



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**January 05, 2009**

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

Community National Bank  
Charter Number 16929

7641 Lake Drive  
Lino Lakes, MN 55014-1108

Office of the Comptroller of the Currency

SPECIAL SUPERVISION DIVISION  
250 E Street, S.W., Independence Square  
Washington, DC 20219-0000

**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.**

- The Bank's average loan-to-deposit ratio is good at 95.55%
- The Bank originates a substantial majority of its loans by number and dollar within its assessment area.
- The Bank has a reasonable distribution of credit among business borrowers of different revenue sizes.
- The geographic distribution of business loans among low and moderate income census tracts within the assessment area is reasonable.
- The Bank has not received any CRA related complaints.

**SCOPE OF EXAMINATION**

We assessed the record of Community National Bank in meeting the credit needs of the community, including low- and moderate-income neighborhoods, consistent with the provisions set forth in the Community Reinvestment Act (CRA) for the period beginning September 30, 2003 and ending January 12, 2009. In order to determine the bank's lending performance, we selected primary products based on the dollar amount and number of loan originations for the period beginning January 1, 2007 and ending January 12, 2009.

We determined commercial loans to be the bank's primary loan product. We selected a random sample of these loans in order to evaluate lending within the assessment area, borrower distribution and geographic distribution. We used 2000 census information for demographic comparison purposes.

**DESCRIPTION OF INSTITUTION**

Community National Bank (CNB) is a \$81 million community bank located in Lino Lakes, Minnesota. In addition to its main office in Lino Lakes, the bank operates a full service branch in Vadnais Heights, Minnesota. Both branch locations offer drive-up teller windows and non-deposit taking automated teller machines.

In November 2008, CNB closed its main office in North Branch and moved its charter to the Lino Lakes branch location.

CNB is 100 percent owned by Community Investment Services, Incorporated, a one bank holding company.

CNB's primary lending focus is commercial lending. As of September 30, 2008, CNB's \$48 million loan portfolio was comprised of: \$36 million in commercial and commercial real estate loans (75%), \$9 million in residential real estate loans (18%), \$3 million in consumer loans (6%), \$287 thousand in agricultural loans, and \$27 thousand in other loans. Total Loans represent 60% of total assets. For purposes of this evaluation, we

considered business loans (Commercial and Commercial Real Estate) to be the bank's primary product.

CNB was rated "Satisfactory" as of the prior CRA evaluation period dated October 14, 2003. The bank's ability to lend has been impacted by the terms of a consent order with the Comptroller of the Currency. The terms of the consent order call for reductions in the level of problem assets, maintenance of minimum capital ratios, and additional requirements to be met prior to funding of new loans.

**DESCRIPTION OF ASSESSMENT AREA(S)**

CNB 's assessment area (AA) is located in the northern portion of the Minneapolis/St. Paul/Bloomington Metropolitan Statistical Area (MSA). There are 576 census tracts located in the AA, consisting of all census tracts in Anoka, Chisago, Hennepin, Isanti, Ramsey, and Washington counties. In the AA, 47 census tracts are designated as low-income, 136 are designated as moderate-income, 259 are middle-income, 130 are upper-income, and four do not carry a designation. The AA meets the regulatory requirements and does not arbitrarily exclude and low- or moderate-income geographies.

According to 2000 U.S. Census Data, the total population for the AA is 2,198,837 persons. There are 884,593 housing units located in the AA with 68% being owner occupied. The 2000 Census Data indicates a median housing value of \$150,334 for the MSA. The 2000 Census Data reported a Median Family Income for the MSA of \$64,885, while the Department of Housing and Urban Development's (HUD) 2009 updated Median Family Income is \$80,900. The AA has 7% of families reporting income below the poverty level (less than 30% of the Median Family Income). The following table summarizes the income levels of individual census tracts and families located within the bank's assessment area:

<b>Family Income Level</b>	<b>Percent of Families</b>
Low-Income	18.30%
Moderate-Income	19.17%
Middle-Income	25.56%
Upper-Income	36.96%

Source: 2000 US Census

The economy of the AA varies widely given its location within the Minneapolis/St.Paul/Bloomington MSA as virtually every sector of the economy is represented. Major employers within the AA include 3M Co., University of Minnesota, Fairview University Medical Center, Methodist Hospital, and Health Partners. The average unemployment rate for the six counties in the AA is 6.4%, which is the same as the state of Minnesota average, and slightly lower than the national average of 6.8%. According to 2008 Business Geodemographic Data there are 185,648 businesses located within the AA. The following table summarizes the revenue levels of businesses located within the bank's AA:

<b>Reported Annual Revenue Level</b>	<b>Number of Businesses</b>	<b>Percentage of Total Businesses</b>
Less than \$500 thousand	114,754	60.68%
\$500 thousand to \$1 million	8,385	4.43%
\$ 1 million to \$25 million	11,296	5.97%
Greater than \$25 million	1,040	.55%
Did not report	53,633	28.36%

Source: 2008 Business Geodemographic Data

The community contact stated that the overall financial condition of the area is adequate but noted serious concerns about its future stability. Concerns arise primarily from the significant reliance on the manufacturing industry and how financial institutions will work with borrowers during these tough economic times.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

CNB's net loan-to-deposit ratio (LTD) is strong based on the bank's financial capacity and available lending opportunities. From September 30, 2003 to September 30, 2008, the bank's quarterly LTD ratio averaged 95.55% and ranged from 69.60% to 112.62%.

The bank's LTD ratio is comparable to the LTD ratios of other similarly situated institutions. Similarly situated institutions include banks located in the bank's assessment area with total assets ranging between \$75 million to \$115 million with one to three branches. The average LTD ratios for similarly situated banks over the same period averaged 91.84% and ranged from 78.67% to 105.99%.

### **Lending in Assessment Area**

CNB originated a substantial majority of its loans within its AA. CNB originated 95% by number and 98.59% by dollar volume of its business loans with the AA. We analyzed a random sample of loans originated between January 1, 2007 and January 12, 2009 to determine borrower location. Business loans were selected as primary loan type based on the volume of originations during this time period compared to other loan types.

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

Community National Bank's distribution of loans in its AA to businesses of different revenue sizes is reasonable. The following table shows CNB's distribution of business loans by business revenue sizes compared to the demographics for the assessment area. The data was obtained from a random sample of 60 loans originated or purchased between January 1, 2007 and January 12, 2009. Note that approximately 29% of businesses surveyed did not report revenues.

<b>Borrower Distribution of Loans to Businesses in Assessment Area</b>				
Business Revenues (or Sales)	\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	65.09%	6.06%	28.85%	100%
% of Bank Loans in AA by #	60%	40%		100%
% of Bank Loans in AA by \$	51.64%	48.36%		100%

Source: Bank Records; 2008 Business Geodemographic Data

### **Geographic Distribution of Loans**

Community National Bank's geographic distribution of business loans within the assessment area is not reasonable. The table on the following page shows the bank's distribution of business loans by income level of geographies. As shown in the table, there is a low level of businesses located within low-income geographies. Only 5.42% of all businesses in the assessment area are located in low-income census tracts. Community National Bank's business lending in low- and moderate-income census tracts is less than the demographic. The low level of lending in these geographies is partially explained by CNB's location and the level competition within the AA. Low-income geographies are generally serviced by institutions in closer proximity.

<b>Income Level of Geography</b>	<b>Percentage by number of originations</b>	<b>Percentage by dollar of originations</b>	<b>Assessment Area Businesses %</b>
Low Income	0.00%	0.00%	5.42%
Moderate Income	13.33%	31.87%	19.34%
Middle Income	81.67%	64.06%	48.92%
Upper Income	5.00%	4.07%	26.11%

Source: Bank Records; 2008 Business Geodemographic Data

### **Responses to Complaints**

CNB has not received any CRA related complaints.

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

We found no evidence of illegal discrimination or other illegal credit practices.