



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

January 25, 2008

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank  
Charter Number: 23351

422 Commercial Street  
Waterloo, IA 50701

Office of the Comptroller of the Currency

Comptroller of the Currency  
Minneapolis South  
222 South Ninth Street, 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 Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors that support this rating include:

- The bank's loan-to-deposit is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loan originations were made within the bank's assessment areas.
- The distribution of loans reflects a reasonable penetration among businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- The bank's community development performance demonstrates adequate responsiveness to community development needs in its assessment areas through community development lending, investments, and services.

## **SCOPE OF EXAMINATION**

We evaluated Community National Bank's (CNB) Community Reinvestment Act performance under the Lending and Community Development Tests. In evaluating the bank's lending performance, we reviewed lending data for the bank's primary loan products in each of the bank's two assessment areas (AA's). We reviewed loan originations for the period January 1, 2006 through December 31, 2007. Within the Black Hawk County AA and Cerro Gordo AA, commercial loans comprised 86% and 76%, respectively, of loan originations by dollar during that timeframe. Commercial loans were compared to the 2006 demographics for analysis in the lending test.

The Community Development Test covered community development loans, investments, and services during the entire evaluation period, January 4, 2005 through December 31, 2007. We used only those that met the regulatory definition for community development in our analysis of the Community Development Test.

The Blackhawk County AA carried the most weight in assigning the overall ratings for the bank. This AA contains the majority of CNB's branches, 80% of their deposits, and 78% of their loan originations.

## **DESCRIPTION OF INSTITUTION**

CNB is a \$305 million bank located in Waterloo, Iowa. CNB is owned by Community National Bancorporation, a two-bank holding company, with total assets of \$374 million. The bank's affiliate, Community Bank, is a state bank located in Austin, MN.

CNB's main office is located in downtown Waterloo, IA. CNB operates six full-service

branches located in Waterloo, Cedar Falls, and Mason City, Iowa. The bank also operates nine deposit-taking ATMs and eight cash-dispensing ATMs throughout Black Hawk and Cerro Gordo counties.

CNB is a full-service bank and offers a wide variety of banking products. As of December 31, 2007, the bank's \$261 million loan portfolio consisted of 74% commercial loans, 14% residential real estate loans, 7% consumer, and 5% agricultural loans. Loans represent 86% of total assets. Deposit products and services include a variety of checking and savings accounts for both individuals and businesses.

There are no legal, financial, or other factors that impede CNB's ability to help meet the credit needs in its AA. At its last CRA examination, dated January 4, 2005, the bank was rated Outstanding under the Small Bank procedures. This examination was completed under the Intermediate Small Bank CRA procedures.

## **DESCRIPTION OF CNB'S ASSESSMENT AREAS**

CNB has two assessment areas: the Black Hawk County AA and the Cerro Gordo County AA.

### **Black Hawk County Assessment Area**

The Black Hawk County assessment area (BHAA) includes all of Black Hawk County and is part of the Waterloo-Cedar Falls Metropolitan Statistical Area (MSA). The BHAA is located in northeastern Iowa. The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies.

The majority of the county's population resides in the Waterloo-Cedar Falls metro area. According to the Iowa Workforce Development, the 2007 estimated population of the BHAA is 127,446, making it the fourth largest county in population in the State of Iowa. Based on 2000 census data, there are two census tracts (CTs) (5.41%) designated as low-income, 12 (32.43%) designated as moderate-income, 16 (43.24%) designated as middle-income, and 7 (18.92%) designated as upper-income. The low- and moderate-income CT's are located in the center of Blackhawk County.

The Department of Housing and Urban Development's 2007 estimated median family income for the Waterloo-Cedar Falls MSA is \$55,800, up 16% from \$48,176 in 2000. There are 2,547 or 7.90% of families below poverty level in the AA. This compares to 6.02% of families living in the State of Iowa that are below the poverty level. The median housing value in the BHAA per 2000 census data was \$77,995. Owner-occupied housing represents 66.15% of the housing stock within the BHAA. Median gross rent in the BHAA is \$471 per month.

According to information from Iowa Workforce Development, the March 2008 seasonally adjusted average unemployment rate was 3.8% in the BHAA. This compares to 3.5% for the entire State of Iowa and 5.1% nationally. Per Iowa Workforce Development, the top five employers in the BHAA are Deere & Co., Covenant Medical Center, Tyson

Fresh Meats, University of Northern Iowa, and Allen Memorial Hospital.

Competition from other financial institutions is strong. There are 12 financial institutions, excluding credit unions, with a presence in the BHAA, some of which are branches of large banks (e.g. US Bank and Wells Fargo). According to the June 30, 2007 information obtained from the Federal Deposit Insurance Corporation (FDIC), CNB ranks third among 12 institutions having 14.22% of the deposit market share.

Our community contact indicated that local banks are competitive and are active in the community. Most local banks offer a wide range of products. However, the contact stated that there is a need for entrepreneurial funding. There are individuals in the community with good ideas, but lack the capital to start their own businesses. The contact stated that CNB and its employees have been very active in local community projects.

## **Cerro Gordo County Assessment Area**

The Cerro Gordo County assessment area (CGAA) includes all ten CT's in Cerro Gordo County. All the CTs are designated middle-income. The CGAA meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

The estimated 2007 population of the CGAA is 44,106 per the State Data Center of Iowa. The largest city in the AA is Mason City. According to the Mason City Convention and Visitor's Bureau (MCCVB), the population of Mason City is approximately 30,000 people. Major employers in the CGAA include Graham Manufacturing Corporation, Mercy Medical Center, Opportunity Village, Pension Center, and Principal Financial Group. The March 2008 unemployment rate in Cerro Gordo County equaled 4.3%, according to the Iowa Workforce Development. This compares to the State of Iowa's unemployment rate of 3.5%.

The Department of Housing and Urban Development's 2007 estimated median family income for the non-metropolitan portion of Iowa is \$53,100. There are 729 or 5.87% of families below poverty level in the CGAA. The median housing value in the CGAA per 2000 census data was \$78,103. Owner-occupied housing represents 64.51% of the housing stock within the CGAA. Median gross rent in the CGAA is \$407 per month.

Competition within the CGAA is strong. There are 13 financial institutions with a presence in the CGAA, excluding credit unions. According to the June 30, 2007 FDIC deposit market share report, CNB ranks sixth with 5.67% of the area's deposits. Three large regional banks (Wells Fargo, Bank of America, and U.S. Bank) control 38% of the deposits in the CGAA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

## **LENDING TEST**

The bank's performance under the Lending Test is Satisfactory. We based this conclusion on a review of commercial loans, which is the bank's primary loan product in both of the AAs.

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

CNB's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly net loan-to-deposit ratio averaged 99% over the 13 quarters since the last CRA exam, with a quarterly low of 94% and a quarterly high of 102%.

CNB's ratio is more than reasonable compared with other community banks of similar size (total assets \$150 million to \$450 million). CNB ranks third among a total of eight similarly-situated banks with a presence in the AA. The seven other banks had an average net loan-to-deposit ratio averaging 99% and ranging from 83% to 124% over the 13 quarters from December 31, 2004, through December 31, 2007.

### **Lending in Assessment Area**

CNB originates a majority of its loans to borrowers located within its defined AA. Based on a sample of 20 commercial loans from each AA, 77.50% by number and 79.43% by dollar volume were made to businesses within the bank's AA. The following table shows loans originated inside the AA by number and dollar volume:

<b>Lending in AA by Number and Dollar Amount</b>								
<b>Loan Type</b>	<b>In Assessment Area</b>				<b>Outside of Assessment Area</b>			
	<b>#</b>	<b>% by #</b>	<b>\$(000s)</b>	<b>% by \$</b>	<b>#</b>	<b>% by #</b>	<b>\$(000s)</b>	<b>% by \$</b>
Commercial (Blackhawk County)	15	75.00%	\$ 1,397	72.61%	5	25.00%	\$ 527	27.39%
Commercial (Cerro Gordo County)	16	80.00%	\$ 1,639	86.35%	4	20.00%	\$ 259	13.65%
<b>TOTAL</b>	<b>31</b>	<b>77.50%</b>	<b>\$ 3,036</b>	<b>79.43%</b>	<b>9</b>	<b>22.50%</b>	<b>\$ 786</b>	<b>20.57%</b>

Source: Bank records (verified by examiners)

### **Lending to Businesses of Different Sizes**

The overall distribution of loans reflects a reasonable penetration among businesses of different sizes.

### **Performance in the Black Hawk County AA**

Commercial lending activity in the AA is reasonable compared to AA demographics. Based on a sample of 20 commercial loans originated during the evaluation period, the bank originated a majority of their loans to businesses with less than \$1 million in gross annual revenues, but bank loans by number were lower than the AA demographics. While bank loans by dollar slightly exceeded AA demographics, there are a high percentage of businesses that did not report revenues. However, the bank’s lending to businesses of different sizes is considered reasonable. The following table compares the bank’s commercial lending activity by revenue size to AA demographics:

<b>Borrower Distribution of Loans to Businesses in Blackhawk County</b>				
<b>Revenue Size of Business</b>	<b>≤ \$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
% of AA Businesses	60.81%	5.83%	33.36%	100.00%
% of Bank Loans in AA by #	55.00%	45.00%		
% of Bank Loans in AA by \$	64.13%	35.87%		

Source: Bank records (verified by examiners) and Business Geodemographic Data (2006)

Performance in the Cerro Gordo County AA

CNB has an excellent distribution of commercial loans among businesses of different sizes. Commercial lending activity in the AA exceeds AA demographics for loans to businesses with less than \$1 million in gross annual revenues. The following table compares the bank’s commercial lending activity by revenue size to AA demographics:

<b>Borrower Distribution of Loans to Businesses in Cerro Gordo County</b>				
<b>Revenue Size of Business</b>	<b>≤ \$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
% of AA Businesses	61.60%	4.69%	33.71%	100.00%
% of Bank Loans in AA by #	95.00%	5.00%		
% of Bank Loans in AA by \$	99.62%	0.38%		

Source: Bank records (verified by examiners) and Business Geodemographic Data (2006)

**Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion throughout the AA.

Performance in the Black Hawk County AA

The geographic distribution of commercial loans reflects excellent dispersion throughout the AA. CNB’s commercial lending in low- and moderate-income CTs exceeds AA demographics. CNB’s main branch is located in downtown Waterloo in a low-income CT, which positively impacts its ability to make loans in those areas.

**Geographic Distribution of Loans to Businesses in Blackhawk County**

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Commercial	13.81%	30.00%	19.02%	30.00%	46.78%	30.00%	20.39%	10.00%

Source: Bank records (verified by examiners) and Business Geodemographic Data (2006)

Performance in the Cerro Gordo County AA

The geographic distribution of commercial loans does not provide a meaningful analysis since the assessment area contains no low- or moderate-income CTs.

**Responses to Complaints**

CNB has not received any complaints about its performance in helping meet AA credit needs during this evaluation period.

**COMMUNITY DEVELOPMENT TEST**

CNB’s community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services. We considered the AA needs and the availability of opportunities for community development in the bank’s AA during our analysis.

**Number and Amount of Community Development Loans**

CNB originated five qualifying loans totaling \$6.1 million during the evaluation period. CNB originated two loans totaling \$2.7 million to a civic organization located in Waterloo’s Urban Revitalization area. The loans were to fund the construction and rehabilitation of the organization’s property in downtown Waterloo. These loans allowed the organization to remain in it’s current location, which supported permanent job retention in a low-income area targeted for redevelopment by the City of Waterloo.

**Number and Amount of Qualified Investments**

CNB had an adequate level of qualified community development investments. During the evaluation period, the bank’s qualified investments included donations totaling \$88,210 to 25 organizations located in the bank’s AA. A majority of the funds were to support economic development in Black Hawk and Cerro Gordo counties.

Of the qualified investments, CNB donated \$6,000 to six local organizations as part of it’s “From My Bank to My Community: Pay It Forward Challenge”. This was a challenge that the bank originated to celebrate CNB’s 10<sup>th</sup> anniversary. Recipients of the funds needed to show how they would make a greater impact in the community with the use

of the funds. The challenge highlighted a wide range of needs in the community. These donations went towards: a local school with the majority of LMI students, shoes for needy children, adult education programs, local food banks, and childcare services for low- and moderate-income individuals.

### **Extent to Which the Bank Provides Community Development Services**

CNB provides a satisfactory level of community development services through its branches, products, and activities with local organizations that support qualified community development activities.

Delivery systems are reasonably accessible to businesses and individuals of different income levels. CNB offers a range of consumer and commercial banking products and services at its branches. CNB's branches provide similar hours of operations, with extended hours available at most locations on Fridays and Saturdays. The bank has one branch located in a low-income CT. CNB also has one ATM located in a low-income census CT and one ATM located in a moderate-income CT. Since the last examination, CNB relocated one branch to a new building that provided better accessibility to customers. They also closed eight ATMs when the stores where they were located ended their contract. Four of those ATMs were located in low- or moderate-income CTs.

Through its employees, CNB is involved in a variety of community development services. A majority of CNB's community development services are centered in various economic development corporations, such as Greater Cedar Valley Alliance, and local Chambers of Commerce. Employees also lend their financial expertise to organizations that provide services for LMI individuals, such as Habitat for Humanity.

### **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.