



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 26, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Centennial National Bank
Charter Number 23157**

**106 6th Street South
Walker, MN 56484**

**Comptroller of the Currency
Minneapolis North Field Office
302 West Superior Street, Suite 307
Duluth, MN 55802**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- Centennial National Bank meets the credit needs of the community as demonstrated by its average net quarterly loan-to-deposit ratio of 96.9% since the bank's prior CRA evaluation.
- A majority of loans by both number (77%) and by dollar volume (67%) are originated within the bank's defined assessment area.
- The bank's lending activity to businesses of different sizes and families of different income levels is reasonable. The bank meets community demographics for commercial and residential real estate lending.
- The bank's geographic distribution of loans within its assessment area is reasonable.

DESCRIPTION OF INSTITUTION

Centennial National Bank (CNB) in Walker, MN is a \$41 million commercial bank. The main office is a full service facility located in downtown Walker, Minnesota and the one branch office is in the neighboring community of Hackensack, Minnesota. The main office is located in a middle-income geography while the branch office in Hackensack is located in a moderate-income geography. The branch office has a drive-up window and night depository. Both locations have cash dispensing automated teller machines (ATM).

CNB's lending focus is commercial and residential real estate loans. According to its March 31, 2003 Report of Condition and Income, the bank reports the following loans by dollar volume: commercial (47%); residential real estate (41%); and consumer (12%). Net loans total 79% of total assets.

The bank is 100% owned by CNB, Inc., a \$41 million one-bank holding company headquartered in Walker, MN.

CNB received a "Satisfactory" rating at its May 24, 1999 CRA Evaluation. This evaluation assesses the bank's lending performance from June 30, 1999 through December 31, 2002. There are no financial, legal, or other factors which impede the bank's ability to meet the credit needs in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

CNB's assessment area (AA) includes five block-numbering areas (BNAs) located in Cass County and two BNAs in Hubbard County. Both of the bank's offices are located in Cass

County. The seven BNAs are contiguous and include the cities of Walker, Hackensack, Akeley, Backus, LaPorte, Longville, Nevis, and Pine River. The total population of the assessment area is 10,750 persons according to 1990 U.S. Census Data.

The AA complies with regulatory requirements. CNB’s assessment area does not arbitrarily exclude low- and moderate-income geographies.

The U.S. Department of Housing and Urban Development’s 2002 updated statewide non-metropolitan statistical area (MSA) median family income estimate for Minnesota is \$48,500. The following table summarizes the income levels of individual BNAs and families within the bank’s AA:

Distribution of Geographies and Families by Income (Definition of family income levels can be found in 12 C.F.R. § 25.)								
Assessment Area	Number of Block Numbering Areas				Percentage of Families			
	Low Income	Moderate Income	Middle Income	Upper Income	Low Income	Moderate Income	Middle Income	Upper Income
Cass and Hubbard Counties	0	4 (57%)	3 (43%)	0	27%	25%	23%	25%

According to 1990 Census data, only 35.4% of the 10,260 housing units are owner-occupied. A majority of remaining units are vacation homes. The median family home was built in 1971 and has a value of \$54,408. Approximately 18% of the households in the AA live below the poverty level, with minimal capacity to borrow. Rental units have an average gross rent of \$291 per month.

The AA is rural in nature and geared towards the tourism industry. The AA includes most of Leech Lake (Minnesota’s third largest lake) and is located within the Chippewa National Forest. The AA also includes portions of the Leech Lake Indian Reservation.

The AA’s largest employers include Northern Lights Casino, Ah Gwah Ching Center (Nursing Facilities), government offices, and the local school district. Unemployment rates for both Cass County (7.4%) and Hubbard County (6%) are above the Minnesota state unemployment rate of 4.9%.

Competition from other financial institutions is strong for both loan and deposit products. Including CNB, there are thirteen financial institutions operating in Cass and Hubbard Counties. The bank is the tenth largest of the thirteen institutions based on asset size. CNB’s deposit share of 5% ranks seventh among the thirteen institutions with offices in Cass and Hubbard counties.

We did not identify any unmet credit needs in the AA through our contact with a local real estate agent. Our contact indicated that all area banks have expressed a willingness to provide financing for commercial real estate and residential real estate mortgages.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's net quarterly loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the AA's credit needs. The bank's net quarterly loan-to-deposit averaged 96.9% over 16 quarters from June 30, 1999 to March 31, 2003. CNB's net quarterly loan-to-deposit ratio has been stable during the past 18 months and equaled 107.7% as of March 31, 2003.

CNB ranks first among a total of four similarly situated banks operating in the AA. Specifically, all are community banks with total assets less than \$100 million that derive a majority of customers from the local community. The other three banks had average net quarterly loan-to-deposit ratios averaging 65.1% and ranging from 30.4% to 85.3% over the past 16 quarters from June 30, 1999 through March 31, 2003.

Lending in Assessment Area

CNB originates a majority of its loans to borrowers located within its defined AA. We sampled 16 commercial loans and 19 residential real estate loans originated from June 30, 1999 through December 31, 2002. Approximately 77% by number and 67% by dollar volume were originated to businesses and individuals within the bank's AA. The following table shows loans in the AA by number and dollar volume.

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT OF LOANS				
Type of Loan	Number of Loans	% by Number of Loans	Dollar Amount of Loans	% by Dollars Amount of Loans
Commercial	12	75%	1,038,229	60%
Residential	15	79%	1,170,373	78%
Total	27	77%	2,208,602	67%

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

Overall, the distribution of borrowers reflects reasonable penetration among businesses of different sizes and families of different income levels. Lending to small businesses as well as low- and moderate-income families meets community demographics.

Business Lending

Commercial lending activity in the AA meets community demographics. Eighty-five percent of commercial loans in our sample were to small businesses (businesses with less than \$1 million in total revenues) while 96% of all business in the AA are small businesses. A significant number of loans originated within the AA were to small businesses with annual revenues less than \$100,000. Examiners sampled 14 loans to commercial borrowers located within the bank's AA.

The following table compares the bank's commercial lending activity by revenue size to community demographics.

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE (Percentages are reflective of the portfolio as a whole.)			
Revenue (000's)	Number of Loans	% by Number of Loans	Business Demographic Data
< \$100	7	50%	92%*
\$100 < \$250	2	14%	
\$250 < \$500	1	7%	
\$500 < \$1,000	2	14%	4%
> \$1,000	2	14%	4%
Totals	14	100%	100%**

*Demographics do not allow for more detailed segregation of revenue sizes.

**20% of businesses did not report revenue information.

Residential Real Estate Lending

Residential real estate lending activity in the AA meets community demographics for low- and moderate-income borrowers. Within the AA, 18% of all families report income below the poverty level, which is reflected in the bank's lower loan volume to low-income borrowers and lending levels below the demographics. CNB originated 237 loans totaling \$17 million from January 1, 2001 through December 31, 2002. The average residential loan size is \$70,464. Examiners sampled 15 residential real estate loans originated within the bank's AA. Differentiation among residential loans by type (purchase, refinance, and home improvement) was not feasible as bank loan information was not sorted by specific purpose. The following table shows the bank's residential lending activity by borrower income level compared to community demographics.

BORROWER DISTRIBUTION OF RESIDENTIAL LOANS BY INCOME LEVEL (Percentages are reflective of the portfolio as a whole.)			
Borrower Income Level	Number of Loans	% by Number of Loans	% of Families
Low	2	13%	27%
Moderate	3	20%	25%
Middle	7	47%	23%
Upper	3	20%	25%
Totals	15	100%	100%

Geographic Distribution of Loans:

Geographic distribution of loans throughout the assessment area is reasonable. Commercial loan distribution to moderate-income BNAs is adequate, although below community demographics. Residential real estate loan distribution in moderate-income BNAs is slightly below community demographics. Refer to the following tables.

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS IN THE ASSESSMENT AREA Originations dated June 30, 1999 through December 31, 2002					
BNA Income Level	Number	Percent by	Amount	Percent	Percent of

	of Loans	Number of Loans	(\$000)	by Dollar of Loans	Businesses By BNA Category
Moderate	42	31%	2,568,746	25%	53%
Middle	92	69%	7,816,978	75%	47%
Totals	134	100%	10,385,724	100%	100%

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

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS IN THE ASSESSMENT AREA					
Originations dated June 30, 1999 through December 31, 2002					
BNA Income Level	Number of Loans	Percent by Number of Loans	Amount (\$000)	Percent by Dollar of Loans	Percent of Owner-Occupied Housing By BNA Category
Moderate	86	51%	4,994,230	43%	65%
Middle	82	49%	6,654,989	57%	35%
Totals	168	100%	11,649,219	100%	100%

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

We did not identify any significant gaps in the bank's lending patterns. Geographic distribution reflects lending in most of the seven BNAs in the bank's assessment area. CNB originated commercial loans in five of the seven BNAs including the moderate-income BNAs. Two BNAs with no lending activity include a middle- and moderate-income BNA. A disproportionate amount of commercial loans are originated near the main office in Walker rather than Hackensack where two of the four moderate-income BNAs are located. CNB originated residential real estate loans in all but one BNA (middle-income) including the moderate-income BNAs.

Response to Complaints:

The bank has not received any CRA-related complaints since the last CRA evaluation dated May 24, 1999.

OTHER INFORMATION

Fair Lending:

An analysis of 1999, 2000, 2001, and 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1998.