

PUBLIC DISCLOSURE

January 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
of Grand Forks
Charter No. 15088**

**1616 South Washington
Grand Forks, ND 58201**

**Office of the Comptroller of the Currency
Fargo Field Office
3211 Fiechtner Drive SW
Fargo, ND**

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.

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 Community Reinvestment Act (CRA) performance of **Community National Bank of Grand Forks** prepared by the **Office of The Comptroller of the Currency**, the institution's supervisory agency, as of January 4, 1999. 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**.

Community National Bank of Grand Forks is meeting the credit needs of its assessment area. The bank's loan-to-deposit ratio is reasonable, with the majority of loans being made within its assessment area. Lending efforts adequately penetrate most segments of the assessment area and are dispersed to borrowers of all income levels. The bank actively lends to businesses of smaller size.

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Metropolitan Statistical Area (MSA) - Area consisting of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas within a MSA. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Median Family Income - The median income determined by the United States Census Bureau. This amount is based on estimates developed by the Department of Housing and Urban Development and is updated annually.

Low- and Moderate-Income - Income levels which are less than 80% of the median family income.

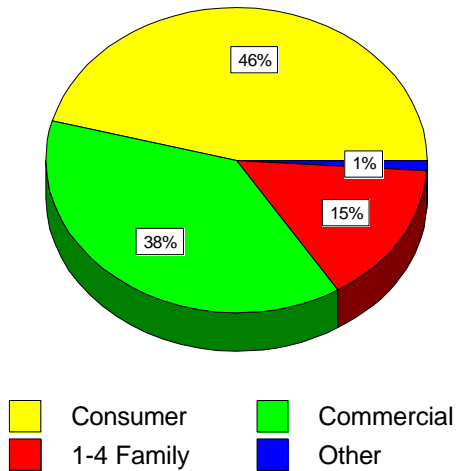
Community Reinvestment Act (CRA) - The statute that requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs in the institution's local community. The regulators must also evaluate whether the institution's defined community is reasonable. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2901, as amended and 12 C.F.R. 25, as amended.)

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of applicant(s), the amount of loan requested and its disposition (e.g. made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase and home improvement loans, refinancing of home purchase and home improvement loans and loans for the purchase of multi-family (5 or more units) dwellings. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2801, as amended and 12 C.F.R. 203, as amended.)

DESCRIPTION OF INSTITUTION

Community National Bank of Grand Forks (CNB) is a wholly owned subsidiary of Community National Corporation, a one-bank holding company with headquarters in Grand Forks, North Dakota. The bank consists of the main bank and a branch office located near the Columbia Mall in Grand Forks. The bank also operates seven automated teller machines located in Grand Forks. CNB is primarily a consumer and small business lending institution.

Portfolio Composition



As of September 30, 1998, CNB reported total assets of \$100 million and a 1.51% return on average assets. The bank's loan-to-deposit ratio on that date was 69%; net loans represented 61% of total assets. The \$62 million gross loan portfolio consisted of the following types of credit: 46% in consumer loans, 38% in commercial loans, 15% in 1-4 family residential loans, and 1% in various other loan types. CNB offers a variety of commercial, residential real estate and consumer loan products, in addition to deposit, insurance and nondeposit investment services.

The bank's financial condition, size, local economic condition, and other factors allow it to help meet the credit needs of its assessment area. The bank has neither opened nor closed any branches since the last CRA examination. At the last CRA examination dated September 14, 1995, CNB received an outstanding rating.

DESCRIPTION OF ASSESSMENT AREA

Bank management delineated one assessment (AA) which is used in our evaluation of CNB's CRA performance. The AA consists of a portion of the Grand Forks MSA covering CTs 0101.00 through 0113.00, 0115.98, 0116.97, 0117.00 and 0118.00 in Grand Forks County, North Dakota and CTs 0201.00 through 0205.00, and 0208.00 through 0210.00 in Polk County, Minnesota. CTs 0206.00 and 0207.00 in Polk County were

excluded as they are located in the city of Crookston, Minnesota. The bank does not have any branch offices close to Crookston and this community is adequately serviced by several other financial institutions. The overall AA includes the cities of Grand Forks, East Grand Forks and the surrounding communities. The market area is dependent upon agriculture. The University of North Dakota and the Air Force Base provide additional stability to the local economy. The market area is further strengthened by the presence of a regional hospital, retail, service and manufacturing businesses, government, and other financial service companies.

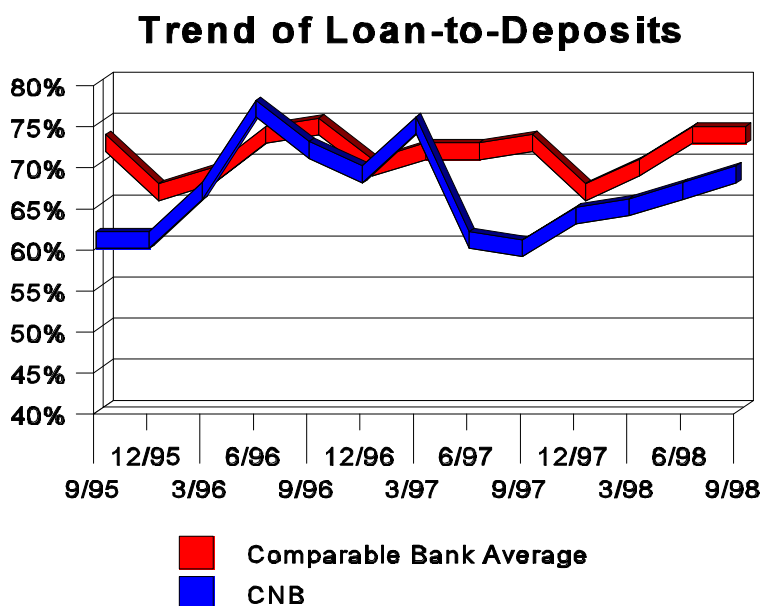
The AA has 26 CTs. Six CTs (23%) are moderate-income; 16 (62%) are middle-income; and 4 (15%) are upper-income. There are no low-income CTs. The AA has a population of about 93,851 persons and approximately 23,515 families. The family breakdown by income level is: 18% low-income; 19% moderate-income; 25% middle-income; and, 38% upper-income. The 1998 MSA Median Family Income is \$40,800. 15% of households are currently below the poverty income level within the AA. The unemployment rate is 2.71%. The median average home in the AA was built in 1961 with a current average value of \$56,762. Owner occupied units account for 50% of all occupied housing within the AA.

Community contacts indicated most local credit needs are being satisfactorily met by financial institutions throughout CNB's AA. We conducted or reviewed seven community contacts within the bank's AA. These contacts included community economic development organizations, a government housing agency, and other business development groups. Small business start-up loans, agricultural operating and working capital loans, and affordable housing credit were all mentioned as types of credit needs which banks should continue to strive to meet. CNB competes with numerous financial institutions within its AA for both loan and deposit business.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Analysis

CNB's level of lending is reasonable. The bank's loan-to-deposit ratio trend has increased somewhat since the last CRA examination. During the past 13 quarters ending September 30, 1998, the loan-to-deposit ratio has risen from 61% to 69%, demonstrating a willingness to meet credit needs within its AA. The bank's quarterly average loan-to-deposit ratio for this same period is 67%. This compares to the average loan-to-deposit



ratio of 70% for six other comparable banks within CNB's AA. Of all seven banks, CNB has the fifth highest loan-to-deposit ratio. Although the bank ranks slightly behind the peer average in loan-to-deposits, it originates a considerable amount of residential real estate loans that are subsequently sold on the secondary market, thus not reflected in the bank's loan-to-deposit ratio. CNB originated 331 loans sold on the secondary market totaling \$24 million since the last CRA examination.

Comparison of Credit Extended Inside and Outside of the Assessment Area

CNB extends a majority of its loans within the AA. The bank tracks the number of loans outstanding that are inside and outside of its AA on a quarterly basis. CNB's internal report shows the bank has 84% of its loans within its AA by number. We could not test the report for accuracy. We supplemented the bank's analysis with a review of a sample of 100 consumer (vehicle purchase) originations, 50 commercial originations and all HMDA reportable loans originated since January 1, 1996 to determine AA lending activity. Our review shows that CNB made 93% of the number and 94% of the volume of sampled originations within its AA. The bank made a total of 11,179 loan originations for \$143 million since the last CRA examination.

Sample of Originations and Bank Reported Data				
	# of Loans	% of Loans	\$ Volume (000)	% of Volume
Consumer Sample - In AA	90	90%	743	91%
Consumer Sample - Outside AA	10	10%	76	9%
Commercial Sample - In AA	50	100%	5,562	100%
Commercial Sample - Outside AA	0	0%	0	0%
HMDA Originations - In AA	719	93%	36,206	94%
HMDA Originations - Outside AA	57	7%	2,443	6%
Total Sampled - In AA	859	93%	42,511	94%
Total Sampled - Outside AA	67	7%	2,519	6%
CNB Reported - In AA (9/30/98)	4,641	84%	NA	NA
CNB Reported - Outside AA	877	16%	NA	NA

NA - Information not available.

Distribution of Credit within the Assessment Area by Geography

The geographic distribution of loans reflects reasonable penetration in CTs within CNB's AA for various income levels. Although the distribution of loan originations in moderate income CTs falls below the representative percentage of moderate-income CTs, there are several mitigating factors. Two of the six moderate-income CTs are located more than 25 miles from a CNB branch. Both are southeast of Crookston, Minnesota. Borrowers within these moderate-income CTs have access to numerous financial institutions in or near their respective CT boundaries. Two additional CTs, located in North Dakota, consist primarily of the Grand Forks Air Force Base and the University of North Dakota. Combined, these factors somewhat limit CNB's ability to make loans within these moderate-income CTs.

We sampled 90 consumer originations, 50 commercial originations, and 719 HMDA originations made within the AA since the last CRA examination. Our sample identified that the bank made 4.4% (38 loans in total - 6 consumer, 1 commercial and 31 HMDA)

of loan originations in moderate-income CTs. Bank generated reports reflect 10.6% of the number of outstanding loans at September 30, 1998 are located in moderate-income CTs. Both totals are significantly below the 23% of moderate-income CTs within the AA, however, this is somewhat mitigated as discussed in the previous paragraph. The following table recaps the distributions of loans by income within CNB's AA.

Distribution of Loan Originations within CNB's AA by CT Geography					
Census Tracts	Loan Sample		Bank Reported (9/30/98)		% of CTs
	# of Loans	% of Loans	# of Loans	% of Loans	
Moderate Income	38	4.4%	491	10.6%	23%
Middle Income	647	75.3%	3,455	74.4%	62%
Upper Income	174	20.3%	695	15.0%	15%
Total	859	100%	4,641	100%	100%

Distribution of Credit within the Assessment Area by Borrower Income

The distribution of borrowers reflects a good penetration among individuals of different income levels and a reasonable penetration among businesses of different sizes. Our conclusions are based on a sample of 90 consumer loan originations, 716 HMDA reportable loan originations, and 50 commercial loan originations made in the AA since the last CRA examination.

The distribution of consumer loan originations is excellent and above the demographic distribution of the low- and moderate-income population. We reviewed the income distribution of 90 consumer loan originations made within the AA. As shown in the following table, CNB originated 38.9% of its consumer loans to low-income borrowers and 38.9% of its consumer loans to moderate-income borrowers by number. This compares favorably to the 1998 demographic data for the AA which shows a low-income family population base of 18% and a moderate-income family population base of 19%.

Sample Distribution of Consumer Originations by Income Level					
Loan Originations	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families	Total
Number	35	35	15	5	90
% by Number	38.9%	38.9%	16.7%	5.6%	100%
1998 AA Demographic Data Average	18%	19%	25%	38%	100%

The distribution of HMDA loan originations is reasonable although below the demographic distribution of the low-income population. A significant portion of the low-income population is located a significant distance from bank branches as previously discussed. Additionally, credit needs of these areas are being reasonably met by other financial institutions within and outside the bank's AA. We reviewed the income distribution of 716 HMDA loan originations. Our sample represented all HMDA originations made within the AA since January 1, 1996. As shown in the following table, CNB originated 7.6% of its HMDA loans to low-income borrowers and 18.4% of its HMDA loans to moderate-income borrowers by number. This reasonably compares to the 1998 demographic data for the AA which shows a low-income family population base of 18% and a moderate-income family population base of 19%.

Distribution of HMDA Originations by Income Level					
Loan Originations	Low Income Families	Moderate Income Families	Middle Income Families	Upper Income Families	Total
Number	54	132	209	321	716
% by Number	7.6%	18.4%	29.2%	44.8%	100%
1998 AA Demographic Data Average	18%	19%	25%	38%	100%

The income distribution for small business loans also shows reasonable penetration in the AA. We reviewed the revenue distribution of 50 commercial loans to determine the gross income levels of small businesses. The table below shows that 76% by number and 48% by volume of the commercial loan originations in the AA had gross business income of less than \$1 million.

Distribution of Commercial Credits within the AA By Different Gross Income Levels						
Gross Income	<\$100,000	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	>\$1,000,000	Total
# of Loans	8	8	13	9	12	50
% of Loans	16%	16%	26%	18%	24%	100%
\$ Volume (000)	436	291	782	693	2,360	4,562
% of Volume	9.6%	6.4%	17.1%	15.2%	51.7%	100%

Response to Complaints

The bank received no CRA-related complaints since the previous CRA examination.

Compliance with Antidiscrimination Laws and Regulations

We did not find any violations of the substantive provisions of the Antidiscrimination laws (Home Mortgage Disclosure, Equal Credit Opportunity and Fair Housing Acts) and their implementing regulations.