



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 27, 2010**

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

Northwestern Bank, National Association  
Charter Number 24372

4 North Main Street  
Dilworth, MN 56529-0000

Office of the Comptroller of the Currency

Minneapolis Field Office  
Campbell Mithun Tower 222 South Ninth Street  
Minneapolis, MN. 55402-3393

**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 loan-to-deposit ratio is reasonable.
- A substantial majority of the bank's loans are made inside the bank's assessment area.
- The distribution of loans reflects reasonable penetration among businesses of different sizes and families of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

## **SCOPE OF EXAMINATION**

We assessed Northwestern Bank, National Association's (Northwestern) record of meeting the credit needs of the community, consistent with the provisions set forth in the Community Reinvestment Act (CRA).

Our examination focused on the bank's two assessment areas (AA), Fargo/Moorhead MSA and the rural Minnesota non-MSA. In order to determine the bank's lending performance, we selected primary products for each AA based on loan originations for the period beginning January 1, 2008 and ending March 31, 2010. We determined that business (53% by dollar) and residential real estate (20% by dollar) loans are the primary products for the Fargo/Moorhead AA and residential real estate (53% by dollar) and consumer (46% by number) loans are the primary products for the rural Minnesota AA. We selected a random sample of 20 loans from each of the primary products in order to conduct our analysis.

The Fargo/Moorhead AA carried the most weight in assigning the overall rating, since it contains 94% of the bank's loan volume and 92% of total deposits as of June 30, 2009.

## **DESCRIPTION OF INSTITUTION**

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 non-deposit taking ATMs. The bank did not open or close any branches during the assessment period.

Northwestern's assets total \$138 million as of December 31, 2009. Northwestern is 100% owned by Northwestern Bancshares, a one-bank holding company, headquartered in Dilworth, MN.

Northwestern offers a variety of banking products designed to meet the needs of the

community. As of December 31, 2009, the bank's \$91 million loan portfolio consisted of 54% real estate loans, 23% commercial loans, 11% agricultural loans and 8% consumer loans. Net loans equal 70% of total assets.

There are no legal, financial or other factors that impede Northwestern's ability to help meet the credit needs in the AA. At their last CRA examination, dated October 25, 2004, the bank received a Satisfactory rating.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

Northwestern has two AAs, the Fargo-Moorhead AA and the rural Minnesota AA. Both AA's comply with regulatory requirements. These AAs do not arbitrarily exclude any low- or moderate-income census tracts (CT).

### **FARGO-MOORHEAD MSA 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.

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 AA includes only whole contiguous CTs.

The Department of Housing and Urban Development's 2009 estimated median family income for the Fargo/Moorhead MSA is \$68,200. The median housing value in the AA is \$89,182. Owner occupied housing represents 54% of housing stock within the AA. Rental units have an average gross rent of \$452 per month.

The economy within the bank's assessment area has experienced the same downturn as the overall national economy. Unemployment numbers for the two counties included in the AA as of March 31, 2010 were as follows: 5.5% for Clay and 4.6% for Cass. At year end 2009, the national unemployment rate was 9.3% and the State of North Dakota was 4.9%. The major employment sector for the area is the service industry which provides 47% of the jobs in the area. Retail trade provides the second most employment opportunities at 11% of total jobs.

Competition amongst financial institutions is strong. There are 29 financial institutions within Clay and Cass counties. According to the June 30, 2009 information from the Federal Deposit Insurance Corporation, Northwestern ranked 11<sup>th</sup> among the 29 institutions with a 2.2% deposit market share. Community contacts stated that there are ample opportunities for participation by financial institutions especially as it relates to affordable housing and small business lending.

## RURAL MINNESOTA ASSESSMENT AREA

Northwestern has one branch, located in Hendrum, Minnesota, located in the Rural Minnesota AA. Northwestern’s rural Minnesota AA consists of all of Norman County and two census tracts in the northwestern portion of Becker County. The 2000 census population of the AA is 13,942.

Based on the 2000 census, there are 5 CTs in the AA. The AA consists of 4 middle-income CTs and 1 moderate-income CT. The Department of Housing and Urban Development’s 2009 estimated median family income for the rural Minnesota AA is \$58,500.

The AA consists of small communities that are predominantly involved in agriculture and small business. Unemployment rates for the two counties as of March 31, 2010 were as follows: 9% for Becker and 6.7% for Norman. At year end the annual unemployment rate for the state of Minnesota was 8%. The major employment sector for the area is the service industry which provides 39% of the jobs in the area. Agriculture provides the second most employment opportunities at 16% of total jobs.

Competition among financial institutions is moderate. According to the June 30, 2009 information from the Federal Deposit Insurance Corporation, Northwestern ranked 6<sup>th</sup> among the 7 financial institutions in Norman County with a 6.65% market share.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank’s Loan-to-Deposit (LTD) ratio is reasonable based on its financial capacity and lending opportunities. The quarterly LTD ratio averaged 87% in the 21 calendar quarters from December 31, 2004 to December 31, 2009. Northwestern’s LTD compares reasonably to other community banks of similar size in the AA. The average LTD ratio for the five similarly situated banks is 94%.

<b>LOAN-TO-DEPOSIT RATIO</b>		
<b>Institution</b>	<b>Assets 12/31/09</b>	<b>Average Ratio</b>
First State Bank of North Dakota	\$206 Million	120%
Union State Bank of Fargo	\$61 Million	101%
First National Bank	\$94 Million	97%
<b><i>Northwestern Bank, National Association</i></b>	<b><i>\$138 Million</i></b>	<b><i>87%</i></b>
Dakota Heritage Bank of North Dakota	\$111 Million	80%
State Bank of Hawley	\$81 Million	72%

**Lending in Assessment Area**

Northwestern originated a substantial majority of its loans to borrowers inside its defined AA. The majority of the loans originated during the evaluation period are located in one of the bank's two AAs. The table below shows the results of our analysis. Based on the sample of 40 loans in each AA, 93% by number and 89% by dollar volume were made to businesses and individuals within the bank's AAs.

<b>Lending in Northwestern's AAs</b>										
	<b>Number of loans</b>					<b>Dollars of Loans</b>				
	<b>Inside AA</b>		<b>Outside AA</b>		<b>Total</b>	<b>Inside AA</b>		<b>Outside AA</b>		<b>Total</b>
<b>LOAN TYPE</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	
Residential Real Estate	37	93%	3	7%	40	\$2,408	92%	\$204	8%	\$2,612
Commercial	19	95%	1	5%	20	\$2,004	90%	\$200	10%	\$2,224
Consumer	18	90%	2	10%	20	\$202	85%	\$35	15%	\$237
<b>Total reviewed</b>	<b>74</b>	<b>93%</b>	<b>6</b>	<b>7%</b>	<b>80</b>	<b>\$4,614</b>	<b>89%</b>	<b>\$439</b>	<b>11%</b>	<b>\$7,589</b>

\*Source: loan sample

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

The distribution of borrowers reflects reasonable penetration among businesses of different sizes and among individuals of different income levels in the bank's AAs.

**Performance in Fargo-Moorhead AA**

Northwestern's record of lending to borrowers of different income levels and small businesses is reasonable. The distribution of loans reflects reasonable penetration among businesses of different sizes and families of different income levels.

**Business Loans**

Commercial lending activity in the AA is reasonable compared to the community demographics. The largest number of loans was made 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 community demographics.

<b>Borrower Distribution of Loans to Businesses in the AA</b>			
<b>Business Revenues</b>	<b>&lt; \$1,000,000</b>	<b>&gt; \$1,000,000</b>	<b>Not reported</b>
<b>% of AA Businesses</b>	73.93%	5.20%	20.87%
<b>% of Bank loans in AA by #</b>	76.67%	23.33%	0%
<b>% of Bank loans in AA by \$</b>	71.29%	28.71%	0%

\*Source: loan sample and 2009 geo demographic data

*Home Loans*

Residential real estate lending activity in the AA is excellent compared to the community demographics. The bank exceeds the demographic comparator for loans originated to low- and moderate- income families. It is noted that 15% of the loans in our sample reported unknown income levels. Our analysis is primarily based on the loans that contained income data. The following table compares the bank’s residential real estate lending activity by family income level to community demographics.

<b>Borrower Distribution of Residential Real Estate Loans</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	18%	35%	19%	20%	26%	5%	37%	25%

*\*Source: loan sample and 2000 US census data*

**Performance in Rural Minnesota AA**

Northwestern’s record of lending to households and families of different income levels is reasonable.

*Home Loans*

Residential real estate lending activity in the AA is reasonable compared to the community demographics. The bank meets the demographic comparator for loans originated to low- and moderate- income families. However, it is noted that 10% of the loans in our sample reported unknown income levels. Our analysis is primarily based on the loans containing income data. The following table compares the bank’s residential real estate lending activity by family income level to community demographics

<b>Borrower Distribution of Residential Real Estate Loans</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential Real Estate Loans	22%	20%	22%	20%	27%	25%	29%	25%

*\*Source: loan sample and 2000 US census data*

**Consumer Loans**

The bank’s distribution of consumer loans among borrowers of different income levels is reasonable. Based on our sample of 20 consumer loans, lending to low- income households compares reasonably to the demographic and lending to moderate-income households exceeds the demographic. It is noted that 10% of the loans in our sample reported unknown income levels. Our analysis is primarily based on the loans containing income data. The following table compares the bank’s consumer lending activity by household income level to community demographics.

<b>Borrower Distribution of Consumer Loans</b>								
Borrower 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	28%	20%	18%	20%	21%	35%	33%	15%

\*Source: loan sample and 2009 geo demographic data  
 \*\*13.62% of households are below the poverty level.

**Geographic Distribution of Loans**

**Fargo-Moorhead AA**

Dispersion of loans to businesses and borrowers across different CTs is reasonable.

**Business Loans**

Northwestern’s lending to businesses located in moderate-income CTs is reasonable. The following chart shows Northwestern’s lending compared to demographics. Demographic data indicates 26% of businesses in the AA are located in moderate-income CTs.

<b>Geographic Distribution of Loans to Businesses</b>								
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
Business	0%	0%	26%	25%	58%	65%	16%	10%

\*Source: loan sample and 2009 geo demographic data

**Home Loans**

Northwestern’s lending to borrower’s located in moderate-income CTs is excellent. The following chart shows Northwestern’s lending compared to demographics. Demographic data indicates 8% of borrowers in the AA are located in moderate-income CTs.

Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential Real Estate	0%	0%	8%	20%	73%	70%	19%	10%

\*Source: loan sample and 2000 US census data

**Rural Minnesota AA**

Dispersion of loans to borrowers across different CTs displays reasonable dispersion.

*Home Loans*

Northwestern’s lending to borrowers located in moderate-income CTs is reasonable. The following chart shows Northwestern’s lending compared to demographics. Demographic data indicates 23% of borrowers in the AA are located in moderate-income CTs.

Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential Real Estate	0%	0%	23%	15%	77%	85%	0%	10%

\*Source: loan sample and 2000 US census data

*Consumer Loans*

The bank’s geographic distribution of consumer loans displays reasonable dispersion among low- and moderate- income borrowers compared to the demographic. The following chart shows Northwestern’s lending compared to the demographics.

Geographic Distribution of Consumer Loans								
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%	5%	24%	20%	76%	65%	0%	10%

\*Source: loan sample and 2009 geo demographic data

### **Responses to Complaints**

Northwestern has not received any CRA related complaints since the last CRA 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.

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