



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**March 31, 2003**

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

**Community National Bank  
Charter Number 13350**

**25 Bridge Square  
Northfield, MN 55057**

**Comptroller of the Currency  
Minneapolis South  
920 Second Avenue South, 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.**

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## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

- Average loan-to-deposit ratio is reasonable.
- A majority of loans are in the bank's assessment area.
- Community National Bank has a reasonable distribution of credit among real estate borrowers and consumers of different income levels in the Northfield/Cannon Falls Assessment Area.
- Community National Bank has a reasonable distribution of credit among businesses of different sizes and an excellent distribution of credit among consumers of different income levels in the Ramsey/Dakota County Assessment Area.
- The geographic distribution of loans reflects a good dispersion throughout the Ramsey/Dakota County Assessment Area.

## **DESCRIPTION OF INSTITUTION**

Community National Bank (CNB) is a \$149 million institution located in Northfield, Minnesota, a city of approximately 17,000 people. Northfield is located 40 miles south of Minneapolis, Minnesota. The bank has a main office, two branch locations (Cannon Falls and Roseville, Minnesota) and a separate autobank facility located in Northfield. They also have four deposit-taking ATMs. These ATMs are located at each of their physical banking locations. The Roseville branch was purchased on May 10, 1999, since the last CRA examination.

Northfield Bancshares, Inc., a one-bank holding company, located in Northfield, Minnesota, owns the Community National Bank of Northfield. As of December 31, 2002, Northfield Bancshares, Inc. had assets of \$149 million. The bank does not have any affiliate relationships that impact the bank's CRA performance.

The bank offers both telephone and Internet banking to its customers. These services provide customers with 24-hour access to deposit and loan account information. It also allows customers to make transfers between accounts, including making loan payments.

CNB offers a wide range of loan and deposit products which are designed to meet the community's needs. As of December 31, 2002, the bank's \$100 million loan portfolio consisted of 51% commercial loans, 32% residential real estate loans, 11% consumer loans and 6% agricultural loans. As of December 31, 2002, net loans made up 66.17% of total assets. The bank's primary lending focus is commercial and consumer loans in its Roseville branch and residential real estate loans and consumer loans in its Northfield and Cannon Falls branches.

There are no financial, legal or other factors that impede CNB's ability to meet its CRA obligations. The bank's last CRA rating was a "Satisfactory Record of Meeting Community Credit Needs" dated September 21, 1998.

## **DESCRIPTION OF ASSESSMENT AREAS**

CNB has two assessment areas: the Northfield/Cannon Falls Assessment Area and the Ramsey/Dakota County Assessment Area.

### **Northfield/Cannon Falls Assessment Area**

CNB's Northfield/Cannon Falls Assessment Area (Non-MSA AA) includes three Block Numbering Areas (BNAs) in northern Rice County (9702, 9705 and 9706) and two BNAs in western Goodhue County (9805 and 9806). With the exception of BNA 9806, the BNAs are upper-income (80%). BNA 9806 is middle-income (20%). The bank's assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Based on 1990 census information, 10% of the families within the bank's assessment area are low income, 13% moderate income, 20% middle income and 57% upper income. The 1990 census non-metropolitan areas of Minnesota median family income was \$28,933. Based on the Department of Housing and Urban Development's 2002 estimate, the updated median family income is \$48,500 for non-metropolitan areas in the State of Minnesota.

The 2000 census information pursuant to the US Census Bureau indicates the population of Rice County has increased by 15.2% since 1990 to a current population of 56,665 persons. Goodhue County has increased by only 5.7% in the same timeframe. Comparatively, the population of the State of Minnesota has increased by 12.4% since 1990. The growth of Rice County can be attributed to its close proximity to the Minneapolis-St. Paul metropolitan area.

Unemployment levels in the Northfield/Cannon Falls Assessment Area are increasing, which is consistent with the current trends nationwide. Pursuant to the Minnesota WorkForce Center, Rice County unemployment was at 5.6% as of March, 2003, compared to 4.9% for the State of Minnesota and 6.2% for the United States as of the same date. Goodhue County unemployment as of March, 2003 was at 5.3%. The increase can be attributed to the overall economic conditions. The unemployment average for Rice County for 2002 was 4.7% and 3.7% for 2001. State and national averages have also increased to 4.4% and 5.8%, respectively for 2002, and 3.7% and 4.7%, for 2001. Similarly, Goodhue County 2002 unemployment average was 4.8%, up from 3.5% in 2001.

Northfield offers good employment opportunities. The Chamber of Commerce lists the top five employers as St. Olaf College, Malt-O-Meal, Carleton College, Sheldahl Materials and the Northfield School District. Each of these employs more than 500 persons. Cannon Falls's major employers include Midwest of Cannon Falls, Cannon Equipment, and the Cannon Falls Public Schools. Northfield is also home to two private colleges, which bring approximately 5,000 students to the area.

The 1990 census data indicated that households below the poverty level for CNB's Northfield/Cannon Falls Assessment Area are at 8.41%. 7.9% of the persons living in the State of Minnesota are below the poverty level. That compares to 6.9% in Rice County and 5.7% in Goodhue County.

There are nine financial institutions with a presence in CNB's Non-MSA AA. Those institutions have assets ranging from \$27 million to \$52,843 million. Pursuant to 2001 Deposit Data provided by the census bureau, CNB is ranked second in deposit share within this AA with 19% of the deposits.

The cost of median family housing has increased from 1990 census information of \$80,450 in CNB's assessment area to \$123,600 in Rice County and \$116,000 in Goodhue County per 2000 census information. 2000 Census information lists home ownership at 77.9% in Rice County and 79% in Goodhue County, compared to 74.6% in Minnesota and 66.2% nationwide. Lack of affordable housing has been identified by area organizations as a need and projects are currently under way to increase the number of single family homes and townhomes that are affordable. High home costs occur because of the commutable distance from the metro area and the increased popularity of the rural locations such as Rice and Goodhue counties.

### **Ramsey/Dakota County Assessment Area**

The Ramsey/Dakota County Assessment Area (MSA AA) includes all of Ramsey and Dakota Counties. Both counties are part of the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). The MSA AA includes 190 Census Tracts (CTs). Based on the 1990 census data, 14 CTs are low-income (7.4%), 38 CTs are moderate-income (20%), 104 CTs are middle-income (54.74%), 31 CTs are upper income (16.32%) and 3 CTs do not have any income data available (1.54%). The MSA AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

Based on 1990 census information, 18% of the families within this MSA AA are low income, 19% moderate income, 27% middle income and 36% upper income. The 1990 census median family income for the Minneapolis/St. Paul Assessment Area was \$43,063. Based on the Department of Housing and Urban Development's 2002 estimate, the updated median family income for the MSA is \$76,700.

The 2000 census information pursuant to the US Census Bureau indicates the population of Dakota County has increased by 29.3% since 1990. Ramsey County has increased by only 5.2%. The combined 2000 population is 866,939 persons.

Unemployment levels in the Ramsey/Dakota County Assessment Area are slightly lower than the State of Minnesota. Pursuant to the Minnesota WorkForce Center, the entire Minneapolis/St. Paul MSA unemployment rate for March, 2003 was 4.4%, compared to 4.9% for the State of Minnesota. The individual counties were 4.1% and 3.8% respectively. Unemployment in the MSA has been increasing, however, at a slower rate than the rest of the State of Minnesota. The 2002 average for the entire MSA was 4.2% and 3.3% for 2001. 2002 unemployment for Ramsey County was 4.2% and 3.7% for Dakota County. 2001 averages were 3.3% and 2.8% respectively.

The City of Roseville is considered the retail and commercial hub of the northeast suburban area. It contains vibrant retail and commercial developments and employs more than 40,000 people. Major employers include Honeywell-Advanced Circuits, CompuType, Old Dutch Foods, Liberty Check Printers, Parker-Hughes Institute, Xcel Energy, Allina Healthcare and Veritas Software.

The 1990 census data indicated that households below the poverty level for CNB's Ramsey/Dakota County Assessment Area are at 8.16%. 7.9% of the persons living in the State of Minnesota are below the poverty level. That compares to 10.6% in Ramsey County and 3.6% in Dakota County.

The cost of median family housing has increased from 1990 census information of \$90,264 in CNB's assessment area to \$126,400 in Ramsey County and \$152,400 in Dakota County per 2000 census information. These prices compare to the State of Minnesota average of \$122,400. 2000 Census information lists home ownership at 63.5% in Ramsey County and 78.2% in Dakota County. These percentages compare to 74.6% in Minnesota and 66.2% nationwide.

Bank competition in the MSA AA is strong. There are more than 90 financial institutions in this AA. CNB has less than a 1% share of deposits in this area according to June, 2001 deposit information obtained from the Federal Deposit Insurance Corporation. CNB's presence in this AA began with the purchase of their Roseville branch in May, 1999.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 18 quarters since the previous CRA exam is 78.49%. In addition, CNB originates residential real estate loans and sells loans through the secondary market. In 2001 and 2002, CNB sold approximately \$16 million in loans on the secondary market. While these activities assist in CNB's efforts to meet local credit needs, the volume of sold loans are not reflected in the quarterly loan-to-deposit ratio.

Similarly situated banks in the Non-MSA AA have quarterly average loan-to-deposit ratios ranging from 72.09% to 82.30% over the same time frame. Similarly situated banks include the banks with a presence in the Non-MSA AA with total assets between \$78 and \$149 million.

Institution	Assets (as of 12/31/02)	Average Loan-to-Deposit Ratio 3Q98 – 4Q02
First National Bank, Northfield, MN	\$ 85 million	72.09
White Rock Bank, Cannon Falls, MN	\$78 million	74.64
First National Bank, Cannon Falls, MN	\$108 million	75.86
Community National Bank, Northfield, MN	\$149 million	78.49
Premier Bank, Farmington, MN	\$115 million	82.30

Similarly situated banks in the MSA AA have quarterly average loan-to-deposit ratios ranging

from 74.95% to 101.95% over the same time frame. Similarly situated banks include the banks with a presence in the MSA AA with more than 50% of their loan portfolios in commercial loans as of December 31, 2002, with total assets between \$100 and \$200 million.

Institution	Assets (as of 12/31/02)	Average Loan-to-Deposit Ratio 3Q98 – 4Q02
St. Anthony Bank, St. Paul, MN	\$151 million	74.95
Community National Bank, Northfield, MN	\$149 million	78.49
First National Bank, Fulda, MN	\$119 million	80.14
Premier Bank, Farmington, MN	\$115 million	82.30
Lake Area Bank, Lindstrom, MN	\$179 million	89.46
Community National Bank, North Branch, MN	\$104 million	101.95

### Lending in Assessment Area

Based on a sample of 20 residential real estate loans and 20 consumer loans from the Non-MSA AA and 20 commercial and 20 consumer loans from the MSA AA, CNB originates a majority of its loans to borrowers located within its defined assessment areas. The sample determined that of loans originated from July, 1998 through December, 2002, 72.50% by number and 74.29% by dollar were made to borrowers located within the bank's assessment areas. During this time frame, 65% of the loans made by dollar were originated from the Non-MSA branches of Northfield and Cannon Falls. The following table shows loans originated inside their assessment areas by number and dollar volume:

Lending in Assessment Area by Number and Dollar Amount				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Residential Real Estate – Northfield/Cannon Falls branches	16	80%	\$2,033,872	80.25%
Consumer – Northfield/Cannon Falls branches	17	85%	\$307,580	88.11%
Commercial – Roseville branch	13	65%	\$1,187,362	70.59%
Consumer – Roseville branch	12	60%	\$245,181	47.67%
<b>Totals</b>	<b>58</b>	<b>72.50%</b>	<b>\$3,773,995</b>	<b>74.29%</b>

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

Northfield/Cannon Falls - Non-MSA AA:

CNB has a reasonable distribution of credit among consumer borrowers of different income levels. The following table compares the actual percentage of families based on income level located within the assessment area to those loans made by the bank from the selected loan sample of 20 residential real estate loans. While CNB's lending in the moderate, middle and upper-income categories is reasonable, lending to low-income borrowers appears low. However, the disparity between the 2002 HUD estimated median family income for non-metro MN and similar data for the 2 counties for Northfield and Cannon Falls, MN is very large and distorts actual lending performance for CNB. Income for Goodhue and Rice Counties are \$62,700 and \$62,100, respectively. Due to their close proximity to the Minneapolis/St. Paul metropolitan area, these levels are considerably higher than the 2002 HUD estimated median family income for non-metro areas of MN of \$48,500. Of the 87 counties in Minnesota, Goodhue and Rice Counties have the 14<sup>th</sup> and 15<sup>th</sup> highest annual incomes, behind the 11 counties of the Minneapolis/St. Paul MSA, the Olmsted County MSA and Nicolett County. Using the Rice County annual income per HUD for 2003, low and moderate-income borrowers would have represented 40% of the real estate loans in the sample by number and 32.47% by dollar.

<b>Lending Distribution Based on Income Level of Real Estate Borrowers</b>			
Borrower Income Level (per 2002 HUD Estimated Median Family Income for non-metro areas of MN)	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Families in each Income Category (per 1990 Census Information)
Low (\$0 - \$24,250)	0%	0%	10.23%
Moderate (\$24,251 - \$38,800)	15%	10.57%	13.06%
Middle (\$38,801 - \$58,200)	30%	25.97%	20.25%
Upper (\$58,201 and over)	55%	63.46%	56.46%

CNB has a reasonable distribution of credit among consumer borrowers of different income levels. The following table compares the actual percent of households based on income level located within the assessment area to those loans made by the bank from the selected loan sample of 20 consumer loans. By comparison, using the Rice County 2003 HUD Median Family Income, low-income borrowers would have represented 10% by number and 7.3% by dollar and moderate-income borrowers would have represented 40% by number and 41.35% by dollar of the consumer loans included in our sample.



<b>Lending Distribution Based on Income Level of Consumer Borrowers</b>			
Borrower Income Level (per 2002 HUD Estimated Median Family Income for non-metro areas of MN)	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Households in each Income Category (per 1990 Census Information)
Low (\$0 - \$24,250)	0%	0%	16.25%
Moderate (\$24,251 - \$38,800)	20%	16.33%	11.13%
Middle (\$38,801 - \$58,200)	30%	32.32%	15.84%
Upper (\$58,201 and over)	50%	51.35%	56.78%

Ramsey/Dakota County - MSA AA:

CNB has a reasonable distribution of credit among businesses of different sizes.

Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to more than a million dollars. A random sample of 20 commercial files indicates the following breakdown of annual revenues.

<b>Lending Distribution Based on Revenue Size of Business</b>			
Revenue Size of Business	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentages of Businesses in Each Revenue Category (per 2002 Business Demographic Data)*
Commercial < 1 million in annual sales	55%	53.05%	57.46%
Commercial > 1 million in annual sales	45%	46.95%	6.09%

\*36.45% of business did not report revenues

CNB has an excellent distribution of credit among consumer borrowers of different income levels. The following table compares the actual percent of households based on income level located within the assessment area to those loans made by the bank from the selected loan sample of 20 consumer loans.

<b>Lending Distribution Based on Income Level of Consumer Borrowers</b>			
Borrower Income Level (per 2002 HUD Estimated Median Family Income for Minneapolis-St. Paul MSA)	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Households in each Income Category (per 1990 Census Information)
Low (\$0 - \$38,350)	40%	47.91%	22.11%
Moderate (\$38,351 - \$61,360)	25%	12.76%	17.37%
Middle (\$61,361 - \$92,040)	25%	31.39%	22.55%
Upper (\$92,041 and over)	10%	7.94%	37.97%

### **Geographic Distribution of Loans**

#### Northfield/Cannon Falls - Non-MSA AA:

The geographic distribution of loans does not provide a meaningful analysis in the Non-MSA AA as none of the BNAs in that AA area are defined as low- or moderate-income.

#### Ramsey/Dakota County - MSA AA:

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

The Roseville branch is located in a middle-income CT. As indicated in the following table, the majority of the loans from the sample of 20 commercial and 20 consumer loans were made to borrowers located in middle-income CTs. The CT where the Roseville branch is located is not contiguous with any low or moderate-income tracts and the numbers in the following table are reflective of the income categories of the CTs nearest the Roseville branch.

<b>Geographic Distribution of Loans</b>				
<b>Census Tract Income Level*</b>	<b>Low 7.37%</b>	<b>Moderate 20%</b>	<b>Middle 54.74%</b>	<b>Upper 16.32%</b>
Commercial Businesses by BNA	4.70%	11.79%	61.66%	21.56%
CNB Commercial Loans	0%	15%	45%	35%
Percent of Households by Income Level of Tract	4.05%	16.76%	60.04%	19.15%
CNB Consumer Loans	0%	5%	80%	15%

\*1.58% of census tracts – N/A

### **Responses to Complaints**

CNB has not received any complaints about its performance in helping meet assessment area credit needs during this evaluation period.

### **Fair Lending Review**

An analysis of the most recent 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.