



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Washington, DC 20219

PUBLIC DISCLOSURE

October 25, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Northwestern Bank, National Association
Charter Number: 24372**

**4 North Main Street
Dilworth, MN 56529**

**Office of the Comptroller of the Currency
North Dakota & NW Minnesota
3211 Fiechtner Drive, SW
Fargo, ND 58103**

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.

Table of Contents

Institution’s Rating	1
Description of Institution	1
Description of Fargo-Moorhead Assessment Area	2
Description of the Rural Minnesota Assessment Area.....	3
Loan Sampling.....	4
Conclusions about Performance Criteria	5
Loan-to-Deposit Ratio	5
Lending in Assessment Area	6
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	6
Geographic Distribution of Loans	7
Responses to Complaints	9
Fair Lending Review	9

INSTITUTION RATING: SATISFACTORY

Northwestern Bank, National Association's lending performance reflects a Satisfactory response to community needs. This conclusion is based on the following results.

- The bank originated a substantial majority of loans inside its assessment areas.
- The loan to deposit ratio meets the guidelines for satisfactory performance.
- Lending to borrowers of different income levels and businesses of different sizes exceeds the standards for satisfactory performance.
- The geographic distribution of loans reflects a reasonable dispersion throughout the bank's AAs.

DESCRIPTION OF THE INSTITUTION

Northwestern Bank, National Association (Northwestern) is located in the city of Dilworth in Clay County in northwestern Minnesota. Northwestern is an intrastate bank with three branches located in Hendrum, Moorhead, and Ulen, Minnesota. These three branches are all in close proximity to Dilworth. In addition to branches, the bank operates seven ATMs.

Northwestern's assets as of June 30, 2004 total \$116 million. Northwestern is 100% owned by Northwestern Bancshares, a one-bank holding company. Northwestern merged with Viking Bank of Hendrum, Minnesota in August 2002. Northwestern's competitors consists of large banks located in the Fargo-Moorhead area and smaller banks surrounding the Fargo-Moorhead area.

The bank offers a wide variety of loan and deposit products and services. Using June 30, 2004 financial data, gross loans represent 84% of total assets. Tier 1 Capital amounts to \$8.2 million or 7.1% of total assets. The bank's primary lending focus varies for the different branch locations. Ulen and Hendrum branches primarily focus on agriculture lending while the Moorhead and Dilworth branches focus more on business lending. The following table portrays Northwestern's loan portfolio composition.

Table 1: Loan Portfolio Composition as of 6/30/04	\$ (000)	%
Commercial (including real estate)	38,573	39.6
Agriculture (including real estate)	26,250	27.0
Residential Real Estate	14,728	15.1
Consumer Loans	14,203	14.6
Leases	2,757	2.8
Municipals	874	.9
Total	\$97,385	100%

The last CRA examination, performed on Northwestern State Bank of Ulen, was completed on June 21, 1999 and assigned a “Satisfactory” rating. There are no legal impediments that would restrict the bank’s ability to meet the credit needs of the community.

The bank’s assessment area (AA) includes the entire Fargo-Moorhead MSA, the eastern portion of Becker County, and all of Norman County. For purposes of this report, we have broken the AA into two separate AAs; the Fargo-Moorhead AA and the Rural Minnesota AA.

DESCRIPTION OF THE FARGO-MOORHEAD ASSESSMENT AREA

Northwestern’s Fargo-Moorhead AA consists of the entire Fargo–Moorhead Metropolitan Statistical Area (MSA). This is a multi-state MSA, located in western Minnesota and eastern North Dakota. The MSA includes all of Clay County in Minnesota and Cass County in North Dakota. According to the 2000 census, the Fargo – Moorhead MSA has a population of 174,367. Fargo is the largest city located in the MSA with a population of 90,599. The cities of Moorhead, MN and West Fargo, ND are both adjacent to Fargo with populations of 32,177 and 14,940, respectively. Together, these three cities represent 80% of total population of the MSA.

Based on the 2000 census, there are 40 Census Tracts (CTs) in the MSA. Of the 40 CTs, there are no tracts designated as low-income, 6 tracts designated as moderate-income, 29 designated as middle-income, and 5 designated as upper-income. The 2003 HUD estimated median family income is \$60,100.

The AA includes only whole CTs that are contiguous. The AA meets the requirements of the regulation. Low- or moderate- income geographies are not arbitrarily excluded from the AA.

The Fargo – Moorhead MSA is a hub for wholesale and retail trade, communications, transportation, and medical care in the Upper Midwest. Top employers in the area include Merit Care Health Systems, American Crystal Sugar Company, North Dakota State University, Blue Cross Blue Shield of North Dakota, and Microsoft Business Solutions. The table on the following page illustrates the demographic data of the Fargo – Moorhead AA.

TABLE 2: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE FARGO-MOORHEAD AA	
<i>Population</i>	
Number of Families	42,527
Number of Households	69,950
Number of Low-Income Families	7,525
% of Low-Income Families	17.7
Number of Moderate-Income Families	7,967
% of Moderate-Income Families	18.73
Number of Middle-Income Families	11,268
% of Middle-Income Families	26.5
Number of Upper-Income Families	15,767
% of Upper-Income Families	37.08
<i>Geographies</i>	
Number of Census Tracts/BNA	40
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	15
% Middle-Income Census Tracts/BNA	72.5
% Upper-Income Census Tracts/BNA	12.5
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	50,872
2003 HUD-Adjusted MFI	60,100
<i>Economic Indicators</i>	
2003 Unemployment Rate	2.8
2003 Median Housing Value	114,800
% of Households Below Poverty Level	11

Table is based on 2000 census information with updated information when available.

We conducted and reviewed several community contacts throughout the Fargo-Moorhead AA. The contacts included community economic development organization, state and federal government agencies, and other local non-profit agencies. Contacts mentioned the need for small business and start-up loans. One contact we talked to felt that the local financial institutions are meeting the needs of the community.

DESCRIPTION OF THE RURAL MINNESOTA ASSESSMENT AREA

Northwestern has one branch, located in Hendrum, Minnesota, located in the Rural Minnesota AA. Northwestern's rural Minnesota AA is made up the eastern portion of Becker County and all of Norman County. The 2000 census population of the AA is 12,172. Cities in the AA include Audubon, Lake Park, Cormorant, Ada, Halstad, and Hendrum.

Based on the 2000 census, there are 5 CTs in the AA, which are all designated as middle – income geographies. The 2003 HUD estimated median family income for the State of Minnesota is \$51,700.

The AA consists of small communities that are predominantly involved in agriculture and small business. Unemployment rates in 2003 amount to 6.6% in Becker County and 5.9% in Norman County. The following table illustrates the demographic data of the AA.

TABLE 3: DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE RURAL MINNESOTA AA	
<i>Population</i>	
Number of Families	3,402
Number of Households	4,940
Number of Low-Income Families	618
% of Low-Income Families	18.17
Number of Moderate-Income Families	724
% of Moderate-Income Families	21.28
Number of Middle-Income Families	999
% of Middle-Income Families	29.37
Number of Upper-Income Families	1,061
% of Upper-Income Families	31.19
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	0
% Middle-Income Census Tracts/BNA	100
% Upper-Income Census Tracts/BNA	0
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	46,163
2003 HUD-Adjusted MFI	51,700
<i>Economic Indicators</i>	
2003 Unemployment Rate	5
2000 Median Housing Value	71,494
% of Households Below Poverty Level	11

Table is based on 2000 census information with updated information when available.

LOAN SAMPLING

The bank's primary loan types were determined by considering the number and volume of loans originated from January 1, 2002 through June 30, 2004. The table on the following page displays the number and dollar volume of loan originations.

TABLE 4: LOAN PRODUCTS	#	%	\$ (000)	%
Agricultural Loans	769	11.4	49,809.8	20.9
Commercial Loans	1,530	22.7	98,632.6	41.5
Consumer Loans	3,607	53.6	29,172.7	12.3
Residential Real Estate Loans	826	12.3	60,290.1	25.3
Total	6,732	100	237,905.2	100

Loans originated from January 1, 2002 to June 30, 2004.

The above table concludes that Northwestern's primary loan types are commercial and consumer loans. Together, these two loan types represent 76.3% of the number of loans originated and 53.8% of the total dollar volume of originations during this timeframe.

Due to changes in the bank's AA from the 1990 and 2000 census, we conducted two samples of each primary loan type in order to evaluate the geographical distribution of loans. Loans originated in 2002 were compared to 1990 census data while loans made in 2003 were compared to 2000 census data.

Our loan sample included a review of 20 loans for each primary loan type for 2002 and 20 loans for each primary loan type for 2003 for each AA. As mentioned earlier, the bank has two separate AAs; the Fargo-Moorhead AA and the Rural Minnesota AA. Due to limited loan volume of commercial and consumer loans in the Rural Minnesota AA, we were unable to reach our minimum sample size and did not include these loans in our analysis. As a result, the lending analysis focuses primarily on results from the Fargo-Moorhead AA

After initial sampling to determine the bank's lending within the AA, additional files were selected so that all loans used in the borrower and geographic distribution analyses were located in the AAs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loans-to-deposit (LTD) ratio meets the standard for satisfactory performance given the size, financial condition, and local economic conditions in the bank's assessment area. Since the last CRA evaluation, the bank's quarterly average LTD ratio amounts to 85.9%. From 3/31/99 to 3/31/04, Northwestern's LTD ratio ranges from 79% to 101%. The bank's LTD ratio increased over the past two years given the addition of the Moorhead branch and the merger with Viking Bank.

Northwestern's LTD ratio ranks fourth among six similarly situated banks within or near the AA. All of these financial institutions are in close proximity to one another and offer similar loan products. The table on the following page depicts the bank's LTD ratio compared to area banks.

TABLE 5: LOAN TO DEPOSIT RATIO	Assets in thousands (as of 6/30/04)	Average LTD Ratio
Institution		
Midwest Bank	\$108,374	100.6%
First State Bank of North Dakota	75,498	94.7%
First National Bank	61,030	89.9%
Northwestern	115,539	85.9%
Security State Bank of Hunter	34,788	77.6%
State Bank of Hawley	61,295	67.0%

Lending in Assessment Area

Northwestern's lending within its AA exceeds the standard for satisfactory performance. A substantial majority of loans are made to borrowers located in the AAs. Over 97% by number and 99.5% by dollar volume of the commercial and consumer loans reviewed were made to borrowers who reside within the bank's AAs. We used our initial sample of commercial and consumer loans to determine the number of loans made within the AAs. The following table portrays the bank's commitment to lending within their AAs during 2002 and 2003.

TABLE 6: LENDING IN NORTHWESTERN'S AAs								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Business	40	100	3,761.3	100	0	0	0	0
Consumer	38	95	188.7	90	2	5	20.8	10
Total Reviewed	78	97.5	3,950	99.5	2	2.5	20.8	.5

Source: Consumer and Business loan samples

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

The bank's lending to borrowers of different incomes and businesses of different sizes exceeds the standard for satisfactory performance. Northwestern's lending to consumers and businesses with low- or moderate-income and revenues less than \$1 million exceeds demographic data.

Borrower Distribution of Business Loans

Northwestern's lending to small businesses exceeds the standards for satisfactory performance. Seventy-three percent of the number and 41% of the dollar volume of loans are to businesses with revenues less than \$1 million. Although the dollar volume does not meet the demographics, small businesses typically require a lower amount of financing compared to larger businesses.

The following table depicts the bank's lending patterns to businesses compared to demographic data.

Table 7 – BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN THE FARGO-MOORHEAD AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses *	61.75	7.64	30.61	100
% of Bank Loans in AA #	72.5	27.5	0	100
% of Bank Loans in AA \$	41	59	0	100

Source: Loan Sample; Dunn and Bradstreet data.

Borrower Distribution of Consumer Loans

Northwestern's borrower distribution of consumer loans exceeds the standard for satisfactory performance. The bank's consumer lending patterns significantly exceed the demographic data, especially to low-income borrowers. Forty percent of the bank's consumer loans in the AA are made to low-income borrowers while only 22.3% of households in the AA are considered low-income. The following table portrays consumer loan lending in the AA.

TABLE 7A: BORROWER DISTRIBUTION OF CONSUMER LOANS IN FARGO-MOORHEAD AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans *	22.3	40	16.9	20	19.8	22.5	41	10

Source: Loan sample; U.S. Census data. *7.5% of the bank's consumer loans did not have income disclosed.

Geographic Distribution of Loans

Northwestern's geographic distribution of Consumer and Business loans meets the standard for satisfactory performance.

Geographic Distribution of Business Loans

Northwestern's business lending is reasonable. The Fargo-Moorhead MSA had only 1 low – income CT in 2002 and no low-income CTs in 2003. Although the number of business loan originations does not meet the demographics, the dollar volume of business loans is higher than the demographics. Ten percent of the number of business loans and 47% of the dollar volume of business loans were made to businesses located in moderate-income tracts. The bank also meets

the demographic data for 2003. Thirty percent of the number and 41% of dollar volume of business loans were made to businesses located in moderate-income geographies. The following tables outline Northwestern’s business lending patterns in 2002 and 2003.

Table 8: 2002 GEOGRAPHICAL DISTRIBUTION OF LOANS TO BUSINESSES IN THE FARGO-MOORHEAD AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
	.3	0	37.8	10	46.7	75	15.2	15

Source: Data obtained from loans sample; 1990 US Census data.

TABLE 8A – 2003 GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN THE FARGO-MOORHEAD AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses/	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0	0	34.5	30	54.4	60	11.1	10

Source: Data obtained from loan sample; 2000 US Census data.

Geographic Distribution of Consumer Loans

The bank’s geographic distribution of consumer loans is reasonable compared to the demographic data of the MSA. In 2002, 15% of the bank’s consumer loan originations were to borrowers located in moderate-income tracts, which is slightly lower than the demographic data indicates. Although the bank did not lend to consumers in low – income tracts, this is reasonable since there was only one low-income tract in the MSA during the time period. In 2003, the bank’s lending to borrowers located in moderate-income tracts is slightly below the demographic data. The tables on the following page portray consumer lending patterns compared to demographic data.

TABLE 8B: 2002 GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN FARGO-MOORHEAD AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	.6	0	20.8	15	64.1	70	14.5	15

Source: Data obtained from loan sample; 1990 US Census data.

TABLE 8C: 2003 GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN FARGO-MOORHEAD AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0	0	17.7	10	67.7	80	14.6	10

Source: Data obtained from loan sample; 2000 US Census data.

Responses to Complaints

Northwestern has not received any CRA related complaints since our last examination.

Fair Lending and the PE

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