



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

JANUARY 15, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Citizens National Bank of Park Rapids
Charter Number: 13692**

**300 West First Street
Park Rapids, Minnesota 56470**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

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 **The Citizens National Bank of Park Rapids** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 15, 1998. 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: This institution is rated **Satisfactory**.

The Citizens National Bank of Park Rapids' rating is based on the following factors:

- ▶ The bank's record of extending credit to businesses, farms, and individuals is satisfactory.
- ▶ A substantial majority of the loans are extended within the bank's assessment area.
- ▶ The bank's loan-to-deposit ratio is satisfactory.

DESCRIPTION OF INSTITUTION

The Citizens National Bank of Park Rapids (CNB) is a \$99.5 million institution located in Hubbard County in northwest Minnesota. The bank has one office with a drive-through facility in the city of Park Rapids along with three automated teller machines (two in Park Rapids and one in the nearby city of Nevis). CNB is a full service bank offering a wide variety of financial products and services. The bank's primary lending focus is small business and consumer loans (residential and instalment). CNB is the largest of three financial institutions in the city of Park Rapids.

Using September 30, 1997 financial information, gross loans represent 70% of total assets. The loan portfolio is comprised of the following loans by dollar volume: residential real estate (43%); commercial and agricultural real estate (22%); commercial, agricultural, and leases (20%); consumer (13%); and municipal (2%). While the bulk of the bank's dollar volume of loans is comprised of commercial and real estate loans, the bank has a large number of small consumer loans. Consumer loans make up 27% of the bank's loans when we consider the loans by number.

CNB was rated "Outstanding Record of Meeting Community Credit Needs" at the last CRA examination dated August 15, 1995. There are no legal or financial impediments limiting CNB's ability to help meet the credit needs of the community.

DESCRIPTION OF THE CITIZENS NATIONAL BANK'S ASSESSMENT AREA

CNB's assessment area (AA) covers a twenty to twenty-five mile area surrounding the city of Park Rapids. The AA includes the majority of Hubbard County and portions of Cass, Becker and Wadena Counties. The AA complies with requirements of the Act. According to the 1990 census, 6,515 families with a median income of \$22,956 reside in the bank's AA (the HUD 1997 adjusted median family income is \$38,400). Family incomes within the AA are 26% low income, 25% moderate income, 24% middle income, and 25% upper income. There are seven moderate-income and four middle-income tracts in the AA. The table below illustrates the individual block numbering areas (BNAs) along the income designations and major cities/towns within the area.

BNA	9501	9502	9605	9606	9702	9703	9704	9705	9706	9707	9801
County	Becker		Cass		Hubbard						Wadena
Major City & Pop.	Osage 290		Walker 950	Backus 240		Laporte 101	Nevis 375		Park Rapids 2,863		Menahga 1,076
Tract Desig.	Mod	Mod	Mid	Mod	Mid	Mod	Mod	Mid	Mod	Mid	Mod

The local economy is heavily dependent on tourism which has grown steadily since 1990. This growth has in turn spurred an increase in the businesses that support tourism such as resorts,

motels, restaurants, grocery stores, and gas stations. Along with tourism, there are several large employers in the area. These include Lamb-Weston RDO Frozen Foods (a potato processor) - 450 people; Straight River Engineering and Manufacturing - 120 people; and RDO Farms - 200 people. Competition for loans is strong. There are two other commercial banks and a branch of a credit union in the city of Park Rapids. In addition, CNB competes directly with several banks in the cities of Walker, Menahga and Sebeka.

The primary credit needs of the AA include affordable housing, commercial credit to small businesses and small consumer loans. We made this determination based on discussions with bank management and contacts in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

CNB has a satisfactory record of lending to individuals of different income levels and businesses of different sizes. Our analysis of the bank's main product, consumer real estate loans, indicates that a large proportion of the loans are made to borrowers in the middle- and upper-income levels. The bank is active in the Minnesota Housing Finance Agency (MHFA) loan program. However, the volume and number of these types of loans are low in comparison to the volume of the bank's consumer real estate portfolio. CNB makes a large number of small consumer instalment loans and readily makes loans to businesses and farms of all sizes. We detail our analysis of the major bank products below.

Consumer Real Estate Loans

CNB makes consumer real estate loans to borrowers of different income levels. Based on information gathered by the bank's staff, in 1997 CNB made \$9,019,000 in consumer real estate loans. These loans were extended to families of all income levels. However, we note that the majority of credit (both number and dollar volume) were extended to middle- and upper-income families. For example, low-income borrowers received only 11% of the loans by number and 7% by dollar volume. This volume does not approach the family income distribution within the AA. The following table illustrates CNB's consumer real estate loan activity for 1997.

	Low Income	Moderate Income	Middle Income	Upper Income
Number of Loans	24	43	74	82
% of Loans Made	11%	19%	33%	53%
\$ Volume of Loans	\$590,000	\$917,000	\$2,713,000	\$4,800,000
% of \$ Volume	7%	10%	30%	53%
% of Families Within the AA	26%	25%	24%	25%

Note - The Income categories listed above were determined utilizing the 1997 updated HUD Median Family income of \$38,400.

While the bank's traditional real estate product is not reaching the low- and moderate-income real estate borrowers, the bank offers real estate loans through the MHFA home energy and fix-up loans. The fix-up loans program is aimed at low- and moderate-income borrowers while the home energy loans have no income limitations. In 1997, the bank made fourteen fix-up loans and eight home energy loans that totaled \$109,000. These loans were made to borrowers of all income levels with the largest number made to moderate- and middle-income level borrowers. The distribution of loans approaches the family income distribution within the AA. CNB has been the largest MHFA lender in the Park Rapids area for the past several years. The following table illustrates the MHFA loan activity for 1997.

	Low	Moderate	Middle	Upper
Number of Loans	4	6	11	1
% of Loans Made	18%	27%	50%	5%
\$ Volume of Loans	\$34,000	\$33,000	\$37,000	\$5,000
% of \$ Volume	31%	30%	34%	5%
% of Families Within the AA	26%	25%	24%	25%

Note - The Income categories listed above were determined utilizing the 1997 updated HUD Median Family income of \$38,400.

Consumer Loans

Based on our sample of 104 consumer loan files, we determined that the bank makes consumer loans to borrowers of different income levels. We could not find income information in 25 of the files we reviewed. The files that did contain financial information show that the bank makes a substantial number of consumer loans to low-income people with the percent of loans by number and dollar volume approaching the family income distribution within the AA. However, the number and dollar volume of loans to moderate-income level borrowers does not approach the family income distribution within the bank's AA. The following table illustrates this fact.

	Not Avail.	Low	Moderate	Middle	Upper
Number of Loans	25	35	16	14	14
% of Loans Made	24%	34%	15%	13%	13%
\$ Volume of Loans	\$76,500	\$74,300	\$50,400	\$48,100	73,400
% of \$ Volume	24%	23%	15%	15%	23%
% of Families Within the AA	N/A	26%	25%	24%	25%

Note - The Income categories listed above were determined utilizing the 1997 updated HUD Median Family income of \$38,400.

Business and Small Farm Loans

In 1997, CNB extended \$5,961,000 in commercial loans. Ninety-one percent of these loans by number and 82% by dollar volume were made to businesses with revenues under one million. In addition, in 1997 CNB made \$1,458,000 in small farm loans, 100% which (by dollar volume and number) were made to borrowers with revenues under one million dollars.

To further determine CNB's efforts to lend to businesses and farms of different sizes, we sampled 35 existing business and farm loans totaling \$10,870,000. The sample represents only 2% of the loans by number. The following table illustrates the findings of our commercial and farm sample.

Annual Gross Sales	% of Number of Loans Sampled	% of Dollar Volume Sampled
< \$100,000	17%	14%
\$100,000 - \$250,000	23%	25%
\$250,000 - \$500,000	23%	24%
\$500,000 - \$1,000,000	17%	16%
> \$1,000,000	20%	21%

Loan-to-deposit Ratio

The bank's loan-to-deposit ratio (LTD) is satisfactory and has remained steady since our last examination. The bank's ratio ranks third among the six similarly situated banks within the AA. The table below compares CNB's LTD ratio to competing banks.

Bank Name & Location	County	Total Assets 9/30/97	LTD 9/30/97	Avg LTD **
Northwoods Bank of Minnesota Park Rapids, MN	Hubbard	\$47,649M	91%	80%
The First National Bank of Walker Walker, MN	Cass	\$140,915M	86%	79%
Citizens National Bank of Park Rapids Park Rapids, MN	Hubbard	\$99,500M	70%	72%
State Bank of Park Rapids Park Rapids, MN	Hubbard	\$52,935M	67%	67%
First National Bank of Menahga Menahga, MN	Wadena	\$34,580M	61%	60%
Security State Bank of Sebeka Sebeka, MN	Wadena	\$20,953M	60%	60%

** Average LTD since CNB's last CRA Examination

Lending in the Assessment Area

A substantial majority of CNB's loans are made within the AA. We conducted a zip code analysis of all the bank's loans and found 84% of all the loans fall within the AA. Based on data bank management compiled, we note that practically all the real estate, business, and small farm loans the bank made in 1997 fell within the bank's AA. We depict this information in the following table.

In/Out Analysis for Commercial and Real Estate Loans the Bank Made in 1997

Loan Type	Commercial		Small Farm		Consumer Real Estate	
# Loans Originated	183		63		225	
# Loans In/Out of AA	180	3	56	7	221	4
% of # In/Out of AA	98%	2%	89%	11%	98%	2%
\$ of Total Originations	\$5,961,000		\$1,458,000		\$9,194,000	
\$ of Loans In/Out of AA	\$5,686,000	\$275,000	\$1,276,000	\$182,000	\$9,044,000	\$150,000
% of \$ In/Out of AA	95%	5%	88%	12%	98%	2%

Because the bank has a large number of small consumer loans, we sampled these credits to determine if CNB makes small consumer loans within its AA. We randomly sampled 104 consumer loans the bank made since our last CRA analysis and found that CNB extends the majority of its consumer loans in the AA. The following table depicts our findings.

In/Out Analysis for Consumer Loans Sampled		
# of Consumer Loans 9/30/97	1,455	
\$ Volume of Consumer Loans 9/30 97	\$4,503,000	
# Loans Sampled	104 (7%)	
\$ Volume Sampled	\$323,900 (7%)	
% of # Sampled Loans In/Out of the AA	90%	10%
% of \$Sampled Loans In/Out of the AA	89%	11%

Geographic Distribution of Loans

CNB's loans are reasonably disbursed throughout its AA. A zip code analysis revealed that the bank has loans in all of its AA. However, BNAs #9605 (Walker) and #9606 (Backus) have only \$516,000 worth of loans. Additionally, an analysis of the commercial, consumer real estate, and farm loans made by CNB in 1997, revealed that no loans were made in BNAs #9605 and #9606. They are both located in Cass County and are the furthest away from CNB. Their financial needs are served by three other financial institutions (located in the city of Walker). BNA #9605 is middle income and BNA #9606 is moderate income. They contain 3,301 housing units or 21% of the AA's total units.

Record of Response to Complaints

CNB received no complaints concerning its performance in meeting assessment area credit needs.

Record of Compliance with Anti-discriminatory Laws

Based on our review, the bank is complying with anti-discriminatory laws. We found no substantive violations of the fair lending laws.