



Comptroller of the Currency
Administrator of National Banks

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PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

June 30, 1997

**Community First National Bank
120 North Mill
Fergus Falls, Minnesota 56637**

CHARTER NUMBER 2030

NOTE: 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.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Community First National Bank, Fergus Falls, Minnesota** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **June 30, 1997**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics. This includes the competitive environment in which the institution operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Metropolitan Statistical Area (MSA) - Area consisting of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas within a MSA. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Median Family Income - The median income determined by the United States Census Bureau. This amount is based on estimates developed by the Department of Housing and Urban Development and is updated annually.

Low- and Moderate Income (LMI) - Income levels which are less than 80% of the median family income.

Community Reinvestment Act (CRA) - The statute that requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs in the institution's local community. The regulator must also evaluate whether the institutions's defined community is reasonable. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2901, as amended and 12 C.F.R. 25, as amended.)

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of applicant(s), the amount of loan requested and its disposition (e.g. made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase and home improvement loans, refinancing of home purchase and home improvement loans and loans for the purchase of multi-family (5 or more units) dwellings. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2801, as amended and 12 C.F.R. 203, as amended.)

CFNB - Community First National Bank, Fargo, North Dakota.

CFBI - Community First Bankshares, Inc. is the parent company of CFNB.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

BANK PROFILE

Community First National Bank (CFNB), Fergus Falls, MN. is a wholly owned subsidiary of Community First Bankshares, Inc. (CFBI), a multi-bank holding company headquartered in Fargo, North Dakota. CFBI's subsidiary companies provide banking, insurance, and other financial services in seven Midwestern states.

As of March 31, 1997, CFNB reported total assets of \$746 million and its loan to deposit ratio was 85%. The bank's loan portfolio includes: individual loans, 23%; commercial and agricultural loans, 39%; residential real estate, 37%; and, other loans, 1%. CFNB offers a full range of commercial, agricultural, real estate, and consumer loans, in addition to deposit, trust, and nondeposit investment services in four markets in west central Minnesota.

COMMUNITY PROFILE

The bank's delineated communities consist of 17 markets located in 17 counties in Minnesota and one county in North Dakota. The delineated communities include five CTs and 77 BNAs. The economies are stable and are supported by light industry, agriculture, retail and tourism. Our Evaluation focuses on the following three delineated communities:

Fergus Falls, MN:

This delineated community has a population of 50,700 and is located in Otter Tail County. The community includes 17 BNAs of which two are designated as moderate income, 14 middle income, and one upper income. The 1997 statewide nonMSA Median Family Income for Minnesota is \$38,400.

Paynesville, MN

This delineated community is located in Stearns County and includes a portion of the St. Cloud MN. MSA. The community contains five middle income CTs and has a population of 20,806. The HUD 1997 estimate of MSA Median Family Income is \$43,300.

Little Falls, MN:

This community includes all of Morrison County and has a population of 29,600. The community contains eight BNAs of which one is designated moderate income and seven are middle income.

REASONABLENESS OF DELINEATED COMMUNITY

The bank's delineated communities are reasonable and do not arbitrarily exclude any LMI areas. The current delineations use existing geographic and political boundaries. Refer to the bank's CRA Statement for a detailed description of its delineated communities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated: "**Satisfactory Record of Meeting Community Credit Needs**". This evaluation period covers January 1, 1995 through June 30, 1997. The following are strengths of CFNB's CRA performance.

- CFNB originated a reasonable volume of home purchase and home improvement loans.
- CFNB provided a good number of small businesses and small farms loans.
- CFNB made a significant investment in a community development project within the Fergus Falls delineated community.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community. This includes the institution's efforts to communicate to community members the credit services provided by the institution.

Management adequately ascertains the credit needs of the bank's delineated communities.

CFNB's outreach activity includes direct contact with individuals, small business and small farm owners and community group leaders. Senior managers and loan officers conduct periodic meetings with local government officials to gain additional input on community credit needs. These contacts allow the bank to receive information on community credit needs and to establish working relationships to address these needs.

Through ascertainment efforts, management identified several credit needs within its community. Our contacts with community group representatives and local government officials confirmed these needs. These include:

- Loans to small businesses;
- Down payment assistance for prospective low income home buyers; and
- Economic development and redevelopment.

CFNB offers a variety of conventional loan products which are reasonably suited to meet the communities' identified credit needs. Refer to the bank's CRA Statement for a list of products offered and Assessment Factor I for originations.

Assessment Factor C - The extent of participation by the institution's Board in formulating the institution's policies and reviewing its performance with respect to the purpose of the Community Reinvestment Act.

The Board and senior management have an effective system for organizing and evaluating the CRA program.

The Board of Directors, community board members and senior management discuss CRA activities at board meetings. CRA-related activities are pursued and implemented through the community contacts described in Assessment Factor A. Each branch office prepares a formal business plan which incorporates identified community credit needs.

The bank uses a CRA "Check-up" process to assess its effectiveness at meeting identified credit needs. In addition, the process ensures that information on credit needs is regularly analyzed and addressed.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED:

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

CFNB's marketing and promotional efforts reach all segments of its delineated communities.

CFNB uses a variety of advertising media to promote its products and services. These include local newspapers, radio, television, free shopper and home buyer publications, brochures and bank lobby displays and community events. Bank advertisements primarily promote CFNB as a local full-service bank. Periodically, CFNB promotes credit programs that target specific identified needs such as the flood assistance program.

Bank personnel participate in local home and trade shows, assisting potential customers in understanding and applying for credit. Residential real estate lenders ensure real estate agents stay informed of available bank lending products and state sponsored home buying programs.

Lenders also participate in financial seminars to educate various groups. CFNB's loan officer call programs serve as an additional marketing resource.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

CFNB originates a reasonable number of home purchase, small business and small farm loans.

CFNB addressed the need for housing related, small business, and small farm loans within its delineated communities. Because the Paynesville delineated community is inside the St. Cloud MSA, the bank's loan originating within that market are reported under the HMDA. In 1995, CFNB ranked fourth among 119 lenders in the number of total HMDA originations with a 4% market share. The highest ranked lender originated 13% of the market's HMDA loans. Also, the bank increased its volume of home improvement and refinance loan originations from 1995 to 1996.

The following table summarizes the total number and dollar volume of CFNB's HMDA-reportable loans originated within the St. Cloud MSA during calendar years 1995 and 1996. The home purchase loan category includes governmentally-insured and conventional loans.

HMDA Originations	1995		1996	
	#	\$(000s)	#	\$(000s)
Home Purchase	90	5,462	76	5,362
Home Improvement	50	933	37	673
Refinance	31	1,170	76	4,294
Multifamily	1	95	0	0
Total Originations	172	7,660	189	10,329

NON-HMDA AREAS

The bank has done a good job of originating home purchase and refinance loans in its non-HMDA markets. The Fergus Falls, Minnesota and Little Falls, Minnesota delineated communities are not in MSAs; therefore we do not have HMDA data on housing related loans for those markets. However, CFNB internally tracks its volume of residential real estate loans in these markets.

In 1995, CFNB originated 291 home purchase and refinance loans totaling \$15.4 million in the Fergus Falls market. The bank's volume dropped slightly in 1996 with 238 loans totaling \$14.2 million.

In the Little Falls delineated community, CFNB originated 73 home purchase and refinance loans for \$5.1 million in 1995. In 1996, CFNB's volume dropped to 57 home purchase and refinance loans totaling \$3.7 million. The decline in the bank's volume of home purchase loans was primarily attributable to changes in lending personnel.

CFNB also demonstrated responsiveness to small business and small farm credit needs. In 1996, CFNB began formally collecting small business and small farm loan data to comply with requirements under the revised CRA. The new CRA defines small businesses and small farms as firms with revenue of \$1 million or less. Also, the CRA correlates loan size with business or farm size. Therefore loans originating in amounts less than \$1 million are also considered small business loans and loans originating in amounts less than \$500,000 are considered small farm loans.

The following table summarizes the total number and dollar volume of small business loans and small farm loans originated by CFNB during 1996.

	Fergus Falls		Little Falls		Paynesville	
	#	\$(000)	#	\$(000)	#	\$(000)
Small Business	643	22,435	326	10,438	248	6,503
Small Farm	78	3,381	86	4,590	240	4,237
Total	721	25,816	412	15,028	488	10,740

The bank makes a majority of its loans within its community. In 1995, CFNB originated 89% of its HMDA reportable loans within its Paynesville delineated community.

Assessment Factor J - The institution's participation in government-insured, guaranteed or subsidized loan programs for housing, small businesses or small farms.

CFNB participates in governmentally-insured, guaranteed, and subsidized loan programs.

The bank offers Federal Housing Authority (FHA) guaranteed loans for home purchases. In addition, the bank participates in Small Business Administration (SBA) guaranteed loan programs as well as programs sponsored by the Minnesota Housing Finance Agency.

In the Paynesville delineated community, CFNB originated 18 federally-guaranteed home purchase loans for \$1,038,000 in 1995. The bank ranked twelfth among 32 lenders in the number of government sponsored home purchase loans originated within its Paynesville delineated community. In 1996, CFNB's loan volume improved to 28 loans totaling \$1.6 million. Market share data for 1996 is not yet available.

In 1996, CFNB originated 16 government-guaranteed home purchase loans for \$939,118 within the Little Falls delineated community compared to 9 loans for \$438,160 in 1995. Information on the volume of government guaranteed lending in the Fergus Falls delineation was not available.

CFNB originates loans to small businesses using Small Business Administration (SBA) loan programs. These loans are included in the total volume for small business loans under Assessment Factor I.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The bank had a reasonable distribution of loans throughout its delineated community, including loans in LMI areas and to LMI applicants.

The distribution of CFNB's HMDA loans to borrowers of different incomes was reasonable. For 1995, the bank's HMDA lending to borrowers of different income levels within the Paynesville delineation was consistent with the market average.

The following table shows (by number) the percentage of the bank's total HMDA lending by borrower income level and the 1995 market average for HMDA loans within the Paynesville delineated community.

Distribution by borrower income			
	1995 Market Average	CFNB (95- HMDA)	CFNB (96- HMDA)
LMI	34%	28%	30%
Middle Income	33%	44%	37%
Upper Income	33%	28%	33%

Market information is not available for 1996 HMDA lending.

All of the CTs within the Paynesville delineation are middle income, therefore a geographic analysis of the HMDA loan distribution by CT income would not be meaningful.

Presently, the bank does not perform a geographic analysis of loan originations in the Fergus Falls and Little Falls, Minnesota delineated communities. However, loans originating in those delineated communities will be included in the bank's HMDA reports going forward.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Bank offices are reasonably accessible to all segments of its communities.

CFNB is a full-service financial institution which operates 22 banking offices and 19 automated teller machines (ATMs) in twenty communities throughout Minnesota. The ATMs are located in banking offices, grocery stores, a convenience store, college campus, and drive-up facilities.

CFNB closed its branch location in Campbell, Minnesota and donated the building to the city government. A full-service branch remains in Breckenridge, Minnesota which is 16 miles from Campbell.

Management periodically reviews business hours and services to ensure they meet local needs. Although branches do not offer evening or weekend hours, an automated phone banking system offers customers 24 hour access to deposit accounts.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

We did not identify any practices which discourage applicants from applying for credit.

The bank is in compliance with applicable fair lending laws and regulations. The Board and management have adopted policies and procedures to prevent discriminatory lending practices. Employees received regular and comprehensive fair lending training. In addition, CFNB has a second review program for potential denied home purchase and home improvement loan applications to ensure underwriting guidelines are consistently applied.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations.

We did not find any instances in which the bank denied credit based on an applicant's race or gender. We completed an analysis of residential real estate loan applications to determine whether applicants with comparable qualifications received similar treatment.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

CFNB is generally aware of and participates in community development and redevelopment programs within its communities.

Loans and investments must have community development as the *primary purpose* to receive consideration under the CRA. A community development purpose includes: affordable housing projects and programs for LMI persons or communities; financial services targeted toward LMI persons or communities; activities that promote economic development for LMI persons or communities by financing small businesses or farms; and projects that revitalize or stabilize the economy of LMI communities.

During this evaluation period, CFNB participated in the following community development activities:

CFNB-Fergus Falls

- Established a limited partnership with the Housing and Redevelopment Authority of Fergus Falls to construct a 20-unit housing project for LMI residents in Fergus Falls. CFNB's total equity investment in the LMI project is \$1.2 million.
- Donated \$9,071 to local economic development organizations.

- Provided technical support to community and economic development organizations in the delineated community.

CFNB-Little Falls

- Provided technical support to local community and economic development organizations.

CFNB-Paynesville

- Provided technical support to local community and economic development organizations.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

CFNB has the financial capacity to continue its efforts to assist with meeting community credit needs.

There are no apparent financial, legal or economic factors which hinder the bank's ability to meet the community's credit needs. The bank also has access to additional resources through its affiliates, including CFBI and CFBI's other banking subsidiaries.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

CFNB has engaged in other meaningful activities which contribute to meeting community needs.

CFNB and its employees provide ongoing support to community organizations and activities which directly or indirectly address community credit needs. In conjunction with its North Dakota banking affiliate, CFBI donated \$800,000 for flood relief to communities effected by the 1997 spring floods in the Red River Valley. Of that total, \$150,000 was allocated for the Breckenridge area and \$100,000 for the Ada area.

In addition, the bank made charitable donations totaling \$75,714 to several neighborhood organizations serving its delineated communities.

ADDITIONAL INFORMATION

Examination Profile

Examiners reviewed the CRA performance of CFNB by reviewing CRA information supplied by bank management. Examiners also obtained information from community groups to assist with determining the credit needs of the community and evaluating the bank's CRA performance.

CFNB has some offices located in the St. Cloud, Minnesota MSA #6980. Data on individual home mortgage lenders and aggregated data on home mortgage lending activity in the MSA are publicly available at the St. Cloud Housing and Redevelopment Authority.

The Office of the Comptroller of the Currency (OCC) is the regulatory agency responsible for supervision. If you have questions, concerns, or issues, contact the agency at the address below.

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