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Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

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## **Public Disclosure**

May 24, 1999

# **Community Reinvestment Act Performance Evaluation**

**Centennial National Bank  
Charter Number 23157**

**106 South Sixth Street  
Walker, Minnesota 56484**

**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 CRA performance of **Centennial National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 24, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

**Institution's CRA Rating:** This institution is rated Satisfactory.

- C The bank's loan-to-deposit ratio is reasonable given the bank's size, its financial condition, and the credit needs of its assessment area.
- C The bank originates a majority of its loans within its assessment area.
- C The bank's distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable.
- C The bank's geographic distribution of loans within its assessment area is reasonable.
- C The bank has not received any complaints from the public regarding its performance in meeting the credit needs of the assessment area.
- C No violations of the substantive provisions of anti-discrimination laws and regulations were noted during this review.

## DESCRIPTION OF INSTITUTION

Centennial National Bank (CNB) is a wholly-owned subsidiary of CNB, Inc., a one-bank holding company. The bank was sold on May 17, 1999 by JDOB, Inc. to CNB, Inc. The bank's main office is located in Walker, Minnesota and its only branch office is in the neighboring community of Hackensack, Minnesota. The Hackensack branch is also the location of the bank's automated teller machine. CNB first opened in February 1997. The Hackensack branch opened in June 1998. By March 31, 1999, the bank had grown to \$34.7 million in assets. This is CNB's first CRA Performance Evaluation.

CNB offers a variety of consumer and commercial lending products. The dollar volume of commercial, commercial real estate, and residential real estate loans is significant in terms of the overall loan portfolio. The bank originates more consumer/installment loans than all other loan types combined, but the average dollar amount of a consumer/installment loan is relatively small. Table 1 shows the composition of the bank's loan portfolio as of March 31, 1999.

TABLE 1

	\$ Amount (000s)	% of Gross Loans
Residential Real Estate	7,312	31.7%
Construction/Land Development	2,080	9.0%
Commercial Real Estate	6,371	27.7%
Commercial	5,528	24.0%
Consumer/Installment	1,733	7.5%
Other	28	0.1%
Total	23,052	100.0%

Another national bank, a federal savings and loan bank, and a credit union all have offices in Walker. A number of other financial institutions also have main offices and/or branches in CNB's assessment area.

There are no financial or legal impediments that affect the bank's ability to serve the credit needs of its community.

## DESCRIPTION OF ASSESSMENT AREA

CNB's assessment area includes five block numbering areas (BNAs) 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. CNB's assessment area meets regulatory requirements and does not arbitrarily exclude low- and moderate-income areas. Four of the seven BNAs are classified moderate-income, while the other three are middle-income. Cass and Hubbard Counties do not contain any low-income BNAs.

The population of the assessment area is 10,750 (3,138 families) according to 1990 census data. The 1998 non-MSA statewide median family income is \$40,500. Approximately 18% of the households in the assessment area live below the poverty level. Table 2 shows the distribution of families by family income level. The unemployment rates in Cass and Hubbard Counties during April 1999 were 5.0% and 4.1%, respectively. The unemployment rates during April for the entire state of Minnesota and the U.S. were 2.2% and 4.1%, respectively.

TABLE 2

Family Income Level	% of Families
Low	<b>27.18%</b>
Moderate	<b>24.73%</b>
Middle	<b>23.33%</b>
Upper	<b>24.76%</b>

According to 1990 census data, only 35.39% of the 10,260 housing units in the assessment area are owner-occupied. The overwhelming majority of the remaining units are vacation homes. The median home was built in 1971 and has a value of \$54,408.

The assessment area is rural in nature and with the economy geared toward the tourism industry. The area includes most of Leech Lake (Minnesota's third largest lake) and is located in the heart of the Chippewa National Forest. Leech Lake is surrounded by many smaller lakes. The assessment area also includes portions of the Leech Lake Indian Reservation.

The area's largest employers include a casino, a geriatric institution, and government offices.

As part of this review, national bank examiners contacted a government official from the city of Walker to assist in ascertaining whether the community's credit needs are being met. Information received

indicates that community credit needs (which are primarily real estate and automobile loans) are being met.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

*CNB's loan-to-deposit ratio is reasonable given the bank's size, its financial condition, and the credit needs of its assessment area.*

CNB's average loan-to-deposit ratio over the last nine quarters has been 65.79%. The bank's loan-to-deposit ratio has been increasing consistently since it opened during the first quarter of 1997 (the 95.13% loan-to-deposit ratio as of March 31, 1997 is misleading because the bank was new and the dollar volume of deposits was limited). By March 31, 1999, CNB's loan-to-deposit ratio had grown to 81.70%, while the national average for similar banks was 73.83%. The average of the four other banks in the Walker area was 77.34%. Table 3 shows the bank's loan-to-deposit ratio at the end of each of the last nine quarters.

TABLE 3

Quarter	1Q97	2Q97	3Q97	4Q97	1Q98	2Q98	3Q98	4Q98	1Q99	Average
LTD Ratio	95.13	47.31	55.55	57.96	56.55	57.67	63.68	76.54	81.70	<b>65.79</b>

### Lending in Assessment Area

*CNB originates a majority of its loans within its assessment area.*

Examiners reviewed a judgmental sample of 75 loans originated by the bank during 1998 and 1999 to determine the extent of lending inside and outside of the assessment area. Of the 75 loans reviewed, 30 were residential real estate loans, 30 were consumer/installment loans, and 15 were commercial loans. The 75 loans totaled \$4,251,849. Approximately 75% were originated within the assessment area. More detailed information is provided in Table 4.

TABLE 4

Type of Loan	# of Loans Inside		\$ Amount of Loans Inside	
	#	%	\$ (000s)	%
Residential Real Estate	25	83.33%	1,560	78.75%
Consumer/Installment	19	63.33%	103	48.02%
Commercial	12	75.00%	1,548	75.30%

Total	56	<b>74.67%</b>	3,211	<b>75.53%</b>
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**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

*CNB's distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable.*

The 44 residential real estate and consumer/installment loans originated within the assessment area were further reviewed to determine the distribution of loans to borrowers of different income levels. The percentage of consumer/installment loans originated to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income families in the assessment area. However, the percentage of residential real estate loans originated to low- and moderate-income borrowers is less than the percentage of low- and moderate-income families. Table 5 shows the number and percentage of both types of loans that were originated to borrowers compared to the percentage of families for each income category.

When analyzing this data, it is important to note that 18% of the households in the assessment area live below poverty level, with little or no capacity to borrow. The bank has also taken additional steps to address the housing needs of low-income families in the assessment area. For example, the bank financed a portion of a construction loan for a low-income housing project in Walker. The project will include 18 rent-restricted housing units catering to low-income families. The project has been approved by, and is primarily financed by, the Minnesota Housing Finance Agency (MHFA).

TABLE 5

Distribution of Loans by Borrower Income					
	Residential Real Estate		Consumer/Installment		% of Families in the Assessment Area
	#	%	#	%	
Low-Income	2	<b>8.00</b>	6	<b>31.58</b>	<b>27.18</b>
Moderate-Income	5	<b>20.00</b>	8	<b>42.11</b>	<b>24.73</b>
Middle-Income	11	<b>44.00</b>	3	<b>15.79</b>	<b>23.33</b>
Upper-Income	7	<b>28.00</b>	2	<b>10.52</b>	<b>24.76</b>
Total	25	100.0	19	100.0	100.0

The twelve commercial loans originated within the assessment area were further reviewed to determine the distribution to businesses of different sizes. Ten of the twelve loans (83.33%) were to small businesses (less than \$1,000,000 in annual sales). Dunn & Bradstreet business demographics show

that 494 of the 628 businesses (78.66%) in the assessment area have been identified as having annual sales of less than \$1,000,000.

**Geographic Distribution of Loans**

*CNB’s geographic distribution of loans within its assessment area is reasonable.*

Table 6 shows the geographic distribution (by BNA income level) of the 25 residential real estate loans that CNB originated inside its assessment area. The table compares the distribution of loans to the distribution of owner-occupied housing units. The bank’s distribution of residential real estate loans approximates the distribution of owner-occupied housing units.

Tables 7 and 8 show the geographic distribution of the consumer/installment and commercial loans in our sample. The distribution of consumer/installment loans is compared to the distribution of households, and the distribution of commercial loans is compared to the distribution of businesses/farms. Both tables show that CNB’s distribution of loans by BNA income level is not representative of the distribution of households or businesses among the BNAs. However, it is important to consider the location of the bank’s offices, when the offices were opened, and changes to the bank’s assessment area. CNB’s main office in Walker is in a middle-income BNA, and the next closest BNA is middle-income. As would be expected, a disproportionately large number of consumer/installment and commercial loans have been originated in the BNA that includes the city of Walker. The two moderate-income BNAs in Cass County were added to the bank’s assessment area at a later date, after the Hackensack branch was opened (the Hackensack branch is located in one of the moderate-income BNAs).

TABLE 6

Distribution of Residential Real Estate Loans			
BNA Income Level	Owner-occupied housing units	Loans (#)	Loans (%)
Moderate	65.11%	16	64.00%
Middle	34.89%	9	36.00%
Total	100.0%	25	100.0%

TABLE 7

Distribution of Consumer/Installment Loans			
BNA Income Level	Households	Loans (#)	Loans (%)
Moderate	63.60%	4	21.05%



Middle	36.40%	15	78.95%
Total	100.0%	19	100.0%

TABLE 8

Distribution of Commercial Loans			
BNA Income Level	Number of Businesses/Farms	Loans (#)	Loans (%)
Moderate	51.59%	4	33.34%
Middle	48.41%	8	66.66%
Total	100.0%	12	100.0%

### **Response to Complaints**

*The bank has not received any complaints from the public regarding its performance in meeting the credit needs of the assessment area.*

### **Fair Lending**

*No violations of the substantive provisions of fair lending laws and regulations were noted during the review.*

Due to the limited number of loans of similar purposes that the bank has originated since its inception, we were unable to perform a comparative file review of denied and approved applications. The review of CNB's compliance with anti-discrimination laws and regulations instead focused on technical fair lending requirements.