



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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**PUBLIC DISCLOSURE**

**May 30, 2007**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Center National Bank  
Charter Number: 20448**

**301 N. Ramsey Avenue  
Litchfield, MN 55355**

**Comptroller of the Currency  
Minneapolis North  
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.**

## **INSTITUTION'S CRA RATING:**

**This institution is rated Outstanding.**

- The bank has an excellent penetration among individuals of different income (including LMI) levels and businesses of different sizes.
- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans by number and by dollar within its assessment area.

## **SCOPE OF EXAMINATION**

The bank's evaluation period was March 31, 2002 through May 1, 2007. We used quarterly loan to deposit ratios to determine the bank's performance over this timeframe. We evaluated the bank's loan data originated January 1, 2005 through May 1, 2007. We used financial information as of March 31, 2007 to calculate the current balance sheet mix. We reviewed commercial loan and residential real estate loan originations. Equal value was placed on each type given 34% of all originations by dollar were commercial (17% by number) and 43% by dollar were residential real estate (14% by number). Although the bank originates a significant number of consumer loans (63% by number), the dollar amount represented only 11%. We sampled 20 of each loan product to assess the bank's lending in the assessment area. We expanded our sample to 60 residential real estate loans based on initial findings when evaluating borrower distribution for residential real estate loans.

## **DESCRIPTION OF INSTITUTION**

Center National Bank (CNB) operates one branch in Litchfield and a loan production office in Wayzata, Minnesota. The bank operates five cash dispensing ATMs at local businesses. The bank is primarily a commercial lender but also has a significant number of real estate, agriculture and consumer loans. As of March 31, 2007, total loans represented 62% of the bank's \$134 million in total assets. The bank's loan portfolio consists of: 38% commercial; 36% residential real estate; 14% agriculture; and 11% consumer loans.

CNB is owned by a closely-held holding company, CNB Financial Corporation. CNB has one loan production office outside the assessment area that engages in lending activities but this did not adversely impact the bank's CRA performance. The bank has ten significant affiliates related through the holding company's controlling owner, none of which have an impact on CRA. There have been no recent changes in the bank's corporate structure.

There are no legal impediments or other factors which limit its ability to meet the credit needs of its assessment area. The bank's last CRA evaluation was as of February 4, 2002. The bank was rated satisfactory at that time.

## **DESCRIPTION OF ASSESSMENT AREA**

### **Meeker County Assessment Area**

The assessment area (AA) consists of six census tracts (CTs), which comprise all of Meeker County. The city of Litchfield is near the center of the AA and is located approximately 65 miles west of the Minneapolis/St. Paul metropolitan statistical area (MSA) and 42 miles south of the St Cloud MSA. The AA does not arbitrarily exclude any low- or moderate-income geography, and is comprised entirely of middle-income geographies. The AA meets the requirements of the regulation.

The AA is economically stable. The area is dependent on retail services and agricultural-related businesses and farms. The population in Meeker County is growing modestly. Data from the most recent census shows a slight increase in AA population from 20,846 in 1990 to 22,644 in 2000, and an increase in homeownership rates from 67% to 71% during this 10-year period. The median housing value was \$94,585 in the 2000 census. Real estate values in the assessment area are appreciating due to population growth and the proximity to Minneapolis/St. Paul. The HUD updated AA median family income increased to \$55,100 in 2006 compared to \$47,100 in 2001.

The economy improved with modest decreases in unemployment. While unemployment in Meeker County remains higher than statewide and nationwide, it declined from 6.4% in February 2002 to 5.1% in May 2007. As of May 2007, unemployment in Minnesota was 4.2% while nationwide was 4.3%. Major employers by industry type continue to be manufacturing, government, and retail services. The largest employers are Innovex Inc., Litchfield School District 465, and Augustana Lutheran Homes. Innovex Inc. is a supplier of flex products to the hard disk drive, telecommunications, chip packaging, and consumer electronics industries with over 400 employees. Litchfield School District 465 has approximately 375 employees and Augustana Lutheran Homes, a nursing care facility, has about 250 employees.

We contacted an economic development organization in the assessment area. The representative indicated primary credit needs are retail and residential real estate due to the increased population growth. The local financial institutions are adequately meeting the credit needs of the community. Also, Meeker County's lending market remains competitive due to the multiple financial institutions offering a variety of services and financial products.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

CNB's average loan-to-deposit (LTD) ratio is reasonable given the size, financial condition and the AAs credit needs. CNB's average quarterly LTD ratio of 69% is similar to the average quarterly LTD ratio of a group of similarly situated banks. We identified five similarly situated institutions with average quarterly LTD ratios that ranged from 57% to 87%. CNB's LTD ratio performance ranks fourth highest among these institutions. The average quarterly LTD ratio was calculated over the time period beginning March 31, 2002 through March 31, 2007. Similarly situated banks are defined as banks having an office in Meeker County with total assets of less than \$150 million.

### Lending in Assessment Area

CNB's record of lending in the AA is satisfactory. CNB originates a majority of its loans in the AA. Based on a sample of the bank's primary product types, commercial and 1-4 family real estate loans, 80% of loans by number and 79% by dollar were originated in the AA. The sample ratios were calculated from 20 randomly selected loans for each primary loan product originated by the bank between January 1, 2005 and May 01, 2007.

<b>Table 1: In/Out Lending Analysis</b>	<b>In Assessment Area by Number %</b>	<b>In Assessment Area by Dollar %</b>
Commercial (Random Sample)	70%	76%
1-4 Family Real Estate (Random Sample)	90%	85%
<b>Aggregate Results</b>	<b>80%</b>	<b>79%</b>

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

The bank has an excellent penetration among individuals of different income (including LMI) levels and businesses of different sizes. In our sample of 60 residential real estate loans, the percent of loans made to low- and moderate-income families is excellent in comparison to the demographic. Although there are 9% of families in the AA with income below poverty-level, and thus making it more difficult to purchase a home, the bank has made a significant amount of loans to low-income families.

<b>Table 2: Borrower Distribution of Residential Real Estate Loans</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans						
1-4 Family	19%	15%	15%	25%	21%	18%	44%	42%

CNB has an excellent penetration among businesses of different sizes. All 100% of business loans sampled had revenues of less than \$1 million. Table 2A indicates borrower's distribution based on business revenues.

<b>Table 2A – Borrower Distribution of Loans to Businesses/Farms</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	64%	4%	32%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

**Geographic Distribution of Loans**

The geographic distribution of loans did not provide meaningful analysis as the bank's assessment area consists entirely of middle-income geographies.

**Responses to Complaints**

There have been no CRA-related complaints reported to the bank since its February 4, 2002 evaluation.

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

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