



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Northfield
Charter Number 2073**

**329 Division Street
Northfield, MN 55057**

**Comptroller of the Currency
Minneapolis South Field Office
920 Second Avenue South 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.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING.....	2
DESCRIPTION OF INSTITUTION.....	2
DESCRIPTION OF ASSESSMENT AREA	2
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	4

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- The bank's average loan-to-deposit ratio is reasonable.
- A majority of loans are in the bank's assessment area.
- First National Bank of Northfield has a reasonable distribution of credit among businesses of different sizes and a good distribution of credit among borrowers of different income levels.

DESCRIPTION OF INSTITUTION

First National Bank of Northfield (FNB) is an \$85 million institution located in Northfield, Minnesota, a city of approximately 17,000 people. Northfield is located 40 miles south of Minneapolis, Minnesota. The bank has a main office, a separate autobank facility, and three ATMs located in Northfield. The ATM located at the autobank is a deposit-taking ATM, while the other two, located at a local grocery store and at Carleton College, do not accept deposits. The bank is an independently owned institution.

The bank does not have any affiliate relationships that impact the bank's CRA performance. FNB has not acquired or closed any branches since the last CRA examination in January, 1999.

The bank offers telephone banking to its customers. This service provides customers with 24-hour access to deposit and loan account information. It also allows customers to make transfers between accounts, including making loan payments.

FNB offers loan and deposit products well suited to the community's needs. As of December 31, 2002, the bank's \$50 million loan portfolio consisted of 44% commercial loans, 41% residential real estate loans, 8% consumer loans and 7% agricultural loans. In 2002 and 2001, the bank sold \$15.3 million and \$15.9 million, respectively, in residential real estate loans to the secondary market. As of December 31, 2002, net loans made up 60.17% of total assets. The bank's primary lending focus is commercial and residential real estate loans.

There are no financial, legal or other factors that impede FNB's ability to meet its CRA obligations. The bank's last CRA rating was "Satisfactory" dated January 27, 1999.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area includes four Block Numbering Areas (BNAs) in northern Rice County. The bank's assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Key demographic information for this assessment area, using 1990 census data, indicates that the four BNAs are all upper-income. Based on 1990 census information, 10% of the families within the bank's

assessment area are low income, 13% moderate income, 19% middle income and 58% upper income. The 1990 census non-metropolitan areas of Minnesota median family income was \$28,933. Based on the Department of Housing and Urban Development's 2002 estimate, the updated median family income is \$48,500 for non-metropolitan areas in the State of Minnesota.

The 2000 census information pursuant to the US Census Bureau indicates the population of Rice County has increased by 15.2% since 1990 to a current population of 56,665 persons. Comparatively, the population of the State of Minnesota has increased by 12.4% since 1990. The growth of Rice County can be attributed to its close proximity to the Minneapolis-St. Paul metro area. The 2000 census indicates that the average person in Rice County commutes 20 minutes to work. Because of the diversity of employment in Rice County, some people also commute to Northfield from the metro area.

Unemployment levels in the assessment area are slightly higher than the State of Minnesota, but lower than the national average. Pursuant to the Minnesota WorkForce Center, Rice County unemployment was at 5.4% as of February, 2003, compared to 4.9% for the State of Minnesota and 6.4% for the United States as of the same date. Unemployment has been increasing due to overall economic conditions. The unemployment average for Rice County for 2002 was 4.7% and 3.7% for 2001. These increases are consistent with the state and national averages which were 4.4% and 5.8%, respectively for 2002, and 3.7% and 4.7%, respectively, for 2001.

Northfield is home to two private colleges which bring approximately 5,000 students to the area. Northfield also offers good employment opportunities. The Chamber of Commerce lists the top five employers as St. Olaf College, Malt-O-Meal, Carleton College, Sheldahl Materials and the Northfield School District. Each of these employs more than 500 persons.

The 1990 census data indicated the number of households below the poverty level for FNB's assessment area are at 9.32%. Based on 1999 information from the U.S. Bureau of the Census, 7.9% of the persons living in the State of Minnesota are below the poverty level. That compares to 6.9% in Rice County.

There are six financial institutions with a presence in FNB's assessment area. Those institutions have assets ranging from \$27 million to \$52 billion. Pursuant to 2001 market share deposit data provided by the Federal Deposit Insurance Corporation, FNB is ranked second in deposit share within its assessment area with 22.78% of the deposits.

The cost of median family housing has increased from 1990 census information of \$81,331 in FNB's assessment area to \$123,600 in Rice County, per 2000 census information. 2000 Census information lists home ownership at 77.9% in Rice County, compared to 74.6% in Minnesota and 66.2% nationwide. We made a community contact with a local organization who indicated the lack of affordable housing as a concern for the area. She indicated that the City of Northfield has identified these concerns and is currently working on a redevelopment project which would build eight new single-family residences. Townhomes are increasing in popularity in the area and more than 50% of the building permits issued in Northfield in the last year were for townhome construction. New townhomes start around \$140,000 and meet the needs of young couples and retired persons.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 16 quarters since the previous CRA exam is 72.55%. Similarly situated banks have quarterly average loan-to-deposit ratios ranging from 69.85% to 83.01% over the same time frame. Similarly situated banks include the banks with a presence in FNB's assessment area with total assets between \$69 and \$149 million. The loan-to-deposit ratio does not take into account loans sold by banks on the secondary market, which for FNB totaled \$31.2 million during 2001 and 2002.

Institution	Assets (as of 12/31/02)	Average Loan-to-Deposit Ratio 1Q99 – 4Q02
RURAL AMERICA BANK, Lonsdale, MN	\$69 million	69.85
FIRST NATIONAL BANK, Northfield, MN	\$85 million	72.55
COMMUNITY NATIONAL BANK, Northfield, MN	\$149 million	79.59
PREMIER BANK, Farmington, MN-branch in Northfield	\$115 million	83.01

Lending in Assessment Area

Based on a sample of 20 commercial and 20 residential real estate loans, FNB originates a majority of its loans to borrowers located within its defined assessment area. The sample determined that of loans originated from January, 1999 through December, 2002, 85% by number and 78.54% by dollar volume were made to businesses and real estate borrowers located within the bank's assessment area. The following table shows loans originated inside their assessment area by number and dollar volume from the 40 loans sampled:

Lending in Assessment Area by Number and Dollar Amount				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Commercial	16	80%	\$746,819	59.05%
Residential Real Estate	18	90%	\$1,569,100	93.19%
Totals	34	85%	\$2,315,919	78.54%

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

FNB has a reasonable distribution of credit among businesses of different sizes.

Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to more than a million dollars. A random sample of 20 commercial files indicates the following breakdown of annual revenues.

Lending Distribution Based on Revenue Size of Business			
Revenue Size of Business	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentages of Businesses in Each Revenue Category (per 2002 Business Demographic Data)*
Commercial < 1 million in annual sales	80%	52.72%	67.28%
Commercial > 1 million in annual sales	20%	47.28%	3.85%

*28.87% of business did not report revenues

FNB has a good distribution of credit among real estate borrowers of different income levels. The following table compares the actual percent of families based on income level located within the assessment area to those loans made by the bank from the selected loan sample of 20 residential real estate loans.

Lending Distribution Based on Income Level of Real Estate Borrowers			
Borrower Income Level (per 2002 HUD Estimated Median Family Income for non-metro areas of MN)	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Families in each Income Category (per 1990 Census Information)
Low (\$0 - \$24,250)	5%	.5%	10.28%
Moderate (\$24,251 - \$38,800)	15%	12.04%	12.47%
Middle (\$38,801 - \$58,200)	30%	13.08%	19.06%
Upper (\$58,201 and over)	50%	74.38%	58.20%

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as none of the BNAs in the bank's assessment area are defined as low or moderate-income BNAs.

Responses to Complaints

FNB has not received any complaints about its performance in helping meet assessment area credit needs during this evaluation period.

Fair Lending Review

An analysis of the most recent public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.