



PUBLIC DISCLOSURE

February 18, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Center National Bank
Charter Number 20448

301 North Ramsey Avenue
Litchfield, MN 55355

Office of the Comptroller of the Currency

222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3371

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.

- The bank’s average loan-to-deposit ratio is reasonable.
- The bank originates a majority of loans within its assessment areas (AAs).
- The bank has a reasonable penetration of loans to individuals of different income levels.
- The bank has a reasonable penetration of loans to businesses of different sizes.

SCOPE OF EXAMINATION

We evaluated Center National Bank’s (CNB’s) Community Reinvestment Act (CRA) performance using small bank lending performance standards. The bank’s CRA evaluation period was June 1, 2007 through February 18, 2014. We assessed the bank’s lending performance by determining primary products based on the number and dollar volume of loans originated between January 1, 2012 and December 31, 2013 (sample period). CNB has two designated AAs in Minnesota: Meeker County, Minnesota Non-Metropolitan Statistical Area (Meeker County AA), and Plymouth, Minnesota, which is located within the Minneapolis-St. Paul MSA (Plymouth AA). For the sample period, we determined the bank’s primary products were commercial and consumer loans in the Meeker County AA and commercial loans in the Plymouth AA.

We selected the Meeker County AA for a full scope review given the significance of this AA to the bank in terms of deposit and lending volume. CNB has 91.5 percent of their deposit base in the Meeker County AA, while only 8.5 percent of deposits are in the Plymouth AA. Similarly, lending activity was primarily centered in the Meeker County AA. During the sample period, 98.0 percent of loan originations were made out of the main office located in the Meeker County AA with only 2.0 percent of loans originated at the branch in the Plymouth AA. We conducted a limited scope review of the Plymouth AA based on these factors. The Meeker County AA, therefore, received greater weighting in determining the institution’s overall CRA rating.

In the Meeker County AA, our analysis of CNB loan originations during the sample period found that commercial loans comprised 58.5 percent of originations by dollar volume and consumer loans represented 72.5 percent of originations by number. In the Plymouth AA, commercial loans were the only primary product and comprised 64.9 percent of originations by number and 84.9 percent of originations by dollar volume. It should be noted that the bank only made 37 loans in the Plymouth AA during 2012 and 2013. The table below shows the loan origination details for CNB’s combined AAs.

Loan Originations for 2012 and 2013		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Commercial	14.0%	60.7%
Consumer	71.4%	11.1%
Agricultural	10.8%	22.5%
Residential Real Estate	3.8%	5.7%

Source: Bank loan origination report for 2012 and 2013

DESCRIPTION OF INSTITUTION

CNB has a main office located in Litchfield, Minnesota with one branch located in Plymouth, Minnesota. The Plymouth branch was opened in June of 2008. The bank has four cash dispensing ATMs. One ATM is located at the main office in Litchfield and is capable of accepting deposits. There is another ATM at the Plymouth branch, and two additional ATMs at local businesses in Litchfield, which do not take deposits.

Based on December 31, 2013 call report numbers, total loans represented 42.2 percent of the bank's \$191.8 million total assets. At that time, the bank's loan portfolio was comprised of 54.0 percent commercial loans, 19.6 percent agricultural loans, 15.0 percent residential real estate loans, and 11.4 percent consumer loans. The bank's investment portfolio equaled 50.1 percent of total assets as of that same date.

CNB is 100 percent owned by the holding company, CNB Financial Corporation. The bank has no lending affiliates. Since the previous CRA evaluation in 2007, CNB has closed a loan production office in Wayzata, Minnesota and opened a branch in Plymouth, Minnesota. There have been no other significant changes in the bank's corporate structure.

There are no known financial or legal impediments that would affect CNB's ability to meet the credit needs within its communities. The bank's last CRA performance evaluation was conducted as of May 30, 2007, and resulted in an Outstanding rating.

DESCRIPTION OF ASSESSMENT AREAS

Meeker County, Minnesota Non-MSA Assessment Area:

The Meeker County AA consists of six contiguous census tracts (CTs) comprising all of Meeker County in central Minnesota. The bank's main office is located in Litchfield, which is near the middle of the AA. Litchfield is located approximately 60 miles west of the Minneapolis-St. Paul MSA and 40 miles south of the St. Cloud MSA. The AA is comprised entirely of middle-income CTs and does not arbitrarily exclude any low- or moderate-income CTs. The AA meets regulatory requirements and does not reflect illegal discrimination. The table below illustrates the demographics of the Meeker County Non-MSA AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF MEEKER COUNTY, MN AA	
Population	
Number of Families	6,788
Number of Households	9,394
% of Low-Income Families	16.09%
% of Moderate-Income Families	18.58%
% of Middle-Income Families	26.46%
% of Upper-Income Families	38.88%
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
Median Family Income (MFI)	
2010 MFI for AA	\$58,135
2013 FFIEC-Adjusted MFI	\$61,700
Economic Indicators	
2013 Unemployment Rate	5.7%
2010 Median Housing Value	\$172,827
% of Households Below Poverty Level	9.88%

Source: 2010 U.S. Census data with updated information when available

The Meeker County AA deposit and lending market is competitive. There are multiple deposit-taking institutions, which offer a variety of similar products and services in the AA. Competition includes other national banks, state chartered banks, and credit unions. CNB leads the AA in deposit market share at 35.5 percent and ranks first out of eight competitive institutions. The next closest competitor is Wells Fargo Bank, NA with market share of 23.1 percent in the AA.

The local economy of the AA is stable and healthy. Primary industry sectors of the AA are agriculture, manufacturing, health care and other professional services, and retail. Meeker County is home to some of the state's largest dairy and poultry operations. As of 2013, Meeker County has a population of 23,300. The residential population has experienced steady but not excessive growth.

The area unemployment rate in the AA was 5.7 percent as of December 2013 compared to the state average of 4.6 percent. Unemployment rates are showing positive trends in the area as local employers continue to grow and expand. Major employers in the area include the Litchfield School District 465, Ecumen of Litchfield (Senior Housing and Assisted Living provider), Meeker County Memorial Hospital, First District Association (Independent Dairy Cooperative), Minnesota Rubber and Plastics (rubber and plastic manufacturer), and Custom Products (manufacturer of custom cabs for machinery and equipment).

We contacted the local chamber of commerce to discuss the area economy and credit needs of the community. The representative indicated that primary credit needs are home and automobile financing for individual consumers and operating lines of credit for small businesses in the area. Our contact stated that the local bankers, particularly CNB, are a large asset to the community. Local institutions support area schools and organizations through monetary donations and volunteer opportunities. CNB has an overall positive effect on the community in which they serve.

Plymouth, Minnesota MSA Assessment Area:

The Plymouth AA consists of eleven contiguous CTs in Hennepin County which is part of the Minneapolis-St. Paul MSA. These CTs represent a three-mile radius surrounding the bank’s branch in Plymouth which is approximately ten miles from Minneapolis. The eleven CTs in the bank’s AA consist of one moderate-income tract, three middle-income tracts, and seven upper-income tracts. The bank’s AA does not arbitrarily exclude any low- or moderate-income CTs. The AA meets regulatory requirements and does not reflect illegal discrimination. The following table shows the demographics of the Plymouth AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF PLYMOUTH, MN AA	
Population	
Number of Families	17,930
Number of Households	23,716
% of Low-Income Families	11.57%
% of Moderate-Income Families	12.14%
% of Middle-Income Families	16.29%
% of Upper-Income Families	60.01%
Geographies	
Number of Census Tracts	11
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	9.09%
% Middle-Income Census Tracts	27.27%
% Upper-Income Census Tracts	63.64%
Median Family Income (MFI)	
2010 MFI for AA	\$80,925
2013 FFIEC-Adjusted MFI	\$82,300
Economic Indicators	
2013 Unemployment Rate	4.0%
2010 Median Housing Value	\$329,439
% of Households Below Poverty Level	3.14%

Source: 2010 U.S. Census data with updated information when available

The financial institution market in the AA is extremely competitive, mainly due to the location in the Minneapolis-St. Paul MSA. There are numerous deposit-taking institutions which offer a

variety of similar products and services. CNB has a minimal presence in the market. Per the June 30, 2013 FDIC market share report, CNB had \$13 million in deposits in the AA which represents only a 0.01 percent market share in all of Hennepin County. Within Plymouth, CNB captures 1.3 percent of the total market share. CNB ranks 66 of 77 institutions in market share in Hennepin County, and ranks 13 of 14 institutions in market share in the immediate Plymouth area.

The local economy of the Plymouth AA is stable. Primary industry sectors of the AA are professional, scientific, technical services, finance and insurance, and construction. The population of the AA has experienced steady growth. The 2012 population was roughly 73,000. The population has grown almost 11 percent since 2000. The unemployment rate in Hennepin County was 4.0 percent in December 2013 compared to the statewide average of 4.6 percent. The Plymouth AA showed an unemployment rate of 3.6 percent in December 2013, below the state and MSA averages which is indicative of a stable local economy. Major employers in the Plymouth area are retail businesses like Home Depot, CVS Pharmacy, Walmart, and Costco. Health care service provider West Health Care Center is also a major employer. Plymouth is home to The Mosaic Company, which produces and markets phosphate and potash for agricultural purposes. Large manufacturing sector employers are The Tile Shop and Innovex, Inc.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's loan-to-deposit (LTD) ratio is reasonable given its size, financial condition, and AA credit needs. Since the previous CRA evaluation, CNB's quarterly average LTD was 55.5 percent for the 27 quarters beginning June 30, 2007 and ending December 31, 2013. For comparison purposes, we identified one similarly situated bank to CNB. Similarly situated banks are defined as banks headquartered in Meeker County with total assets between \$100 million and \$200 million. The one similarly situated bank, Home State Bank, had an average LTD ratio during the evaluation period of 84.8 percent, higher than that of CNB. However, CNB actively sells residential real estate loans on the secondary market and has been doing so since the 2007 CRA examination. These secondary market originations are not reflected in CNB's LTD ratio.

Lending in Assessment Area

The bank originates a majority of its loans inside their AAs. Based on a sample of primary product types, 57 percent of loans by number and 53 percent of the loans by dollar volume were originated within the bank's AAs. Please refer to the table on the following page for details.

Aggregate Lending in both Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial-Litchfield	16	80%	4	20%	20	2,423	92%	200	8%	2,624
Consumer	12	60%	8	40%	20	91	65%	50	35%	140,446
Commercial- Plymouth	6	30%	14	70%	20	2,550	37%	4,311	63%	6,861
Totals	34	57%	26	43%	60	5,064	53%	4,561	47%	9,625

Source: Commercial and consumer loan samples.

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

Borrower Distribution of Loans in the Meeker County AA

The distribution of borrowers reflects reasonable penetration among individuals of different income levels given the demographics of the Meeker County AA. The bank’s performance in lending to moderate-income borrowers significantly exceeded the demographic comparator of moderate-income AA households. However, the bank’s performance in lending to low-income borrowers was below the demographic comparator. When combined, lending to low- and moderate-income borrowers exceeded the demographic comparator of the percentage of these households in the AA. Therefore, we concluded overall that the distribution of borrowers of different income levels reflected reasonable penetration.

Borrower Distribution of Consumer Loans in Meeker County, MN AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	18.9%	10.0%	16.7%	35.0%	20.4%	25.0%	44.0%	30.0%

Source: Loan Sample; 2010 U.S. Census Data

As noted in the table below, the distribution of borrowers reflects reasonable penetration among businesses of different sizes given the demographics in the Meeker County AA.

Borrower Distribution of Loans to Businesses in Meeker County, MN AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.0%	3.7%	19.3%	100%
% of Bank Loans in AA by #	81.4%	16.9%	1.7%	100%
% of Bank Loans in AA by \$	65.6%	34.3%	0.1%	100%

Source: Loan sample; Dunn and Bradstreet Data 2013

Borrower Distribution of Loans in the Limited Scope area

Based on a limited scope review, CNB's borrower distribution performance in the Plymouth AA is not inconsistent with the bank's satisfactory performance in the Meeker County AA. Given the bank's low lending volume in this AA, we determined that a borrower distribution analysis of loans was not meaningful.

Geographic Distribution of Loans

The geographic distribution of loans in the full scope area (Meeker County AA) did not provide a meaningful analysis as the AA consists entirely of middle-income CTs. The geographic distribution of loans in the limited scope area (Plymouth AA) also did not provide a meaningful analysis as the loan volume was not significant enough to complete a thorough analysis of loan distribution by income tract level within the AA.

Responses to Complaints

There have been no CRA-related complaints reported to the bank since the previous CRA examination dated May 30, 2007.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c), in determining a bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.