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Comptroller of the Currency  
Administrator of National Banks

**Small Bank**

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Minneapolis Duty Station  
920 Second Avenue South, Suite 800  
Minneapolis, Minnesota 55402

## **PUBLIC DISCLOSURE**

**September 21, 1998**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Community National Bank of Northfield  
25 Bridge Square  
Northfield, MN 55057**

**Charter # 13350**

**Office of the Comptroller of the Currency  
920 Second Ave. S. Suite 800  
Minneapolis, MN 55402**

**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

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Community National Bank of Northfield, prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of September 21, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

### **INSTITUTION'S CRA RATING: “Satisfactory”**

- o The bank has a very good distribution of lending to consumer borrowers of different income levels in relation to the demographics of the assessment area.
- o The bank has a reasonable distribution of lending to businesses and farms of different sizes given the demographics of the assessment area.
- o The bank originates a majority of their loans inside their assessment area.
- o The bank has a reasonable loan-to-deposit ratio.

## **DESCRIPTION OF INSTITUTION**

The Community National Bank of Northfield is a \$72 million institution located in Northfield, Minnesota, a city of approximately 16,000 people located about 50 miles south of Minneapolis, MN. The bank has a main office, separate autobank facility and two ATMs located in Northfield. The bank also has a branch located in Cannon Falls which is 15 miles east of Northfield. The bank is wholly owned by Northfield Bancshares, Inc., a \$72 million dollar one-bank holding company.

Northfield has three other financial institutions ranging from \$10 million to \$90 million in assets and Cannon Falls has three other financial institutions ranging from \$17 million to \$44 million in assets to provide competition. Northfield has two nationally ranked private liberal arts colleges which also add about five thousand students to the area.

The bank's primary focus is commercial and consumer lending. As of June 30, 1998, the bank's loan mix consisted of 44% commercial and commercial real estate, 27% consumer, 18% agricultural and agricultural real estate, and 11% residential real estate. Net loans and leases comprised 62% of the bank's total assets. There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

The bank's last CRA rating was an "Outstanding Record of Meeting Community Credit Needs" dated August 17, 1995.

## **DESCRIPTION OF THE ASSESSMENT AREA**

Community National Bank's assessment area consists of three block numbering areas (BNAs) in the northeastern part of Rice County, two BNAs in the western Goodhue county and the two most southern census tracts (CTs) of Dakota County. Four of the BNAs are designated upper-income and the two CTs and remaining BNA are designated middle-income. Management chose not to include entire counties in its assessment area due the bank's geographic location and the large size of the counties. Although no real physical barriers exist, the location of Northfield and its lending area extends into all three counties and is most heavily influenced by other competing financial institutions.

The bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. There are no low- or moderate-income areas located in close proximity to the bank's AA. Dakota County is located in the Minneapolis-St Paul Metropolitan Statistical Area (MSA) and has four moderate-income census tracts but no low-income census tracts. The four moderate-income tracts are located 25-35 miles from the bank's AA.

Based on 1990 Census data, the population of the assessment area is approximately 36,000. The median family income from the 1990 census for the MSA portion of the AA was \$43,063. The updated 1998 median family income for the MSA portion is \$60,800. The median family income from the 1990 census for the non-MSA portion of the AA is \$ 28,933. The updated

1998 median family income for the non-MSA portion is \$40,500. A breakdown of family income levels in the AA show 11% are low-income, 15% are moderate-income, 24% are middle-income, and 50% are upper-income. Seven percent of the number of households are below poverty level; the median housing value is \$83,197 and 74% of the housing is owner occupied.

The economy of the assessment area is diverse with major employers like Malt-O-Meal, Sheldahl, Inc., Ryt-Way Industries, Inc. and Fairway Foods, Inc. In addition, the two local colleges and Northfield School District are also major employers. Unemployment is low at 2%. Housing demand continues to be high in both Northfield and Cannon Falls as a result of their close proximity to Minneapolis and St. Paul, MN. Commercial growth has been flat in Northfield, but Cannon Falls continues to see modest growth for commercial businesses.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

***Lending to Businesses and Farms of Different Sizes:***

The bank has a reasonable distribution of lending to businesses and farms of different sizes given the demographics of the assessment area. Our conclusions are based on the dollar and number of loan originations for commercial and consumer loans. Although the bank's residential real estate loan outstandings are the smallest loan category as of June 1998, origination activity is high. The bank is active in selling residential real estate loans in the secondary market. The following table illustrates the origination activity between June 1996 and June 1998. Our last CRA examination was August 1995 but we chose our samples based on activities from the past two years because the files were more readily available and we were able to retrieve files in a timely manner. Commercial and consumer originations accounted for 70% of the number of all originations and 66% of all the bank's originations by dollar.

<b>Loan Origination Activity June 1996 thru June 1998</b>				
<b>Type of Loan</b>	<b>Number of Loans</b>	<b>% of Total</b>	<b>Dollar Amount of Loans (000s)</b>	<b>% of Total</b>
<b>Commercial loans</b>	170	14%	\$24,806	54%
<b>Agricultural loans</b>	46	4%	\$5,627	12%
<b>Residential Real Estate loans</b>	328	26%	\$9,986	22%
<b>Consumer loans</b>	695	56%	\$5,358	12%
<b>Totals</b>	1239	100%	\$45,777	100%

Data Source: Bank Records

The bank has a very good distribution of lending to consumer borrowers of different income levels in relation to the demographics of the assessment area. We sampled 60 consumer loans totaling \$485 thousand that were originated during between June 1997 and June 1998. The sample represented 14% of the number and 16% dollar volume of consumer loan originations in that time.

<b>Lending Distribution Based on Income Level of Consumer Borrowers June 1997 - June 1998 Consumer Loan Originations</b>			
<b>Borrower Income Level</b>	<b>Bank Lending Distribution by Number of Loans</b>	<b>Percentage of Families in each Income Category (census information)</b>	<b>Bank Lending Distribution by Dollar of Loans</b>
Low	17%	11%	11%
Moderate	25%	15%	20%
Middle	17%	24%	19%
Upper	41%	50%	50%
Totals	100%	100%	100%

The bank has a reasonable distribution of lending to different sizes of businesses in relation to the demographics of the assessment area. We sampled 19 commercial loans totaling \$1.8 million that were originated between June 1997 and June 1998. The sample represented 20% of the number and 13% dollar volume of all commercial loan originations in that time. The table below shows that the bank extended 68% of its commercial loans to borrowers with annual revenues less than \$500 thousand. This compares to 72% of businesses in the assessment area having annual revenues of less than \$500 thousand, per updated 1995 census data.

<b>Lending Distribution Based on Revenue Size of Businesses Farms 1997 Business and Agricultural Loan Originations</b>			
<b>Revenue Size of Businesses Sampled (\$000's)</b>	<b>Bank Lending Distribution by Number of Loans</b>	<b>Percentage of Businesses in each Revenue Category (census information)</b>	<b>Bank Lending Distribution by Dollar of Loans</b>
< \$100	0%	72%	0%
\$100 - \$250	42%		10%
\$250 - \$500	26%		19%
\$500 - \$1,000	4%	6%	2%
> \$1,000	28%	9%	69%
Revenue not reported	0%	13%	0%
Totals	100%	100%	100%

### ***Loan-to-Deposit Analysis***

The bank's average quarterly loan-to-deposit ratio from September 1995 to June 1998 is 67% percent. This ratio is reasonable given the bank's size, financial condition and lending opportunities within its assessment area. Community NB had the seventh highest average loan-to-deposit ratio of nine similarly situated banks in their assessment area. Nine banks of similar size, operating in the bank's assessment area had average loan-to-deposit ratios ranging from 53% to 82% over the same time period. The average loan-to-deposit ratio of these ten banks was 70%.

### ***Lending Inside the Assessment Areas***

Community NB of Northfield originates a majority of its loans inside its assessment area. We sampled 40 commercial and agricultural loans originated between June 1997 and June 1998 which represents 33% of the number and 25% of the dollars originated in the time period. We also sampled 130 consumer loans originated between June 1997 and June 1998 which represents 31% of the number and 33% of the dollars originated in the time period.

The following table illustrates the level of lending inside the bank's assessment area:

<b>Penetration of Lending Inside the Bank's Assessment Area</b>		
	<b>% of Total Number of Loans Inside the Assessment Area</b>	<b>% of Total Dollar Amount of Loans Inside the Assessment Area</b>
Commercial Loans	79%	55%
Agricultural Loans	57%	54%
Consumer Loans **	58%	61%

\*\*The consumer loan ratios were greatly impacted by the bank's activities in purchasing dealer paper from a non-local sports and recreation vehicle store. This activity comprised approximately 22% of the loan dollars originated during that time. Without the dealer loans, the bank's ratios were 77% by number and 76% by number of loans inside the bank's assessment area.

### ***Geographic Distribution of Loans:***

We did not evaluate the geographic distribution of lending throughout the bank's assessment area because there are no low- or moderate-income areas. All seven of the BNAs and CTs in the assessment are middle- or upper-income.

### ***Response to CRA Related Complaints***

The bank has not received any CRA related complaints since the previous evaluation.

### ***Compliance with Antidiscrimination Laws***

Community National Bank of Northfield is in compliance with applicable antidiscrimination laws and regulations. We found no evidence of apparent disparate treatment during our fair lending review.