



Comptroller of the Currency
Administrator of National Banks

Small Bank

Minneapolis Duty Station
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402

PUBLIC DISCLOSURE

January 27, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Northfield
329 Division Street
Northfield, MN 55057**

Charter # 2073

**Office of the Comptroller of the Currency
920 Second Ave. S. Suite 800
Minneapolis, MN 55402**

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 First National Bank of Northfield, prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of January 27, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: “Satisfactory”

- o The bank has a reasonable distribution of lending to consumer borrowers and businesses of different income levels in relation to the demographics of the assessment area.
- o The bank originates a majority of the loans inside the assessment area.
- o The bank has a reasonable loan-to-deposit ratio.

DESCRIPTION OF INSTITUTION

The First National Bank of Northfield is a \$65 million institution located in Northfield, Minnesota, a city of approximately 16,000 people located about 50 miles south of Minneapolis, MN. The bank has a main office, separate autobank facility and three ATMs located in Northfield. The ATMs are located at the local grocery store, at the autobank facility and at Carleton College. The bank is an independently-owned financial institution.

Northfield has three other financial institutions ranging from \$10 million to \$90 million in assets to provide competition. Because of Northfield's location, many individuals commute to the Twin Cities of Minneapolis and St. Paul, MN for employment. Northfield has two nationally ranked private liberal arts colleges, which accounts for about five thousand of the area population.

The bank's primary focus is commercial and real estate lending. As of December 31, 1998, the bank's loan mix consisted of 49% commercial and commercial real estate, 30% residential real estate, 11% agricultural and agricultural real estate, and 10% consumer. Net loans and leases comprised 65% of the bank's deposits and 58% of the total assets. The bank offers a vast range of credit products and deposit services. There are no legal or financial impediments limiting the bank's ability to meet community credit needs.

The bank's last CRA rating was an "Outstanding Record of Meeting Community Credit Needs" dated July 3, 1996.

DESCRIPTION OF THE ASSESSMENT AREA (AA)

First National Bank of Northfield's AA consists of: the northern half of Rice County, which consists of four upper-income block numbering areas (BNAs); the southwestern third of Dakota County, which consists of one middle-income census tract (CT); and, the southeastern third of Scott County, which consists of one middle-income CT. The bank's AA does not include any low- or moderate-income BNAs or CTs. Management chose not to include entire counties in its AA due the bank's geographic location and the large size of the counties. Although no real physical barriers exist, the bank is heavily influenced by other competing financial institutions.

The bank's AA area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Rice County has no low- or moderate-income BNAs. Dakota and Scott Counties are located in the Minneapolis-St. Paul Metropolitan Statistical Area (MSA) #5120. There are no low-income CTs in Dakota or Scott County. Dakota County has four moderate-income CTs and Scott County has one moderate-income CT. The five moderate-income tracts are located 25-35 miles from the bank's AA.

Based on 1990 Census data, the population of the assessment area is approximately 31,000.

The median family income from the 1990 census for the MSA portion of the AA was \$43,063. The updated 1998 median family income for the MSA portion is \$60,800. The median family income from the 1990 census for the non-MSA portion of the AA is \$ 28,933. The updated 1998 median family income for the non-MSA portion is \$40,500. A breakdown of family income levels in the AA show 11% are low-income, 14% are moderate-income, 23% are middle-income, and 52% are upper-income. Seven percent of the number of households are below poverty level; the median housing value is \$84,592 and 75% of the housing is owner occupied.

The economy of the assessment area is diverse with major employers like Malt-O-Meal, Sheldahl, Inc., Ryt-Way Industries, Inc. and Fairway Foods, Inc. In addition, the two local colleges and Northfield School District are also major employers. Unemployment is low at 2%. Housing demand continues to be high in Northfield as a result of its close proximity to Minneapolis and St Paul, MN. Commercial growth has been flat. Examiner contact with a city government organization identified a need for consumer and housing loans of all sizes, and small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Businesses and Farms of Different Sizes:

Our samples and rating conclusions are centered on the bank’s commercial and real estate lending in correspondence to the significant dollar volume of originations. This is also consistent with the general composition of the bank’s loan portfolio. The following table illustrates the origination activity between July 1996 and December 1998. Our last CRA examination was July 1996. Commercial and real estate originations accounted for 78% of all the bank’s originations by dollar and 31% of the number of originations. We also reviewed a sample of consumer loans due to the high number of loans originated in that time period.

Loan Origination Activity July 1996 thru December 1998				
Type of Loan	Number of Loans	% of Total	Dollar Amount (000s)	% of Total
Commercial loans	507	16%	\$28,841	37%
Agricultural loans	164	5%	\$6,356	8%
Residential Real Estate loans	458	15%	\$32,383	41%
Consumer loans	2,002	64%	\$11,377	14%
Totals	3,131	100%	\$78,957	100%

Data Source: Bank Records

As illustrated below, the bank has a very good distribution of lending to consumer borrowers of different income levels in relation to the demographics of the assessment area. We sampled 49 originated consumer loans totaling \$254 thousand. The bank's originations of consumer loans to individuals of low- and moderate-income levels exceeds the demographics for the AA.

Lending Distribution Based on Income Level of Consumer Borrowers June 1997 - June 1998 Consumer Loan Originations			
Borrower Income Level	Bank Lending Distribution by Number of Loans	Percentage of Families in each Income Category (census information)	Bank Lending Distribution by Dollar of Loans
Low	45%	11%	33%
Moderate	20%	14%	6%
Middle	12%	23%	15%
Upper	23%	52%	46%
Totals	100%	100%	100%

The bank has a reasonable distribution of lending to consumer borrowers of different income levels for the purpose of purchasing residential real estate in relation to the demographics of the assessment area. While the bank's lending activity for low- and moderate-income borrowers appears low relative to census information, the cost of residential real estate is prohibitive for these income groups. As noted earlier, the median housing value is high at nearly \$85 thousand based on 1990 census data. However, the average sales price for single family homes sold during 1998 is much higher at over \$146 thousand. We sampled 57 originated residential real estate loans totaling \$3.9 million. The sample represented 13% of the number and 12% of the dollar volume of loan originations in that time.

Lending Distribution Based on Income Level of Consumer Borrowers June 1997 - June 1998 Residential Real Estate Loan Originations			
Borrower Income Level	Bank Lending Distribution by Number of Loans	Percentage of Families in each Income Category (census information)	Bank Lending Distribution by Dollar of Loans
Low	2%	11%	0%
Moderate	9%	14%	7%
Middle	33%	23%	28%
Upper	56%	52%	65%
Totals	100%	100%	100%

The bank has a reasonable distribution of lending to different sizes of businesses in relation to

the demographics of the assessment area. We sampled 56 commercial loans totaling \$3.2 million that were originated between July 1996 and December 1998. The sample represented 11% of the number and dollar volume of all commercial loan originations in that time.

The results of our review, illustrated in the table below, show that the bank extended 73% of its commercial loans to businesses with gross annual revenues of less than \$500 thousand. This equals the 73% of businesses in the AA having annual revenues of less than \$500 thousand, per updated 1998 census data.

Lending Distribution Based on Gross Revenues Commercial Loan Originations			
Revenue Size of Businesses Sampled \$(000's)	Bank Lending Distribution by Number of Loans	Percentage of Businesses in each Revenue Category (census information)	Bank Lending Distribution by Dollar of Loans
< \$100	30%	73%	17%
\$100 - \$250	27%		25%
\$250 - \$500	16%		22%
\$500 - \$1,000	2%	5%	1%
> \$1,000	23%	8%	35%
Revenue not reported	2%	14%	0%
Totals	100%	100%	100%

Loan-to-Deposit Analysis

The bank's average quarterly loan-to-deposit ratio from September 1996 to December 1998 is 77% percent. This ratio is reasonable given the bank's size, financial condition and lending opportunities within its assessment area. First National Bank of Northfield has the second highest average loan-to-deposit ratio of seven similarly situated banks in the AA. Seven banks of similar size, operating in the bank's AA had average loan-to-deposit ratios ranging from 56% to 84% for the nine quarters between September 1996 and September 1998. The average loan-to-deposit ratio of these eight banks was 70%. Uniform Bank Performance Reports were used for the loan-to-deposit data.

Lending Inside the Assessment Areas

First National Bank of Northfield originates a majority of its loans inside its assessment area. We sampled 64 commercial and commercial real estate loans totaling \$3.3 million originated between July 1996 and December 1998 which represents 13% of the number and 12% of the

dollars originated in the time period. We also sampled 66 residential real estate loans totaling \$4.4 million and 61 consumer loans totaling \$329 thousand originated in the same time period. The real estate sample represented 14% of the number and dollar volume of loans, while the consumer sample represented 3% of the number and dollar volume of loans.

The following table illustrates the level of lending inside the bank's assessment area:

Penetration of Lending Inside the Bank's Assessment Area		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial Loans	88%	96%
Real Estate Loans	86%	89%
Consumer Loans	92%	95%

Geographic Distribution of Loans:

We did not evaluate the geographic distribution of lending throughout the bank's assessment area because there are no low- or moderate income BNAs or CTs. The four BNAs in the bank's AA are upper-income and the two CTs are middle-income.

Response to CRA Related Complaints

The bank has not received any CRA related complaints since the previous evaluation.

Compliance with Antidiscrimination Laws

First National Bank of Northfield is in compliance with applicable antidiscrimination laws and regulations. We found no evidence of apparent disparate treatment during our fair lending review.