



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

PUBLIC DISCLOSURE

July 6, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Community First National Bank
Charter Number 23433
118 Elm Street
Spooner, Wisconsin 54801**

**Supervisory Agency: Office of the Comptroller of the Currency
Midwestern District
2345 Grand Avenue, Suite 700
Kansas City, Missouri 64108**

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.

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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.*

Block Numbering Area - *A small, statistical area within a nonmetropolitan county (also known as a "geography").*

Community Development Loan - *A loan with a **primary** purpose of community development. With one exception community development loans specifically exclude loans reported in Home Mortgage Disclosure Act (HMDA) or CRA (small loans to businesses and farms) Disclosure Statements. Multi-family rental housing loans can be reported under HMDA and count as a community development loan.*

Community Development Purpose - *Affordable housing (including multifamily rental housing) for low- and moderate-income (LMI) individuals; community services targeted for LMI individuals; activities that promote economic development by financing businesses or farms that meet certain size and revenue standards prescribed by regulation; and, activities that vitalize or stabilize LMI geographies.*

Community Development Service - *A service, related to the provision of financial services, with a **primary** purpose of community development.*

Income Levels - *The regulation prescribes various income levels, relating to individuals, families and geographies: low-income = less than 50% of the median; 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.*

Large Bank - *A financial institution with total assets of \$250 million or more, or an institution of any size that is an affiliate of a bank holding company with banking and thrift assets of \$1 billion or more.*

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.*

Qualified Investment - *A lawful investment with a **primary** purpose of community development.*

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 (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 **Community First National Bank, Spooner, Wisconsin, (CFNB)** prepared by the **Office of the Comptroller of the Currency (OCC)** as of **July 6, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. 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."**

The strengths of CFNB's performance that contributed to the "Satisfactory" rating were:

- o The bank originated a very good volume of residential mortgage and small business loans, and an excellent volume of community development loans.
- o The distribution of small loans to businesses was very good. Approximately 79% of such loans were to small businesses, consistent with market demographics. And of all small loans to businesses in the assessment area, 89% had origination amounts less than \$100,000.
- o The geographic distribution of small loans to businesses was strong (51% of small loans to businesses compared to 28% of businesses in moderate-income block numbering areas).
- o Retail delivery systems are accessible to all portions of the assessment area, which is predominantly moderate-income. Half the bank's branches are in moderate-income areas that have no other financial institution presence. CFNB also expanded services at the branches in moderate-income areas over the evaluation period.

The following table indicates the bank's performance level with respect to the lending, investment and service tests.

Community First National Bank CRA Performance Tests*			
Performance Levels	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory			X
Needs To Improve			
Substantial Noncompliance		X	

***Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.**

DESCRIPTION OF THE INSTITUTION

Community First National Bank (CFNB) is a \$100 million commercial bank located in northwestern Wisconsin. The main office is located in the City of Spooner (population 2,264), the largest city in Washburn County. CFNB has three other branches - a full-service branch in Minong, a full-service branch in Stone Lake and a depository branch in a Spooner grocery store. The bank also operates three full-service automated teller machines (ATMs).

CFNB offers a full range of credit products and financial services, but its market niche is commercial and residential lending. As of March 31, 1998, CFNB's loan portfolio totaled \$70 million and represented 85% of bank deposits. By outstanding dollars, the loan portfolio consisted of commercial (49%), residential (31%), consumer (15%) and other loans (5%). The loan-to-deposit ratio and loan mix ratios do not reflect loans originated, and subsequently sold, by the bank. As of March 31, 1998, CFNB serviced a portfolio of residential loans (with an outstanding balance of \$13 million) that it originated and sold prior to 1997. In 1997 and year-to-date 1998, the bank originated and sold another 190 residential loans totaling \$14 million. Commercial loan participations sold totaled another \$7 million as of the examination date.

CFNB is owned by Community First Bankshares, Inc., a \$5.7 billion holding company headquartered in Fargo, North Dakota. CFNB has ten commercial bank charters (with more than 150 banking locations) throughout North Dakota, South Dakota, Minnesota, Wisconsin, Iowa, Nebraska, Arizona, Colorado, Wyoming and Utah. Other nonbank affiliates provide investment securities, insurance and trust services.

There are no financial, legal or other factors which impede the bank's ability to meet its CRA obligations. In 1997, CFNB had net income of \$1.4 million and a return on average assets (ROAA) of 1.38%. As of March 31, 1998, the bank had net income of \$335,000, a ROAA of 1.36% and \$7.9 million Tier 1 capital.

DESCRIPTION OF THE ASSESSMENT AREA

CFNB has one rural assessment area with a population of 22,711. It consists of Washburn County, the western edge of Sawyer County and eastern edge of Burnett County. The assessment area complies with regulatory requirements. It includes all CFNB branch offices and ATMs, as well as a majority of its loans. The area does not arbitrarily exclude any low- or moderate-income block numbering areas (BNAs).

CFNB serves a predominantly low- and moderate-income market. Eight of the 12 BNAs in the bank's assessment area (or 67%) are moderate-income; the remaining BNAs are middle-income. Of the 6,393 families and 9,061 households in this area, 52% are low- or moderate-income. The Department of Housing and Urban Development's 1998 statewide median family income estimate is \$41,800. In 1990, the statewide median family income was \$30,290.

The following table summarizes various demographic data for CFNB's assessment area, including BNAs and families by income level. It also shows the distribution of businesses by BNA income level.

ASSESSMENT AREA PROFILE					
Community First National Bank					
DEMOGRAPHIC CHARACTERISTICS	#	Income Level			
		Low % of #	Moderate % of #	Middle % of #	Upper % of #
Block Numbering Areas (BNAs)	12	0%	67%	33%	0%
Population	22,711	n/a	48%	52%	n/a
Family By Income Level (13% below poverty)	6,396	28%	24%	23%	25%
Families By BNA Income	6,396	n/a	50%	50%	n/a
Households By Income Level (18% below poverty)	9,061	33%	19%	20%	28%
Households By BNA Income	9,061	n/a	49%	51%	n/a
Owner Occupied Housing By BNA Income	6,185	n/a	51%	49%	n/a
Vacant Housing By BNA Income	9,386	n/a	82%	18%	n/a
Businesses By BNA Income	1,016	n/a	28%	72%	n/a
Revenues <= \$1 million: 806 (79%)					
Revenues > \$1 million: 68 (7%)					
Unreported Revenues: 142 (14%)					
Median Housing Value = \$49,624					
Median Family Income = \$30,290					
HUD Adjusted Median Family Income for 1998 = \$41,800					
Unemployment Rate = 5.9% in 1996					

Data Source: U. S. Bureau of the Census (1990); Dun and Bradstreet (1996); Bureau of Workforce Information

The local economy is stable and primarily dependent on tourism. Washburn County is recognized as a recreational area with 961 lakes and three navigable rivers. Approximately 67% of the county is covered by forest land. A large share of the economy is supported by individuals with second or recreational homes.

Government, services and light manufacturing are all major sources of employment in the area. The largest employers include Community Memorial Hospital and Nursing Home, Department of Natural Resources, Link Industry Division, Birchwood Lumber & Veneer, Shell Lake Public School and Spooner High School.

Unemployment rates are at historically low levels, although they run higher than regional, state and national averages. In 1996, the unemployment rate in Washburn County was 5.9%. The Department of Industry, Labor and Human Relations attributes higher unemployment to a "labor force/jobs mismatch."

Competition among financial institutions in the assessment area is healthy. Approximately a dozen banks, savings institutions and credit unions serve the area. Competition includes branches of two regional banks. CFNB has the largest deposit market share (45%) in Washburn County.

The most pressing credit needs include affordable housing, home improvement and small business loans. We determined these needs from two community contacts made during the examination, as well as one recent contact conducted by another regulator.

EXAMINATION SCOPE

We examined CFNB using the Lending, Investment and Service Tests for large banks pursuant to the revised CRA regulation. These tests were used to assess the bank's record of helping to meet community credit needs. We analyzed CFNB's residential mortgage, small business and community development lending; the number and types of qualified investments; branch distribution and accessibility; as well as retail and community development services.

The current evaluation covers lending, investment and service activities since the previous examination (August 29, 1994), with the following exceptions/notations:

- o Our analysis of small business lending focused on originations since January 1996. Under the revised CRA regulation, this was the first year banks had to collect small business loan data. We adjusted CFNB's origination numbers to omit individual extensions under a line of credit.
- o Aggregate small business loan data released by the Federal Financial Institutions Examination Council (FFIEC) was only available for 1996 at the time of this examination. We also adjusted aggregate origination numbers for the bank adjustment noted in the previous paragraph.
- o Our analysis of small business loan size distribution focused on 1997 and year-to-date 1998 originations. CFNB could not reconstruct individual loan data for 1996 originations and FFIEC information is not available for areas smaller than entire counties.
- o Our analysis of residential mortgage lending focused on originations since January 1997. CFNB is not required to report data under the Home Mortgage Disclosure Act. Information prior to that date was not readily available due to a change in data processing systems.
- o We evaluated all residential mortgage loans as one product. Bank system limitations precluded a more detailed analysis by loan type (i.e. home purchase, refinancing, and home improvement).
- o Our analysis did not include agricultural loans. This is not a major product for the bank. Since January 1996, CFNB originated only 13 farm loans. Farm credit needs are minimal - less than 5% of all businesses in the assessment area are farms.
- o In the lending test, we weighted small loans to businesses and residential loans fairly equally. The two products had essentially the same number of originations in 1997 (182 and 183, respectively). Total origination dollars for 1997 and year-to-date 1998 were also about the same for both products (\$18 million).

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Lending Activity

CFNB showed very good responsiveness to small business, residential mortgage and community development credit needs.

- o CFNB originated 441 small loans to businesses totaling \$36 million since January 1, 1996. A majority of these loans were in the assessment area - 319 loans totaling \$21.6 million. The percentage of loans inside the assessment area was 72% by number and 60% by dollar volume.
- o CFNB originated 329 residential loans totaling \$17.8 million since January 1, 1997. The bank is not a Home Mortgage Disclosure Act reporter, so we sampled 47 loans which represented 14% of the originations. Of the loans sampled, 38 (or 81%) were in the assessment area. By dollar volume, 79% of the sampled loans were in the assessment area.
- o Over the evaluation period, CFNB made seven community development loans totaling \$8 million. All of these loans benefit the assessment area.

As of March 31, 1998, CFNB's loan-to-deposit ratio was 85%. In comparison to other similarly situated banks in northwestern Wisconsin (by asset size and loan mix), the bank's ratio ranked in the middle. Loan-to-deposit ratios for this group of fifteen banks ranged from 61% to 101%. These ratios do not reflect loan sales or loan participations sold. CFNB's loan-to-deposit ratio would approximate 128% if loan sales and participations were included.

According to 1996 FFIEC information, the bank was the top producer of reportable small loans to businesses in Washburn County. Information is not available for areas smaller than entire counties. CFNB originated 54% of the reported small loans to businesses by number and 56% by dollar volume. No other lender exceeded 15% market share, by number or dollar. This information is based on data supplied by lenders subject to CRA reporting requirements, i.e. financial institutions with assets of \$250 million or more or affiliated with a bank holding company that has assets of \$1 billion or more. The data does not represent all lenders who provide small loans to businesses in the assessment area.

CFNB was one of the top mortgage producers in Washburn County. In a sample of 11 of the past 18 months, CFNB filed 218 mortgages totaling \$14.5 million. A local competitor filed 245 mortgages totaling \$11.8 million. No other lender came close to this level of mortgage filings in Washburn County. CFNB management stated the competitor's numbers include renewals. CFNB only files a mortgage on new and refinanced loans.

Borrower Distribution - Small Loans to Businesses

A substantial majority of CFNB’s reported business loans were to small businesses. A small business has gross annual revenues of \$1 million or less. Ninety-nine percent of the bank’s reported loans were to small businesses. We adjusted this percentage by 20% - the percentage of revenue reporting errors we identified in a sample. The resulting estimate of loans to small businesses (79%) equals the percentage of businesses that report revenues of \$1 million or less in the assessment area. The actual percentage of loans to small businesses is likely better than 79% because we judgementally sampled loans with the greatest likelihood of being a large business.

CFNB’s willingness to make smaller business loans is further evidenced by the size distribution of its reported originations. Of all small loans to businesses in the assessment area since January 1997, 89% had origination amounts less than \$100,000 and 31% had origination amounts less than \$10,000. The following table details the size distribution of small loans to businesses in the assessment area.

DISTRIBUTION OF SMALL LOANS TO BUSINESSES IN THE ASSESSMENT AREA				
January 1, 1997 through June 15, 1998				
Loan Size	Number	Percent of Number	Amount (\$000)	Percent of Amount
\$0 to \$10,000	65	31%	\$359	3%
\$10,001 to \$25,000	43	21%	\$785	8%
\$25,001 to \$50,000	43	21%	\$1,590	16%
\$50,001 to \$100,000	32	16%	\$2,443	24%
\$100,001 to \$250,000	20	10%	\$3,333	33%
\$250,001 to \$500,000	3	1%	\$1,064	10%
\$500,001 to \$1,000,000	1	0%	\$586	6%
Total	207	100%	\$10,160	100%

Source: Bank Records

Note: The above table reflects the size distribution of loans to businesses of all sizes. We were not able to separately present the size distribution of loans to small businesses due to the revenue reporting error previously discussed.

In 1996, CFNB originated most of the reported small loans to businesses in amounts less than \$100,000 in Washburn County. The bank made 64 of the 113 such loans. Approximately 84% of the bank’s 1996 small loans to businesses originated in amounts less than \$100,000. The aggregate of other reporting banks was also 84%. As previously mentioned, this FFIEC data does not represent all lenders who provide small loans to businesses in the assessment area.

CFNB also has more outstanding commercial loans with origination amounts less than \$100,000 than any other bank in northwestern Wisconsin. We considered information on outstanding commercial loans because so few banks in the area are subject to CRA reporting requirements on small business loan originations. The source of this data is the June 30, 1997, Report of Condition (also known as the "Call Report"). CFNB has 553 outstanding commercial loans with an origination amount less than \$100,000. Of banks with assets of \$50 million or more, the number of such loans range between 225 and 553. The average for this group of fifteen banks is 384.

Borrower Distribution - Residential Loans

CFNB's distribution of residential loans by borrower profile was reasonable. In our sample, the percentage of originations to moderate-income families (24%) equaled the percentage of moderate-income families in the assessment area. The percentage of lending to low-income families (16%) was less than the percentage of low-income families in the assessment area (28%). However, we still considered this level reasonable given the number of families living below poverty (13%). Families below poverty level earn less than \$12,540 per year. At this income level, it would be difficult to afford a home at the assessment area's median value of \$49,624. The next table details the borrower distribution results of our residential sample.

BORROWER INCOME DISTRIBUTION OF RESIDENTIAL LOANS IN THE ASSESSMENT AREA					
Borrower Income Level	Sample of Originations January 1997 through June 1998				Percent of Families in Income Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	6	16%	\$251	15%	28%
Moderate-Income	9	24%	\$335	20%	24%
Middle-Income	9	24%	\$391	24%	23%
Upper-Income	13	34%	\$641	39%	25%
Income Not Available	1	2%	\$32	2%	0%
Total	38	100%	\$1,650	100%	100%

Source: Bank Records

The above numbers were also distorted by seasonal home loans, which according to CFNB management represents a substantial portion of their residential loan business. Seasonal homes (classified as "vacant" housing by the U.S. Census Bureau) account for more than half the housing units in the assessment area. Borrowers who can afford to purchase seasonal homes are typically middle- and upper-income. Excluding seasonal home loans from our sample improved the borrower income distribution as follows:

BORROWER INCOME DISTRIBUTION OF RESIDENTIAL LOANS IN THE ASSESSMENT AREA (Excluding Seasonal Home Loans)					
Borrower Income Level	Sample of Originations January 1997 through June 1998				Percent of Families in Income Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	6	19%	\$251	20%	28%
Moderate-Income	8	26%	\$270	21%	24%
Middle-Income	7	23%	\$278	22%	23%
Upper-Income	9	29%	\$453	35%	25%
Income Not Available	1	3%	\$32	2%	0%
Total	31	100%	\$1,284	100%	100%

Source: Bank Records

Geographic Distribution - Small Loans to Businesses

The geographic distribution of small loans to businesses loans was excellent. Approximately 51% of the reported business loans in the assessment area were in moderate-income BNAs, compared to the 28% of all businesses which are located in such BNAs. The following table further details the geographic distribution of CFNB's small loans to businesses in the assessment area.

GEOGRAPHIC DISTRIBUTION OF SMALL LOANS TO BUSINESSES IN THE ASSESSMENT AREA January 1, 1996 through June 15, 1998					
BNA Income Level	Number	Percent of Number	Amount (\$000)	Percent of Amount	Percent of Businesses in BNA Income Category
Moderate-Income	162	51%	\$12,042	56%	28%
Middle-Income	157	49%	\$9,637	44%	72%
Total Small Loans to Businesses	319	100%	\$21,679	100%	100%

Source: Bank Records

Geographic Distribution - Residential Loans

The geographic distribution of residential loans was reasonable. The following table shows the geographic distribution of the bank’s residential loans based on the sample reviewed. Over 48% (by number) of sampled residential loans were in moderate-income BNAs compared to 51% of owner-occupied housing in such BNAs. Seasonal home loans were excluded because the units are not counted as owner-occupied by the U.S. Census Bureau.

GEOGRAPHIC DISTRIBUTION OF A SAMPLE OF RESIDENTIAL LOANS IN THE ASSESSMENT AREA (Excluding Seasonal Home Loans) January 1, 1997 through June 15, 1998					
BNA Income Level	Number	Percent of Number	Amount (\$000)	Percent of Amount	Percent of Owner-Occupied Housing in BNA Income Category
Moderate-Income	15	48%	\$439	34%	51%
Middle-Income	16	52%	\$845	66%	49%
Total Residential Loans	31	100%	\$1,284	100%	100%

Source: Bank Records

Community Development Lending

CFNB originated a large volume of community development loans during the evaluation period. The bank made seven community development loans in its assessment area totaling \$8 million. This represented 101% of Tier 1 capital as of March 31, 1998. CFNB made four loans to the Northwest Regional Planning Commission (NWRPC) and three loans to the Spooner Community Memorial Hospital and Nursing Home, Inc. (SCMH).

NWRPC is a multi-county planning commission whose purpose is to prepare and recommend plans for economic development. Loan proceeds were primarily used to finance multi-purpose job centers in Spooner and Grantsburg. The job centers serve mostly low- and moderate-income individuals and small area businesses. These loans are very responsive to community needs. As previously mentioned, the relatively high unemployment rates in the area relate to a labor force/jobs mismatch.

SCMH is a nonprofit corporation that operates a 46-bed hospital with an adjoining 90-bed nursing home and medical clinic. SCMH serves all of Washburn County and parts of Burnett and Sawyer Counties. Per CFNB management, over 50% of the clients are low- and moderate-income. Most loan proceeds were used to finance an expansion/remodeling project.

Flexible Loan Programs

CFNB is a participating lender in the Local Initiatives Support Corporation (LISC) program, an affordable housing program for low- and moderate-income borrowers. The program is administered by Rural Economic Community Development Services and Northwest Affordable Housing in Spooner. The participating lender provides downpayment financing up to 20% of the loan with a first mortgage. And the minimum amortization is 30 years. The bank has approved, and is in process of funding, four applications totaling \$55,000.

The bank also participates in the Small Business Administration "Low Doc" program. This program provides loans up to \$100,000 to small businesses with an 80% guarantee to the originating bank. CFNB currently has three loans in this program totaling \$216,000. These loans are included in the small business data previously presented.

INVESTMENT TEST

Qualified investment activity over the evaluation period was inadequate. While investment opportunities in the assessment area are limited, there are opportunities in the form of grants and donations to charitable organizations that have a community development purpose. CFNB made only five donations (totaling less than \$1,000) to charitable organizations that provide community services to low- and moderate-income individuals.

SERVICE TEST

Retail Banking Services

Retail delivery systems are accessible to all portions of the assessment area, which is predominantly moderate-income. As previously mentioned, eight of the 12 BNAs in the assessment area are moderate-income. More than half the families and households in the assessment area are low- or moderate-income.

CFNB has three stand-alone branches, a grocery store branch and three ATMs. Two of the bank's stand-alone branches (Minong and Stone Lake) are in moderate-income areas that have no other financial institution presence.

CFNB expanded the services at both branches in moderate-income areas over the evaluation period. In 1995, the Minong branch added Saturday hours as well as an ATM at a local gas station/convenience store. In 1998, CFNB hired a loan officer to split between the Minong and Stone Lake branches. Previously there was no loan officer at either of these branches and loans were handled by appointment. The bank has not closed or opened any branches since the previous CRA examination.

Banking hours are reasonable and tailored to community needs. Most locations provide Saturday hours. There are no material differences in the availability or cost of services between branches, except that the grocery store branch is mainly a depository branch. Alternate delivery systems include three ATMs; a 24-hour, toll-free telephone banking service; and a bank-by-mail service. The geographic distribution of bank branches and ATMs is detailed in the following table.

DISTRIBUTION OF CFNB BRANCHES & ATMS						
BNA INCOME LEVEL	Branches		ATMs		Percent of Households by BNA Income Level	Percent of BNAs in Assessment Area
	Number	Percent	Number	Percent		
Moderate-Income	2	50%	1	33%	49%	67%
Middle-Income	2	50%	2	67%	51%	33%
Total	4	100%	3	100%	100%	100%

Source: Bank Records, U.S. Bureau of the Census (1990)

Community Development Services

CFNB provided an adequate level of community development services, although they are not particularly innovative. Bank staff primarily provide financial expertise to organizations serving affordable housing and small business needs. Two bank representatives are Board members for the City of Spooner’s Rehabilitation Program and the Spooner Redevelopment Board.

The Rehabilitation program provides home rehabilitation and renovation loans to low- and moderate-income individuals. As previously mentioned, home improvement loans are a credit need in the assessment area. The Board meets monthly to review loan applications, administer loans and monitor the projects to ensure completion.

The Redevelopment Board assists local development in the form of tax free dollars and/or underwriting tax free dollar programs for affordable housing and small business development. The Board meets monthly for approximately one hour to administer current projects and solicit new business.

FAIR LENDING REVIEW

Examiners did not identify any instances of illegal discrimination or discouragement in the concurrent fair lending review. We performed comparative file analysis, using gender as the prohibited basis, on indirect auto loan originations and denials between June 1997 and May 1998.