

PUBLIC DISCLOSURE

July 12, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank
Charter Number 23351
422 Commercial Street
Waterloo, Iowa 50704

**Office of the Comptroller of the Currency
Minneapolis Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402**

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.

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation:

Assessment Area - The geographic area in which an institution's CRA performance is assessed. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.

Income Levels - The regulation prescribes various income levels, relating to individuals, families and geographies: low-income = less than 50% of the median family income; moderate-income = at least 50%, but less than 80% of the median; middle-income = at least 80%, but less than 120% of the median; and, upper-income = 120% or more of the median.

Median Family Income - The median family income is determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

Small Business or Small Farm - A business or farm with gross annual revenues of \$1 million or less.

Small Loan to a Business or Farm - A loan of \$1 million or less to any business and a loan of \$500,000 or less to any farm.

GENERAL INFORMATION

The Community Reinvestment Act 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 Community Reinvestment Act (CRA) performance of **Community National Bank, Waterloo, Iowa**, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **July 12, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “Satisfactory.”

- C Community National Bank meets the credit needs of the community, as demonstrated by its average loan-to-deposit ratio of 55% since the bank’s opening. This ratio continues to steadily increase.
- C A majority of loans by both number (86%) and dollar volume (69%) are located within the bank’s defined assessment area.
- C The bank lends to businesses of various sizes and to individuals of different income levels, including low- and moderate-income borrowers.
- C Geographic distribution of commercial and residential loans meets and exceeds community demographics, respectively.

DESCRIPTION OF INSTITUTION

Community National Bank (CNB), Waterloo, Iowa is a \$106 million commercial bank. The bank's main office is a full-service facility located in downtown Waterloo, Iowa. The bank also has two additional branches with drive-up facilities and two automated teller machines located in Waterloo and Cedar Falls.

CNB's business focus is commercial and commercial real estate lending. The bank's Report of Condition (Call Report) shows the following outstanding loans by dollar volume on June 30, 1999: commercial (67%), residential (18%), consumer (13%), and agricultural (2%). Loans represent 66% of total assets.

CNB is a wholly-owned subsidiary of Community National Bancorporation, a one-bank holding company headquartered in Waterloo, Iowa. The holding company is widely held.

This is CNB's first CRA examination since the bank opened as a de novo charter on August 18, 1997. There are no legal impediments or other factors, including the financial condition of the bank, which limit its ability to perform in accordance with CRA regulations. This Performance Evaluation covers the bank's CRA activities from inception through June 30, 1999.

DESCRIPTION OF ASSESSMENT AREA

CNB defines its assessment area as Black Hawk County, Iowa. This area is also the Waterloo-Cedar Falls metropolitan statistical area (MSA #8920). The population of the assessment area is 123,798, according to 1990 U.S. Census Data. The assessment area includes the cities of Waterloo, Cedar Falls, Elk Run Heights, Evansdale, Gilbertville, Raymond, Dunkerton, LaPorte City, and Hudson.

CNB's assessment area meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

The Department of Housing and Urban Development's 1998 updated statewide MSA median family income (MFI) estimate is \$43,500. Approximately 12% of families have income below the poverty level (< 30% of MFI). The following summarizes the income levels of individual census tracts and families located within the bank's assessment area:

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

INCOME DISTRIBUTION OF TRACTS AND FAMILIES			
Income Level	# of Tracts	% of Tracts	% of Families
Low	3	8%	21%
Moderate	9	25%	18%
Middle	15	42%	21%
Upper	9	25%	40%
Total	36	100%	100%

Source: U.S. Census Data (1990)

Median housing value is \$46,055 and average monthly rent is \$322 according to 1990 U.S. Census Data. However, updated information provided by the local Board of Realtors indicates a large increase in both housing prices and rental costs. Median selling price of homes in 1998 was \$70,900 and average monthly rent was \$541. This remains affordable for moderate-income persons, but is straining low-income persons. Owner-occupied housing comprises 63.6% of all housing units, rental-occupied housing is 30.9%, and 5.5% of units are vacant.

Unemployment is low at 3.0% in Black Hawk County and 2.2% for the state of Iowa as of May 1999. Major industries include manufacturing, health services, and retail trade. Large employers in the assessment area include John Deere (6,000 employees), IBP, Inc. (2,200), Covenant Medical Center (2,200), Allen Memorial Hospital (1,120), and HyVee Food Stores (1,106).

Competition for loans and deposits in the assessment area is strong. CNB ranks second in total assets among the seven banks chartered in Black Hawk County. However, there are also four large regional banks with branches in the assessment area. These four branches control 89% of bank deposits located in Black Hawk County. As of June 30, 1998, CNB ranks sixth among 11 banks with offices in Black Hawk County at 3.29% deposit market share. This does not include significant competition provided by area credit unions.

As part of our review, we contacted a local economic development organization. The community contact and other information indicate an improving economic trend. Our contact identified credit needs in the community related to local business expansion and attraction of new businesses. All financial institutions, including CNB, are very willing

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

to provide conventional and creative business financing and professional expertise.

Loan-to-Deposit Ratio

CNB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. The bank’s quarterly average net loan-to-deposit ratio was 55.16% from September 30, 1997 through March 30, 1999. CNB’s net loan-to-deposit ratio is increasing over the last seven quarters, improving from 16% to 72%.

CNB’s net loan-to-deposit ratio is below six other community banks of similar asset size (<\$215 million) in the assessment area. These banks had quarterly average net loan-to-deposit ratios ranging from 60% to 94% and averaging 81% over the last seven quarters.

Despite a lower average loan-to-deposit ratio than other assessment area banks, CNB’s ratio is reasonable. As CNB becomes more established in the community, it’s loan-to-deposit ratio continues to approach the assessment area average. On March 31, 1999, CNB’s loan-to-deposit ratio was 72%. This compares favorably to the six other banks which had ratios averaging 83% and ranging from 60% to 94%. This trend should continue as CNB had loan growth of 247% in 1998 and 68% in the first one-half of 1999.

Lending in Assessment Area

CNB originates a majority of its loans both by number (86%) and dollar volume (69%) to borrowers located within its assessment area, as shown in the following table:

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT				
(000s)				
Type of Loan	Number	% of Number	Dollars	% of Dollars
Commercial	358	83%	\$56,235	64%
Residential	282	90%	\$16,358	92%
Consumer	499	86%	\$7,029	64%
Agricultural	16	70%	\$1,222	80%
Total	1,155	86%	\$80,884	69%

Source: Bank records (verified by examiners)

We used bank-generated reports to determine the location of loan customers. We verified

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONT.)

this data for accuracy using automated geocoding software.

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

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. The bank’s commercial lending directly addresses community credit needs identified by our community contact. Commercial lending activity in the assessment area (87%) meets area demographics of 88%. CNB originated 358 commercial loans totaling \$56 million in the assessment area through June 30, 1999. The largest number of loans in the assessment area were originated to small businesses with less than \$250,000 in annual revenues. Examiners sampled 30 commercial and commercial real estate borrowers representing 12.5% of all commercial borrowers with loans originated in the assessment area through June 30, 1999. The following table compares the bank’s commercial lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE			
Annual Gross Revenue	Number	Percent of Number	Business Demographic Data
<\$50,000	5	17%	88%
\$ 50,000-\$100,000	4	13%	
\$100,000-\$250,000	8	27%	
\$250,000-\$500,000	4	13%	
\$500,000-\$1,000,000	5	17%	
>\$1,000,000	4	13%	12%
Totals	30	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Residential real estate lending activity in the assessment area meets community demographics for low-income borrowers and exceeds them for moderate-income borrowers. The bank is actively lending to low- and moderate-income borrowers for home purchases. This lending directly addresses the need for affordable low-income housing in the face of rising housing costs in the assessment area. CNB originated 283

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONT.)

HMDA-reportable residential real estate loans in the assessment area totaling over \$16 million through

June 30, 1999. The following table compares the bank's residential real estate lending activity by purpose and borrower income level to area demographics:

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY INCOME LEVEL									
Borrower Income Level	Purchase			Home Improvement			Refinance		
	Number of Loans	% of Number	% of Families	Number of Loans	% of Number	% of Families	Number of Loans	% of Number	% of Families
Low	14	13%	13%	2	4%	13%	9	7%	13%
Moderate	29	27%	16%	16	33%	16%	24	19%	16%
Middle	18	17%	23%	9	19%	23%	27	22%	23%
Upper	46	42%	48%	21	44%	48%	59	47%	48%
Not Reported	2	1%	0%	0	0%	0%	6	5%	0%
Totals	109	100%	100%	48	100%	100%	125	100%	100%

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

Geographic Distribution of Loans:

Geographic distribution of loans in the assessment area is reasonable. Commercial loan distribution in low- and moderate-income census tracts is consistent with assessment area demographics, as shown in the following table:

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS IN THE ASSESSMENT AREA					
Tract Income Level	Originations through June 30, 1999				% of Businesses By Tract Type
	Number	% of Number	Dollars (\$000)	% of Dollars	
Low-Income	37	10%	\$10,510	19%	17%
Moderate-Income	42	12%	\$5,505	10%	16%
Middle-Income	155	43%	\$22,522	31%	46%
Upper-Income	124	35%	\$17,698	40%	21%
Totals	358	100%	\$56,235	100%	100%

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONT.)

CNB originated commercial loans in 35 of 36 census tracts in the assessment area. The bank did not originate a commercial loan in census tract 7.00, which is low-income. This is not a concern given the bank’s overall level of lending to low-income geographies as noted in the prior table.

Residential real estate loan distribution is reasonable. CNB exceeds community demographics for home purchase lending in low-income tracts and for home improvement lending in moderate-income tracts, as shown in the following table:

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY INCOME LEVEL									
Borrower Income Level	Purchase			Home Improvement			Refinance		
	# of Loans	% of Number	% Owner Occupied Housing	# of Loans	% of Number	% Owner Occupied Housing	# of Loans	% of Number	% Owner Occupied Housing
Low	6	6%	2%	1	2%	2%	1	1%	2%
Moderate	19	17%	17%	13	27%	17%	25	20%	17%
Middle	46	42%	51%	20	42%	51%	45	36%	51%
Upper	38	35%	30%	14	29%	30%	54	43%	30%
Totals	109	100%	100%	48	100%	100%	125	100%	100%

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

CNB originated residential loans in 34 of 36 census tracts in the assessment area. The bank did not originate a residential loan in census tracts 28.00 and 29.02, which are middle- and upper-income tracts, respectively.

Response to Complaints

The bank has not received any CRA-related complaints since its opening.

OTHER INFORMATION

Fair Lending

Our review of automobile loan approvals and denials did not identify any substantive violations of antidiscrimination laws and regulations based on gender. Fair lending policies, practices, and training are adequate.