



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 4, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank
Charter Number 23351

422 Commercial Street
Waterloo, Iowa 50701

Office of the Comptroller of the Currency
Des Moines Field Office
5550 Wild Rose Lane Suite 400
West Des Moines, IA 50266

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.

Community National Bank (CNB) does an outstanding job of meeting the needs of its assessment areas (AAs).

- The bank's lending level is reasonable given the institution's size, financial condition, and the AAs' credit needs.
- A majority of the bank's loans are originated within its AAs.
- Lending to businesses of different sizes is reasonable.
- The geographic distribution of loans reflects excellent dispersion throughout the Black Hawk AA.
- CNB's community development activities demonstrate excellent responsiveness to the community development needs in its AAs and enhance the bank's overall rating.

SCOPE OF EXAMINATION

CNB was evaluated under the small bank examination procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its two AAs through its lending activities.

The evaluation period for this examination is from January 26, 2008 to June 4, 2012. The lending test for CNB covers its performance from January 1, 2010 through December 31, 2011, as this period is representative of the bank's lending strategy since the previous Community Reinvestment Act (CRA) examination.

CNB's primary loan product is business loans. To evaluate CNB's performance under the lending test, we selected a random sample of 20 business loans originated between January 1, 2010 and December 31, 2011. Our conclusions are based on this sample.

The Black Hawk County AA carried the most weight in assigning the overall ratings for the bank. This AA contains the majority of CNB's branches, 70 percent of the bank's deposits, and 86 percent of the bank's business loan originations for the evaluation period.

DESCRIPTION OF INSTITUTION

CNB is a \$228 million bank located in Waterloo, Iowa. The bank is 100 percent owned by Community National Bancorporation, a two-bank holding company. The bank's home office is located in downtown Waterloo, Iowa. CNB operates five full-service branches located in Waterloo, Cedar Falls, and Mason City, Iowa. The bank also

operates seven deposit-taking automated teller machines (ATMs) and two cash-dispensing ATMs located throughout Black Hawk and Cerro Gordo Counties. One branch has closed since our previous CRA examination. There have not been any significant changes to CNB’s corporate structure, including merger or acquisition activities, since the previous CRA examination.

CNB offers a full range of deposit and loan products and services including checking, savings, and certificates of deposit. CNB’s primary lending focus is commercial loans. As of December 31, 2011, CNB reported total loans of \$156 million and has a net loans and leases to total assets ratio of 67 percent. The following chart provides a breakdown of CNB’s lending products during the evaluation period.

Loan Type	% by Dollars of Loans Originated/Purchased During Evaluation Period	% by Number of Loans Originated/Purchased During Evaluation Period
Business Loans	90%	65%
Consumer Loans	3%	28%
Farm Loans	6%	6%
Home Loans	1%	1%
Total	100%	100%

There are no legal or financial impediments to CNB’s ability meet the credit needs of its AAs. The bank was rated Satisfactory at the previous CRA examination dated January 25, 2008 under the Intermediate Small Bank procedures. This examination was completed under the Small Bank CRA procedures.

DESCRIPTION OF ASSESSMENT AREAS

CNB has two AAs: the Black Hawk County AA and the Cerro Gordo County AA.

Black Hawk County AA

The Black Hawk County AA includes all of Black Hawk County and is part of the Waterloo-Cedar Falls Metropolitan Statistical Area (MSA). Black Hawk County is located in northeastern Iowa. The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Based on 2000 census data, there are two (5 percent) census tracts (CTs) designated as low-income, 12 (33 percent) designated as moderate-income, 16 (43 percent) designated as middle-income, and seven (19 percent) designated as upper-income. The low- and moderate-income CTs are located in the center of Blackhawk County. Individuals can refer to the bank’s CRA Public File for a map outlining the AA.

According to the 2000 United States Census data, the total population of the AA is 128,012. Approximately 18 percent of families residing in the AA are low-income, 21

percent moderate-income, 23 percent middle-income, and 38 percent upper-income; 13 percent of the AA households are below the poverty level. The weighted average median family income for the Waterloo-Cedar Falls MSA is \$62,100. The median weighted average of house values in the AA is \$77,995, and 66 percent of housing is owner occupied.

The local economy is stable. The unemployment rate is low at 3 percent and is less than the 5 percent unemployment rate for the state of Iowa. Local hospitals, two manufacturing plants, and the local university are the largest employment sources in the area. There are four other similarly situated financial institutions within the AA. CNB ranks second amongst these financial institutions in the percentage of deposits in the market. There are also several other larger financial institutions with branches in the community.

We conducted one community contact with a local organization. This contact revealed that local banks are supportive of downtown revitalization and business recruitment, and officers are active in the community. The contact indicated the banks in the AA meet the credit needs of the community.

Cerro Gordo County AA

The Cerro Gordo County assessment area includes all ten CTs in Cerro Gordo County. All the CTs are designated middle-income. The Cerro Gordo County AA meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

According to the 2000 United States Census data, the total population of the AA is 46,447. Approximately 17 percent of families residing in the AA are low-income, 18 percent moderate-income, 24 percent middle-income, and 41 percent upper-income; 9 percent of the AA households are below the poverty level. The weighted average median family income is \$58,500 for non-metropolitan statistical areas in Iowa. The median weighted average of house values in the AA is \$78,103, and 65 percent of housing is owner occupied.

The local economy is stable. The unemployment rate is low at 3 percent and is less than the 5 percent unemployment rate for the state of Iowa. The local hospital, two manufacturing plants, and a financial company are the largest employment sources in the area. There are three other similarly situated financial institutions within the AA. CNB ranks fourth amongst these financial institutions in the percentage of deposits in the market. There are also several other larger financial institutions with branches in the community.

We conducted one community contact with a local organization. The contact indicated the need for senior housing in the area. The contact indicated the banks in the AA meet the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's lending level is reasonable given the bank's size, financial condition, and the AA credit needs. CNB's loan-to-deposit (LTD) ratio as of December 31, 2011 was 80 percent. Over the last 17 quarters ending December 31, 2011, the bank's average LTD ratio was 89 percent. The average LTD ratio for the seven other financial institutions headquartered within the bank's AA was 86 percent.

Lending in Assessment Area

CNB originates a majority of its loans within its AA. We reviewed a sample of 20 business loans, originated between January 1, 2010 and December 31, 2011, to determine the bank's lending performance within its AA. We identified 14 loans, or 70 percent of business loans reviewed were originated within the bank's AA. Only 29 percent of the dollar volume of business loans was originated within the AA. However, the dollar volume of loans was significantly skewed as a result of three large loans originated outside of the AA and is not representative of the bank's lending within its AA. The table below depicts the level of lending in and out of the bank's AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(000s)		(000s)		(000s)
Business Loans	14	70%	6	30%	20	\$2,258	29%	\$5,661	71%	\$7,919

Source: Bank Reports.

Lending to Businesses of Different Sizes

The overall distribution of loans reflects reasonable penetration among businesses of different sizes.

Performance in the Black Hawk County AA

CNB has a reasonable record of lending to businesses of different sizes in the Black Hawk County AA. We reviewed a sample of 20 business loans to determine the bank's lending to businesses of different sizes. All the loans in this sample were located within the Black Hawk County AA and were originated between January 1, 2010 and December 31, 2011.

CNB originated 55 percent by number and 55 percent by dollar volume to business operations with gross annual revenues less than \$1 million. The bank's lending reasonably compares to demographic information, which shows 66 percent of the AA businesses with gross annual revenues less than \$1 million. There is a high percentage

of businesses that did not report revenues. The following table shows the breakdown of loans to businesses of different sizes compared to AA demographics:

Borrower Distribution of Loans to Business in Blackhawk County AA				
Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	66%	4%	30%	100%
% of Bank Loans in AA by #	55%	45%		100%
% of Bank Loans in AA by \$	55%	45%		100%

Source: Bank Reports; 2011 geodemographic data.

Performance in the Cerro Gordo County AA

CNB has an excellent record of lending to businesses of different sizes in the Cerro Gordo County AA. We reviewed a sample of 20 business loans to determine the bank’s lending to businesses of different sizes. All the loans in this sample were located within the Cerro Gordo County AA and were originated between January 1, 2010 and December 31, 2011.

CNB originated 95 percent by number and 97 percent by dollar volume to business operations with gross annual revenues less than \$1 million. The bank’s lending to those small businesses exceeds the AA demographics, which shows 68 percent of AA businesses with gross annual revenues less than \$1 million. The following table shows the breakdown of loans to businesses of different sizes compared to AA demographics:

Borrower Distribution of Loans to Business in Cerro Gordo County AA				
Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	68%	4%	28%	100%
% of Bank Loans in AA by #	95%	5%		100%
% of Bank Loans in AA by \$	97%	3%		100%

Source: Bank Reports; 2011 geodemographic data.

Geographic Distribution of Loans

The geographic dispersion of loans reflects excellent dispersion throughout the AA.

Performance in the Black Hawk County AA

The geographic distribution of business loans reflects excellent dispersion throughout the AA. We reviewed 20 business loans to determine if the bank is lending to customers within different income CTs. All of the loans in the sample were within the AA and were originated between January 1, 2010 and December 31, 2011.

The volume of loans to customers in the low- and moderate-income CTs exceeds the AA demographics. CNB originated 35 percent of business loans in the low-income CTs

and 15 percent in the moderate-income CTs compared to 10 percent of AA businesses located in the low-income CTs and 18 percent of AA businesses located in the moderate-income CTs. The following table shows the breakdown of loans as compared to AA demographics:

Geographic Distribution of Loans to Businesses in Black Hawk County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	10%	35%	18%	15%	48%	45%	24%	5%

Source: Bank Reports; 2011 geodemographic data.

Performance in the Cerro Gordo County AA

The geographic distribution of business loans does not provide a meaningful analysis since the AA contains no low- or moderate-income CTs.

Qualified Investments and CD Services (Optional)

CNB’s community development activities demonstrate excellent responsiveness to the community development needs in its AAs and enhance the bank’s overall rating.

CNB provided the AAs with 42 investments totaling \$128 thousand during the evaluation period. Twenty-nine of CNB’s investments, totaling \$16 thousand, supported service organizations targeted to low- and moderate-income (LMI) individuals and thirteen of the investments, totaling \$112 thousand, supported economic development organizations in Black Hawk and Cerro Gordo Counties.

CNB originated eight community development loans totaling \$8.1 million within the AA during the evaluation period. Five loans, totaling \$6.1 million, were granted to four organizations located in Waterloo’s urban revitalization area. The loans funded the construction and rehabilitation of property located in downtown Waterloo. These loans allowed the businesses to help revitalize and stabilize the area, and create permanent job retention in a low-income area targeted for redevelopment by the City of Waterloo.

Finally, through its employees, CNB is involved in 53 community development services. A majority of the community development services are centered in various economic development corporations, such as Greater Cedar Valley Alliance and local Chambers of Commerce. Employees also provide their financial expertise to organizations that provide services for LMI individuals, such as the Salvation Army and Goodwill.

Responses to Complaints

CNB has not received any CRA-related complaints since the previous CRA examination.

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.