



PUBLIC DISCLOSURE

February 17, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Citizens National Bank of Park Rapids
Charter Number 13692

300 West First Street
Park Rapids, MN 56470

Office of the Comptroller of the Currency

222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3371

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.

The major factors supporting this rating include:

- The bank’s average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area (AA).
- A majority of the bank’s loans are originated to customers inside the AA.
- The bank has excellent penetration to businesses of different sizes and reasonable penetration of loans to individuals of different income levels.
- The bank has an excellent dispersion of loans throughout its AA.
- Community development activities benefit the bank’s assessment and contribute to the overall rating.

SCOPE OF EXAMINATION

We evaluated The Citizens National Bank of Park Rapids (CNB) Community Reinvestment Act (CRA) performance using small bank examination procedures for the period from August 4, 2009 through February 17, 2015. We focused our assessment on the bank’s primary lending products based on the number and dollar volume of loans originated between January 1, 2013 and December 31, 2014. Based on our assessment, consumer and commercial loans are the bank’s primary products. We selected a sample of 20 consumer loans and 20 commercial loans in order to evaluate the bank’s lending activities within the AA.

The following table shows the bank’s primary products by loan originations and purchases.

Loan Originations and Purchases in 2013 and 2014		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	86%	46%
Commercial	7%	31%
Real Estate	6%	20%
Agricultural	2%	3%

Source: Bank loan origination report for 2013 and 2014

DESCRIPTION OF INSTITUTION

CNB is a \$229 million intrastate bank located in Park Rapids, Minnesota. Park Rapids is located in Hubbard County, approximately 200 miles north of the Twin Cities. CNB does not operate any branches and does not have any deposit taking ATMs. The bank has two ATMs located at the bank and two located at businesses in Park Rapids. CNB

is an affiliate of Park Rapids Bancshares, a one-bank holding company located in Park Rapids. Holding company activities do not affect the bank's CRA performance.

CNB offers traditional loan and deposit products. As of December 31, 2014, the bank has net loans and leases of \$172 million, representing 75 percent of total assets. According to the December 31, 2014 Call Report, the bank's outstanding loan portfolio is comprised of 39 percent commercial loans, 34 percent real estate loans, 24 percent consumer loans, and 3 percent agricultural loans.

CNB received a "Satisfactory" rating at its August 3, 2009 CRA evaluation. There are no legal or financial circumstances impeding the bank's ability to meet the credit needs of its AA. There were no mergers or acquisition activity during the evaluation period.

DESCRIPTION OF ASSESSMENT AREA

CNB's AA consists of ten contiguous census tracts located in four adjacent Non-Metropolitan counties in north central Minnesota. Specifically, the AA includes the southern half of Hubbard County, eastern half of Becker County, northern half of Wadena County, and western part of Cass County. CNB's AA includes one moderate-income census tract, and nine middle-income census tracts. There are no low-income census tracts located in the AA. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The AA includes the political subdivision where the bank is located and does not reflect discrimination.

The banking environment in CNB's AA remains competitive. According to the June 30, 2014, FDIC Deposit Market Share Report, CNB has 11.42 percent of the market share within the AA. The bank ranks third in market shares among the 22 banks within the AA. At the prior CRA evaluation in 2009, CNB had the majority of deposit market share, however, rapid growth and mergers and acquisitions among other competitors have resulted in changes to market share within the AA.

The local economy of the AA remains stable. Primary industry sectors in the AA are tourism, logging, and dairy. The major employers in the AA include R. D. Offutt Co. (RDO), a potato chip processor, and Team Industries, a manufacturer of Polaris snowmobile parts. Logging and tourism continue to drive the local economy, with tourism being the largest contributor to the economy, drawing people from all over the state to the central lakes region. Dairy remains a factor in the local economy, however has dwindled in the last several years.

Unemployment rates in the AA are higher than the statewide average for 2014. According to the U.S. Bureau of Labor Statistics, the AA average unemployment rate was 6.3 percent, compared to the Minnesota state average of 4.1 percent for 2014. For 2014, the unemployment rates in the four counties that make up the AA ranged from a low of 4.8 percent in Becker County to a high of 7.2 percent in Cass County. Despite these rates, unemployment in the AA continues to improve.

We contacted a local community development representative to gain an understanding of the community including credit needs and opportunities. Our community contact indicated that the bank is active in the local community as well as meeting the credit needs of the community, including opportunities to participate in community development needs, other credit-related projects, or financing programs. CNB is a participant in USDA 504 single-family guarantee program and has the expertise to provide financial assistance for the development of workforce housing. Under the USDA 504 single-family guarantee program, CNB can lend up to 105 percent of the appraised value of the property. CNB's underwriting expertise has contributed to a very low default rate.

Opportunities for participation in community development are prevalent in workforce housing. Many factory workers employed in the area have incomes that exceed the limits established for affordable housing. The community contact we spoke with has been contacted by a few communities in northern Minnesota looking for financial assistance for affordable workforce housing.

The following table shows the demographic and economic characteristics of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA	
Population	
Number of Families	8,461
Number of Households	12,277
% of Low-Income Families	21.81
% of Moderate-Income Families	21.50
% of Middle-Income Families	24.75
% of Upper-Income Families	31.95
Geographies	
Number of Census Tracts	10
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	10
% Middle-Income Census Tracts	90
% Upper-Income Census Tracts	0
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$57,683
2014 FFIEC-Adjusted MFI	\$61,700
Economic Indicators	
2014 Average Unemployment Rate	6.33%
2010 Median Housing Value	\$183,466
% of Households Below Poverty Level	13.55

Source: 2010 U.S. Census data with updated information when available

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

CNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly loan-to-deposit ratio averaged 78 percent for the 22 quarters since the prior evaluation from September 30, 2009, through December 31, 2014. Based on this ratio, the bank ranks second among similarly situated banks, defined as those institutions operating in the bank's AA with similar asset sizes.

Loan-to-deposit Ratio	Assets as of	Average LTD Ratio
Institution	12/31/14 (\$000s)	(%)
Midwest Bank	\$345,851	99.96%
The Citizens National Bank of Park Rapids	\$229,303	77.64%
The First National Bank of Walker	\$367,772	71.58%
Wadena State Bank	\$125,571	67.66%

Source: Call Report data as of December 31, 2014.

Lending in Assessment Area

The bank originates a majority of its loans inside the AA. Based on a sample of primary products, CNB originated 60 percent of loans by number and 52 percent by dollar volume within the AA. The majority of consumer loans were originated outside of the AA, however, this is attributed to CNB's participation in indirect auto financing with automobile dealers outside of the bank's AA. The bank's participation in indirect auto financing was done primarily to grow the bank, as the current market is heavily saturated. The following table shows loan originations inside and outside of the AA by number and dollar volume.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	80	4	20	20	1,426	53	1,254	47	2,680
Consumer	8	40	12	60	20	99	35	186	65	285
Totals	24	60	16	40	40	1,525	51	1,440	49	2,965

Source: Commercial and consumer loan samples.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

CNB's overall distribution of loans reflects excellent penetration among businesses of different sizes and reasonable penetration among borrowers of different income levels, given the demographics of the AA.

CNB's borrower distribution reflects excellent penetration among businesses of different sizes in the AA. The bank's lending activity to businesses with revenues less than \$1 million by number of loans exceeds the demographics at 90 percent. Although the percentage of loans by dollar amount to small business is below the demographic composition, we attribute this to larger dollar loans made to two businesses with revenues greater than \$1 million.

The following table compares the bank's commercial lending activity to the demographic comparators within the banks AA.

Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	80.10	2.93	16.98	100
% of Bank Loans in AA by #	90.00	10.00	0.00	100
% of Bank Loans in AA by \$	69.39	30.61	0.00	100

Source: Loan sample; Dunn and Bradstreet Data 2014

CNB's borrower distribution of consumer loans in the AA reflects reasonable penetration among all income levels. Consumer lending to both low and moderate-income level borrowers, exceeds the demographic comparators.

The following table compares the bank's consumer lending activity to the demographics within the AA.

Borrower Distribution of Consumer Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	25.72	30.00	17.83	25.00	20.89	20.00	35.55	25.00

Source: Loan Sample; 2010 US Census Data

Geographic Distribution of Loans

The geographic distribution of commercial business loans within the AA reflects excellent dispersion throughout the AA. The bank’s lending activity to businesses in the moderate-income tract significantly exceeds the percentage of businesses operating in that census tract.

The following table demonstrates the geographic distribution among businesses in the AA.

Geographic Distribution of Loans to Businesses in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	0.00	0.00	16.98	35.00	83.02	65.00	0.00	0.00

Source: Loan Sample; 2010 US Census Data

The geographic distribution of consumer loans within the AA reflects excellent dispersion throughout the AA. The bank’s lending to consumers in the one moderate-income tract significantly exceeds the demographic composition of the assessment area.

The following table demonstrates the geographic distribution among consumers in the AA.

Geographic Distribution of Consumer Loans in the AA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	0.00	0.00	13.96	25.00	86.04	75.00	0.00	0.00

Source: Loan Sample; 2010 US Census Data

Community Development

CNB’s community development activities enhance the availability of credit in the AA and contribute to the overall outstanding rating. CNB engages in multiple loan programs, charities, and takes pride in their working relationship with the local counties, school districts, and the city of Park Rapids.

Loan Programs

CNB participates in new markets tax credits (NMTC) financing through the Midwest Minnesota Community Development Corporation (MMCDC), a nonprofit providing

resources and ideas to further community development throughout Minnesota and the Midwest. NMTC was introduced as part of the Community Renewal Tax Relief Act of 2000, as an incentive for private investment into low-income communities. NMTC provides financing to eligible businesses operating in low-income communities offering lower interest rates, higher loan-to value ratios, extended amortization periods, and reduced debt service requirements or interest only payments for seven years. During the evaluation period, the bank purchased four NMTC loans totaling \$2.65 million. These loans financed projects including an addition to the local hospital, a new Dialysis Center, a new hotel, and improvements to a local car dealership. Further, the bank has been very involved in a new addition and remodeling of a local assisted living center. The financing for the project was achieved using bonds instead of a loan. The bank received \$11 million in deposits for the project and is handling the draw requests during the construction phase. This project was funded through the NMTC program.

CNB continues to offer new products to accommodate customer's needs. First time homebuyer program loans are available through Minnesota Housing Finance Agency (MHFA). Through MHFA, CNB offers a "start-up" program and "step-up" program often at or below market interest rates. CNB is the only institution that offers Rural Development Guaranteed loans in the area, and has completed five of these loans in the last two years. CNB also provides homebuyer education to help first-time buyers through the home buying experience.

Volunteer work

Officers of CNB serve as board members, committee members, and volunteer for various positions in non-profit organizations. In these roles, officers provide financial expertise and resources to area organizations including the MMCDC, the Hubbard County Housing & Redevelopment Authority, and Lakes Area Habitat for Humanity, St. Joseph's Hospital, Park Rapids Education and Activities Foundation, and Kinship of Park Rapids among many other organizations.

Donations

CNB donates to various established charitable organizations to help provide financial relief to local entities and causes. In addition, CNB also donates items for community benefit dinners and silent auctions. CNB supports the causes of many organizations such as hospice events, Audrey's Purple Dream and Get Hooked on Fishing Not on Drugs to list a few. On an annual basis, CNB contributes an estimated \$30 thousand. CNB also pledged a total of \$250 thousand (over a 5 year period) to benefit "Helping our Growing Area Grow Healthier Campaign" for CHI St. Joseph's Health, a local hospital located in a moderate-income area.

Responses to Complaints

CNB received no CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national banks CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.