



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 04, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 23351**

**422 Commercial Street
Waterloo, IA 50701**

**Comptroller of the Currency
Minneapolis South
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.

INSTITUTION'S CRA RATING

This institution is rated Outstanding.

- Average loan-to-deposit ratio is reasonable.
- A majority of loans are in the bank's assessment area.
- Community National Bank has an excellent distribution of credit among real estate borrowers of different income levels and among businesses of different sizes.
- The geographic distribution of loans reflects an excellent dispersion throughout the Black Hawk County assessment area.

DESCRIPTION OF INSTITUTION

Community National Bank (CNB), Waterloo, Iowa is a \$267 million commercial bank. The bank's main office is a full-service facility located in downtown Waterloo, Iowa. The bank has three additional branches and 21 automated teller machines located in Waterloo and Cedar Falls, IA. The bank also has three branches and two automated teller machines in Mason City, IA. The bank gained a presence in Mason City on August 10, 2001 when it acquired three branches of Commercial Federal Bank. On January 25, 2002 they also acquired the Mason City office of Northwest Federal Savings Bank, which was doing business as Gateway Savings Bank.

CNB's primary loan products include commercial loans and residential real estate loans. The bank's Report of Condition (Call Report) as of September 30, 2004 indicates a \$216 million loan portfolio, 72% are commercial, 17% are residential real estate, 5% are consumer, 1% are agricultural, and other loans total the remaining 5%. Loans represent 81% of total assets.

CNB is a wholly owned subsidiary of Community National Bancorporation, a two-bank holding company headquartered in Waterloo, Iowa. Total asset size of the holding company as of September 30, 2004 was \$288 million.

There are no financial, legal, or other factors that impede CNB's ability to meet its CRA obligations. The bank's last CRA rating was a "Satisfactory Record of Meeting Community Credit Needs" dated July 12, 1999.

CNB offers a variety of products and services including lending and savings programs designed to help low- to moderate-income individuals.

DESCRIPTION OF ASSESSMENT AREAS

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

Black Hawk County Assessment Area

The Black Hawk County assessment area (BHAA) is part of the Waterloo-Cedar Falls metropolitan statistical area. The population of BHAA is 128,012 according to 2000 U.S. Census Data. The BHAA includes the cities of Waterloo, Cedar Falls, Elk Run Heights, Evansdale, Gilbertville, Raymond, Dunkerton, LaPorte City, and Hudson. CNB's BHAA meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

The Department of Housing and Urban Development's 2004 updated median family income (MFI) estimate for the Waterloo-Cedar Falls MSA is \$55,200. According to 2000 U.S. Census Data, approximately 12% of families in the BHAA have income below the poverty level (<30% of MFI). The following summarizes the income levels of individual census tracts and families located within the BHAA.

INCOME DISTRIBUTION OF TRACTS AND FAMILIES			
Income Level	# of Tracts	% of Tracts	% of Families
Low	2	5%	17%
Moderate	12	32%	21%
Middle	15	41%	23%
Upper	8	22%	39%
TOTAL	37	100%	100%

Source: U.S. Census Data (2000)

Median housing value in the BHAA is \$77,995 and median gross rent is \$471 per month according to 2000 U.S. Census Data. Owner-occupied housing comprises 66% of all housing units, rental-occupied housing is 30%, and 4% of units are vacant.

In November 2004, the year-to-date seasonally adjusted average unemployment rate was 4.7% in the BHAA and 4.4% for the state of Iowa, according to information from Iowa Workforce Development in Des Moines, IA. The seasonally adjusted national unemployment rate was 5.4% in December 2004 according to U.S. Department of Labor statistics. Per Iowa Workforce Development, the top five employers in the BHAA are Deere & Co., Covenant Medical Center, Tyson Fresh Meats, Allen Memorial Hospital, and Omega Cabinets.

Competition for loans and deposits in the BHAA is strong. CNB ranks second in total assets among the six banks chartered in the BHAA. However, there are also three large regional banks with branches in the BHAA (Union Planters Bank, US Bank, & Wells Fargo). These three banks control 63% of bank deposits in the BHAA. As of June 30, 2004, CNB ranks 4th among 11 banks with offices in the BHAA with a 12.05% deposit market share. This does not include significant competition provided by area credit unions.

As part of our review, we contacted a representative of the City of Waterloo. The community contact and other information indicate a continued improving economic trend. Our contact identified credit needs in the community related to the local down-payment assistance program, small business development program, and a planned riverfront housing project. Our contact also felt that physical access to financial institutions on the east side of the Cedar River is poor. All financial institutions, including CNB, are very willing to provide conventional and creative business financing and professional expertise.

Cerro Gordo County Assessment Area

The Cerro Gordo County assessment area (CGAA) is not part of a metropolitan statistical area (MSA). The population of CGAA is 46,477 according to 2000 U.S. Census Data.

Approximately 80% of the population of the CGAA is located in Mason City and Clear Lake, IA. Other towns in the CGAA include Rockwell, Ventura, and Plymouth. CNB's CGAA meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

The Department of Housing and Urban Development's 2004 updated median family income (MFI) estimate for the non-metro portion of Iowa is \$50,800. According to 2000 U.S. Census Data, approximately 9% of families in the CGAA have income below the poverty level (<30% of MFI). The CGAA includes 10 census tracts, which are all middle income tracts based on 2000 U.S. Census Data.

Median housing value in the CGAA is \$78,103 and median gross rent is \$407 per month according to 2000 U.S. Census Data. Owner-occupied housing comprises 65% of all housing units, rental-occupied housing is 26%, and 10% of units are vacant.

In November 2004, the year-to-date seasonally adjusted average unemployment rate was 4.0% in the CGAA and 4.4% for the state of Iowa, according to information from Iowa Workforce Development in Des Moines, IA. The seasonally adjusted national unemployment rate was 5.4% in December 2004 according to U.S. Department of Labor statistics. Per Iowa Workforce Development, the top five employers in the CGAA are Mercy Medical Center – North Iowa, Currie's Manufacturing, Staff Management, Principal Life Insurance Co., and Hy-Vee Food Stores.

Competition for loans and deposits in the CGAA is strong. As of June 30, 2004 five banks (First Citizens, Wells Fargo, Clear Lake Bank & Trust, Bank of America, and US Bank) control 81% of bank deposits in the CGAA. CNB ranks 6th among 13 banks with offices in the CGAA with a 6.62% deposit market share. This does not include significant competition provided by area credit unions.

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 in each Assessment Area (AA). The bank's quarterly average loan-to-deposit ratio for the 22 quarters since the previous CRA exam is 88.21%. The loan-to-deposit ratio continues to increase as the bank grows. In addition, CNB originates residential real estate loans and sells loans through the secondary market. In 2003 and 2004, CNB sold approximately \$35 million in loans on the secondary market. While these activities assist in CNB's efforts to meet local credit needs, the volume of sold loans is not reflected in the quarterly loan-to-deposit ratio.

Similarly situated banks have quarterly average loan-to-deposit ratios ranging from 77.51% to 94.00% over the same time frame. Similarly situated banks include the banks with a presence in

Cerro Gordo County or the Waterloo-Cedar Falls, IA MSA with total assets between \$156 and \$315 million.

Institution	Assets (as of 09/30/04)	Average Loan-to-Deposit Ratio 2Q99 – 3Q04
Midwestone Bank & Trust, Oskaloosa, IA	\$265 million	94.00
Bankiowa, Cedar Rapids, IA	\$315 million	88.54
Manufacturers Bank & Trust Company, Forest City, IA	\$207 million	88.25
Community National Bank, Waterloo, IA	\$267 million	88.21
Clear Lake Bank and Trust Company, Clear Lake, IA	\$183 million	84.16
The First National Bank of Waverly, Waverly, IA	\$156 million	77.51

Lending in Assessment Area

Based on a sample of 20 commercial loans and 20 residential real estate loans from each of the AAs (80 total loans), CNB originates a majority of its loans to borrowers located within the defined AAs. The sample determined that of loans originated from January 1, 2003 through December 31, 2004, 81% by number and 70% by dollar volume were made to borrowers located within the bank’s AAs. The following table shows loans originated inside and outside the AAs by number and dollar volume:

Lending in Assessment Area by Number and Dollar Amount								
LOAN TYPE	IN ASSESSMENT AREAS				OUT OF ASSESSMENT AREAS			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Commercial (Black Hawk County)	18	90%	\$1,753	62%	2	10%	\$1,090	38%
Residential Real Estate (Black Hawk County)	15	75%	\$764	77%	5	25%	\$233	23%
Commercial (Cerro Gordo County)	15	75%	\$852	70%	5	25%	\$374	30%
Residential Real Estate (Cerro Gordo County)	17	85%	\$877	91%	3	15%	\$86	9%
TOTAL	65	81%	\$4,246	70%	15	19%	\$1,783	30%

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

CNB has an excellent distribution of residential real estate loans among borrowers of different income levels. Residential real estate lending activity in the AAs meets and/or exceeds community demographics for low- and moderate-income borrowers. The following tables compare the actual percentage of families based on income level located within the AAs to loans made by the bank from the selected loan sample of 20 residential real estate loans in each AA.

CNB participates in the Waterloo Housing Loan Program, which is targeted to low- and moderate-income families. Under this program, CNB closed 17 loans totaling \$856,350 in 2003 and 9 loans totaling \$556,080 in 2004, with additional loans in process. CNB is also a sponsor of the Federal Home Loan Bank Affordable Housing Program in the Waterloo area.

Borrower Distribution of Residential Real Estate Loans – Black Hawk County			
Borrower Income Level (per	Bank Lending	Bank Lending	Percentage of Families in

2004 HUD Estimated Median Family Income for Waterloo-Cedar Falls MSA)	Distribution by Number of Loans	Distribution by Dollar of Loans	Each Income Category (per 2000 U.S. Census Data)
Low (\$0 - \$27,599)	20%	11.29%	17.41%
Moderate (\$27,600 - \$44,159)	25%	26.98%	20.48%
Middle (\$44,160 - \$66,239)	35%	37.69%	23.26%
Upper (\$66,240 and over)	20%	24.04%	38.86%

Borrower Distribution of Residential Real Estate Loans – Cerro Gordo County			
Borrower Income Level (per 2004 HUD Estimated Median Family Income for non-metro areas of Iowa)	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Families in Each Income Category (per 2000 U.S. Census Data)
Low (\$0 - \$25,399)	15%	9.39%	17.23%
Moderate (\$25,400 - \$40,639)	30%	21.86%	17.92%
Middle (\$40,640 - \$60,959)	30%	31.90%	24.96%
Upper (\$60,960 and over)	25%	36.85%	39.89%

CNB has an excellent distribution of credit among businesses of different sizes. Our sample of 20 commercial loans in each AA included a wide range of commercial borrowers, from startup businesses to a business with revenues in the multi-million dollar range.

CNB participates in the City of Waterloo “Downtown and East Side Small Business Improvement Program.” This program encourages small business development in the community and revitalization of low-income geographies.

Lending Distribution Based on Revenue Size of Business – Black Hawk County			
Revenue Size of Business	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Businesses in Each Revenue Category (per 2003 Business Demographic Data) *
Annual Revenues Under \$1 Million	80%	77.02%	61.83%
Annual Revenues Over \$1 Million	20%	22.98%	6.39%

* 31.78% of businesses did not report revenues

Lending Distribution Based on Revenue Size of Business – Cerro Gordo County			
Revenue Size of Business	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Businesses in Each Revenue Category (per 2003 Business Demographic Data) *
Annual Revenues Under \$1 Million	95%	84.26%	63.47%
Annual Revenues Over \$1 Million	5%	15.74%	4.95%

* 31.58% of businesses did not report revenues

Geographic Distribution of Loans

Black Hawk County - MSA AA:

The geographic distribution of loans reflects an excellent dispersion throughout the BHAA. The Waterloo main branch is located in a low-income census tract. Based on our random sample of loan files, our analysis reflects a good dispersion throughout the BHAA with lending in the majority of Census Tracts in the BHAA.

Geographic Distribution of Loans				
Census Tract Income Level	Low 5.4%	Moderate 32.4%	Middle 40.5%	Upper 21.6%
Percent of Businesses in Income Tract Category	15.20%	19.93%	41.64%	23.23%
CNB Commercial Loans	15%	30%	35%	20%
Percent of Owner Occupied Housing by Income Level of Tract	1.04%	25.33%	45.43%	28.20%
CNB Residential RE Loans	0%	30%	30%	40%

Cerro Gordo County - Non-MSA AA:

The geographic distribution of loans does not provide a meaningful analysis in the CGAA, as all of the Census Tracts in the CGAA are defined as middle-income.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.