenue size to community demographics:

<b>Borrower Distribution of Commercial Loans by Revenue Size</b>					
Gross Annual Revenue (000s)	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Business Demographic Data
Revenues <\$50	1	5%	\$400	8%	

Revenues \$50-\$100	1	5%	\$200	4%	
Revenues \$100-\$250	4	18%	\$223	5%	
Revenues \$250-\$500	3	14%	\$305	6%	
Revenues \$500-\$1,000	3	14%	\$1,642	34%	
Total Revenues <\$1,000	12	55%	\$2,781	57%	90%
Total Revenues >\$1,000	10	45%	\$2,128	43%	10%
Total	22	100%	\$4,909	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

*\*Note: Business demographic data is for reporting companies only. 37% of businesses did not report their revenue.*

While the bank's lending performance does not meet community demographics, this is mitigated by the size of the assessment area and the bank's locations within the AA. Many of the small businesses in the AA are located in Hennepin County, where the bank does not have a significant presence in relation to competition. Furthermore, it was noted during discussions with bank management that the bank attempts to attract commercial and industrial businesses that are either starting up or relocating to the community's industrial parks. These businesses generally have annual revenues in excess of \$1 million but contribute to the economic development of the community by providing jobs and other community benefits. Also, it is noted that the business demographic data is for reporting companies only. The data is possibly skewed because in the assessment area, 37 percent of businesses did not report their revenue.

CNB's distribution of home purchase, improvement, and refinance loans to borrowers of different income levels reflects strong performance. In the aggregate, the bank originated 15 percent by number and 10 percent by dollar volume of its residential real estate loans to low-income borrowers. In addition, 26 percent by number and 25 percent by dollar volume of residential real estate loans were originated to moderate-income borrowers. Assessment area demographics reveal that 17 percent and 19 percent of the families are categorized as low- and moderate-income, respectively. The following tables detail the bank's performance of residential real estate lending to low- and moderate-income borrowers by product type and total:

<b>Borrower Distribution of Home Improvement Loans by Income Level</b>					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	5	12%	\$62	8%	17%
Moderate	12	28%	\$132	17%	19%

Middle	18	42%	\$355	45%	27%
Upper	8	18%	\$237	30%	37%
Total	43	100%	\$786	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

<b>Borrower Distribution of Home Purchase Loans by Income Level</b>					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	9	13%	\$561	7%	17%
Moderate	17	25%	\$1,901	24%	19%
Middle	15	22%	\$1,602	20%	27%
Upper	28	40%	\$3,929	49%	37%
Total	69	100%	\$7,993	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

<b>Borrower Distribution of Home Refinance Loans by Income Level</b>					
Borrower Income Level	Number of Loans	Percent of Number	Dollar Amount (000s)	Percent of Amount	Percent of Families in Assessment Area
Low	7	25%	\$512	16%	17%
Moderate	8	29%	\$935	30%	19%
Middle	6	21%	\$570	18%	27%
Upper	7	25%	\$1,149	36%	37%
Total	28	100%	\$3,166	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

<b>Borrower Distribution of All Residential Real Estate Loans (Home Purchase, Home Improvement, Home Refinance) by Income Level</b>					
<b>Borrower Income Level</b>	<b>Number of Loans</b>	<b>Percent of Number</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Amount</b>	<b>Percent of Families in Assessment Area</b>
Low	21	15%	\$1,135	10%	17%
Moderate	37	26%	\$2,968	25%	19%
Middle	39	28%	\$2,527	21%	27%
Upper	43	31%	\$5,315	44%	37%
Total	140	100%	\$11,945	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

### **Responses to Complaints**

Neither Community National Bank nor its regulatory agency has received complaints regarding the bank's CRA performance since the last CRA evaluation.

### **Fair Lending or Other Illegal Credit Practices Review**

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