



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**October 15, 2009**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Neighborhood National Bank  
Charter Number 24223

803 N. Nokomis  
Alexandria, MN 56308-0000

Office of the Comptroller of the Currency

Minneapolis Field Office  
222 S Ninth Street, Suite 800  
Minneapolis, MN 55402

**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.**

Neighborhood National Bank (NNB) has a satisfactory record of helping to meet the credit needs of its assessment area (AA). Factors contributing to the rating include:

- NNB's average quarterly loan-to-deposit (LTD) ratio is more than reasonable.
- A majority of NNB's loans are originated within the assessment area.
- Lending to businesses of different sizes is reasonable and lending to borrowers of different incomes is excellent.

**SCOPE OF EXAMINATION**

NNB's performance was assessed using the Small Bank Community Reinvestment Act (CRA) examination procedures which evaluate the bank's record of meeting the credit needs of its AA through its lending activities.

The assessment period covers performance from June 30, 2003 through June 30, 2009. We evaluated lending performance based on lending volumes from January 1, 2007 through June 30, 2009. NNB's primary loan products are commercial and residential real estate loans. We selected a random sample of 20 loans from each primary product for our analysis.

**DESCRIPTION OF INSTITUTION**

NNB is a \$51 million institution located in Alexandria, MN in Douglas County. Douglas County Bancshares, a one bank holding company, owns 100% of the institution and is also located in Alexandria, MN. Holding company assets consist primarily of the institution. There is only one location and no branches. The only ATM is a drive-thru located on-site.

NNB offers traditional banking products and services, with lending focused on commercial and residential real estate loans. As of June 30, 2009, net loans represented 85.5% of average assets.

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>%</b>
Commercial (including RE)	22,703	51%
Residential Real Estate Loans	12,427	28%
Consumer Loans	4,002	9%
Agriculture (including RE)	2,728	6%
Other	2,654	6%
<b>Total</b>	<b>6,999</b>	<b>100%</b>

*\*Source: June 30, 2009 call report*

The overall structure of the institution has not changed since the previous exam, and there are no legal issues which restrict the ability to meet the credit needs of the community. The most recent CRA rating, dated August 11, 2003, was "Satisfactory."

## **DESCRIPTION OF ASSESSMENT AREA(S)**

NNB's AA consists of the eight contiguous census tracts comprising all of Douglas County. The AA consists of only middle-income census tracts. There are no low-, moderate-, or upper-income tracts. The largest city in the AA is Alexandria, with a 2007 estimated population of 11,481. Other cities in the AA include Millerville, Evansville, Brandon, Garfield, Carlos, Nelson, Osakis, and Kensington. The institution is located in census tract 9507. The AA has not changed since our previous examination in 2003. It meets legal requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The AA is diversified with manufacturing, retail, tourism, and agriculture. Major employers include public and technical school systems, county hospital, and manufacturing companies such as 3M Corporation, Tastefully Simple, Douglas Machine, and Alexandria Extrusion Co. In addition to residents in the AA, many residents from surrounding communities commute to Alexandria for employment.

The US Bureau of Labor Statistics indicated a 6% unemployment rate for Douglas County in July 2009. This compares favorably to the statewide average of 8.1%, and the nationwide average of 9.4%.

NNB faces strong competition in the area across all product lines as there are numerous banks within Alexandria. Primary competition is derived from Wells Fargo, Bremer, First State Bank, State Bank and Trust, and Vikings Savings. In addition, Gate City recently opened up an Alexandria location adding to competition. NNB had 5.76% of the deposit market share based on Federal Deposit Insurance Corporation data as of June 30, 2008. They rank 7<sup>th</sup> out of the 13 institutions. The high is 31.67% for Bremer NA, and the low is 1.02% for Glenwood State Bank.

During our evaluation, we contacted a local community organization to better understand the demographics and needs of the AA. The contact stated NNB effectively meets community credit needs.

The demographics of the AA are illustrated in the table on the following page. The information is based on 2000 census data unless otherwise noted.

<b>Demographic &amp; Economic Characteristics of AA</b>	
<b>Population:</b>	32,821
Number of Families	9,045
Number of Households	13,241
Number of Low-Income Families	1,628
% of Low-Income Families	18.0%
Number of Moderate-Income Families	1,702
% of Moderate-Income Families	18.8%
Number of Middle-Income Families	2,202
% of Middle-Income Families	24.3%
Number of Upper-Income Families	3,513
% of Upper-Income Families	38.8%
<b>Geographies:</b>	
Number of Census Tracts	8
% of Low-Income CTs	0%
% of Moderate-Income CTs	0%
% of Middle-Income CTs	100%
% of Upper-Income CTs	0%
<b>Median Family Income (MFI):</b>	
2000 MFI for AA	\$ 46,360
2009 HUD-Adjusted MFI for AA	\$ 58,500
<b>Economic Indicators:</b>	
Unemployment Rate	6%
Median Housing Value	\$ 103,884
% of Households Below Poverty Line	10.21%

\* Source: 2000 US Census Data

\*Unemployment rate is from July 2009 Bureau of Labor Statistics data.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

NNB's quarterly average loan-to-deposit (LTD) ratio is more than reasonable. The ratio exceeds the standard for satisfactory performance given the size, financial condition, assessment area credit needs, and local economic conditions. The quarterly average LTD ratio between June 30, 2003 and June 30, 2009 was 95.21%.

In comparison to similarly situated institutions, NNB's LTD ratio ranks first out of six. The average LTD ratio was 82.71%, with a low of 66.45%. The other five institutions have asset sizes ranging from \$25 to \$113 million, and all have a presence in the AA. The average quarterly LTD ratios of all six institutions are listed in the table on the following page.

LOANS-TO-DEPOSIT RATIO		
Institution	Assets 6/30/09	Average Ratio
<b>Neighborhood National Bank</b>	<b>\$51 Million</b>	<b>95%</b>
First Security Bank of Evansville	\$30 Million	88%
First State Bank of Alexandria	\$113 Million	86%
First National Bank of Osakis	\$56 Million	81%
Hometown Community Bank	\$25 Million	79%
First State Bank of Kensington	\$54 Million	66%

### Lending in Assessment Area

NNB meets the standards for satisfactory performance for lending within the AA. A majority of loans were originated within the AA with 85% of the number of loans, and 95% of the dollar volume of loans being within the AA. The following table illustrates lending activity within the AA during our evaluation period for both commercial and residential real estate loans.

Lending in Douglas County Assessment Area										
LOAN TYPE	Number of loans					Dollars of Loans				
	Inside AA		Outside AA		Total #	Inside AA		Outside AA		Total \$ (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Commercial	17	85%	3	15%	20	\$2,286	97%	\$59	3%	\$2,345
Residential RE	17	85%	3	15%	20	\$2,286	93%	\$184	7%	\$2,470
<b>Total reviewed</b>	<b>34</b>	<b>85%</b>	<b>6</b>	<b>15%</b>	<b>40</b>	<b>\$4,572</b>	<b>95%</b>	<b>\$243</b>	<b>5%</b>	<b>\$4,815</b>

\*Source: loan sample

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

The distribution of loans to businesses of different sizes and borrowers of different incomes meets the standard for satisfactory performance. More emphasis was given to the commercial loans as they account for a majority of the loan portfolio.

#### Commercial Loans

NNB’s lending to small businesses meets the demographics of the AA. The following chart shows NNB’s lending compared to demographics. Demographic data indicates 80% of businesses in the AA are small businesses however, 16% of businesses did not report revenues.

Income Distribution of Commercial Loans			
Business Revenues	≤1,000,000	>1,000,000	Unknown
% of AA Businesses	80%	4%	16%
% of Bank Loans in AA by #	80%	15%	5%
% of Bank Loans in AA by \$	95%	4%	1%

*\*Source: loan sample and 2009 Geodemographic data*

**Residential Real Estate Loans**

Residential real estate loans to low- and moderate-income borrowers exceed the demographics of the AA for both low- and moderate-income families and indicate excellent performance.

<b>Income Distribution of Residential Real Estate Loans</b>				
<b>Borrower Income Level</b>	<b>LOW</b>	<b>MODERATE</b>	<b>MIDDLE</b>	<b>UPPER</b>
% of Families in AA	18%	19%	24%	39%
Percentage Number	20%	30%	20%	30%

*\*Source: loan sample and updated Median Family Income data*

**Geographic Distribution of Loans**

A meaningful analysis of the geographic distribution of loans could not be completed as there are no low- or moderate-income census tracts in the AA.

**Responses to Complaints**

No CRA related complaints were received during the evaluation period.

**Fair Lending or Other Illegal Credit Practices Review**

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