



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

August 03, 2009

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Citizens National Bank of Park Rapids  
Charter Number 13692

300 West First Street  
Park Rapids, MN 56470

Office of the Comptroller of the Currency

Minneapolis Field Office  
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 Satisfactory.**

The Citizens National Bank (CNB) of Park Rapids has a satisfactory record of helping to meet the credit needs in its assessment area. Factors contributing to this rating include:

- The bank’s average loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and credit needs of the assessment area.
- A majority of the bank’s loans are originated to customers inside the assessment area.
- Lending to businesses of different sizes and consumer borrowers of different incomes is reasonable.
- The bank has an excellent distribution of loans throughout the AA.

## SCOPE OF EXAMINATION

We evaluated Citizens National Bank of Park Rapids (CNB) record of meeting the credit needs of the community, consistent with provisions set forth in the Community Reinvestment Act (CRA) for the period from January 18, 2003 through June 30, 2009. In order to determine the bank’s lending performance, we selected primary products based on the dollar volume and number of originations for the entire evaluation period. Commercial loans are a primary product based on dollar volume of originations of 45.0%. Consumer loans are a primary product based on the number of originations at 63.0%.

The following table illustrates the dollar volume and number of originations for the evaluation period:

<b>Loan Products Originated</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Agricultural Loans	63	2.1%	\$5,413	2.9%
<b>Commercial Loans</b>	<b>573</b>	<b>18.8%</b>	<b>\$83,384</b>	<b>45.0%</b>
<b>Consumer Loans</b>	<b>1925</b>	<b>63.0%</b>	<b>\$43,089</b>	<b>23.3%</b>
Residential Real Estate Loans	491	16.1%	\$53,330	28.8%
Total:	3052	100%	\$6,966	100%

Source: Loan trial balance data

We randomly sampled twenty commercial loans and twenty consumer loans to evaluate lending within the assessment area. This is representative of CNB’s lending strategy since the previous CRA exam.

## DESCRIPTION OF INSTITUTION

CNB is a \$195 million institution located in Hubbard County Minnesota. The bank has one facility located in Park Rapids, MN. The bank has two deposit-taking ATM's, both located at the main facility. The bank has three non-deposit taking ATM's located in businesses throughout Park Rapids. CNB is a subsidiary of Park Rapids Bancshares, Inc., a one-bank holding company also located in Park Rapids, MN. Total assets of the holding company as of June 30, 2009 were approximately \$195 million. The bank does not have any affiliate relationships that impact CRA performance.

CNB offers traditional loan and deposit products. As of June 30, 2009, the bank's net loans totaled 75.9% of total assets. The bank's \$148 million loan portfolio consisted of 39.7% commercial loans, 41.8% residential real estate loans, 16.1% consumer loans and 2.4% agricultural loans.

CNB received a "Satisfactory" rating at the January 17, 2003 CRA examination. There are no financial, legal, or other factors affecting the bank's ability to help meet the credit needs in it's assessment area.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB's assessment area (AA) consists of eight contiguous census tracts (CT's) located in portions of Hubbard, Wadena and Becker Counties. The AA has six middle-income CT's (9702, 9703, 9704, 9705, 9707 and 9501) and two moderate- income CT's (9706 and 9801). There are no low- or upper- income CT's located within the AA. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The nationwide recession has impacted the local economy. Information from the Bureau of Labor Statistics lists April 2009 unemployment rates as 11.0% for Becker County, 10.9% for Hubbard County and 11.0% for Wadena County. This was above the unemployment rate of 8.0% for Minnesota, and 8.9% nationwide. Major employers in the area are Lamb-Weston/RDO Frozen, Team Industries, Saint Joseph's Area Health Services and Independent School District #309.

The banking environment is competitive in the AA. According to the June 30, 2008 FDIC Deposit Market Share Report, CNB has 14.9% of the deposit market share within the three counties included in the AA. This places CNB as 1<sup>st</sup> among the other 18 financial institutions in the AA. These institutions include national banks, state banks and thrifts.

During our evaluation we contacted a local economic development organization to better understand the credit needs in the AA. The contact stated that CNB is active in meeting the credit needs of the community.

The demographics of the AA are illustrated in the table on the following page. Information is based on 2000 census data unless otherwise noted.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>
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<i>Population:</i>		20,491
Number of Families		5,834
Number of Households		8,262
Number of Low-Income Families		1,336
% of Low-Income Families		22.9%
Number of Moderate-Income Families		1,337
% of Moderate-Income Families		22.9%
Number of Middle-Income Families		1,476
% of Middle-Income Families		25.3%
Number of Upper-Income Families		1,685
% of Upper-Income Families		28.9%
<i>Geographies</i>		
Number of Census Tracts		8
% Low-Income Census Tracts		0%
% Moderate-Income Census Tracts		25%
% Middle-Income Census Tracts		75%
% Upper-Income Census Tracts		0%
<i>Median Family Income (MFI)</i>		
2000 MFI for AA		\$39,505
2009 HUD-Adjusted MFI		\$56,700
<i>Economic Indicators</i>		
Unemployment Rate		11%
Median Housing Value		\$91,067
% of Households Below Poverty Level		11.4%

Source: 2000 U.S. Census & U.S. Bureau of Labor Statistics

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

CNB's average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and credit needs of the AA. The bank's quarterly loan-to-deposit ratio averaged 89.7% for the 26 quarters from March 31, 2003, through June 30, 2009. Based on this ratio, the bank ranked first when comparing six similarly-situated banks in the AA. These similarly-situated banks had total assets ranging from \$52 million to \$267 million.

<b>Average Quarterly Loan – To – Deposit Ratio</b>		
<b>Institution</b>	<b>Total Assets 6/30/2009</b>	<b>Average Ratio</b>
<b>Citizens National Bank of Park Rapids</b>	<b>\$195 Million</b>	<b>89.7%</b>
State Bank of Park Rapids	\$112 Million	86.3%
First National Bank of Walker	\$267 Million	83.4%
Wadena State Bank	\$120 Million	80.3%
The First National Bank in Wadena	\$52 Million	69.6%
First National Bank of Menahga & Sebeka	\$75 Million	68.1%

Source: Call Report Data

### Lending in the Assessment Area

CNB originates a majority of loans to borrowers within the AA. Loans originated within the AA totaled 72.5% by number and 82.8% by dollar volume. The following table illustrates lending activity within the AA during the evaluation period:

Lending in the AA										
LOAN TYPE	Number of loans					Dollars of Loans				
	Inside AA		Outside AA		Total #	Inside AA		Outside AA		Total \$ (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Commercial	15	75.0%	5	25%	20	\$1,704	85.6%	\$285	14.4%	\$1,989
Consumer	14	70.0%	6	30%	20	\$362	71.5%	\$144	28.5%	\$506
<b>Total reviewed</b>	<b>29</b>	<b>72.5%</b>	<b>11</b>	<b>27.5%</b>	<b>40</b>	<b>\$2,066</b>	<b>82.8%</b>	<b>\$429</b>	<b>17.2%</b>	<b>\$2,495</b>

Source: Loan Sample, 2000 US Census

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

CNB meets the standard for satisfactory performance in lending to businesses of different sizes and borrowers of different incomes.

#### Commercial Loans

CNB has a reasonable distribution of loans to businesses of different sizes. Based on our sample of twenty commercial loans in the AA, the bank originated 80.0% by number and 59.5% by dollar volume of its loans to small businesses. Small businesses are businesses with gross annual revenues below \$1 million.

The amount of businesses with unreported revenues is high at 49.2%. Discussions with bank management indicate that a large volume of the businesses in this category would have revenues less than \$1 million. A substantial majority of the banks lending activity by both number and dollar volume were to small businesses. Therefore, the bank's performance is considered reasonable. The following table summarizes commercial lending activity by revenue size:

Borrower Distribution of Loans to Businesses in AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	48.7%	2.1%	49.2%	100%
% of Bank Loans in AA by #	80.0%	20.0%	-	100%
% of Bank Loans in AA by \$	59.5%	40.5%	-	100%

Source: OCC Loan Sample & 2008 Dunn and Bradstreet Data

#### Consumer Loans

The bank's consumer lending activity displays reasonable penetration among borrowers of different income levels. The following chart shows the bank exceeds the demographics for moderate- income households, but is below the demographics for low-income households. This lower penetration is attributable to 11.4% of households in the AA being below the poverty level.

<b>Borrower Distribution of Consumer Loans in the AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22.9%	15.0%	22.9%	30.0%	25.3	10.0%	28.9%	45.0%

Source: OCC Loan Sample & 2000 U.S. Census Data

### Geographic Distribution of Loans

The bank has an excellent dispersion of loans throughout the AA. There were no conspicuous gaps in the bank's lending activity identified within the AA.

CNB exceeds the demographics in lending to businesses located moderate-income census tracts. The AA does not contain any low- income tracts. The following table shows the distribution of businesses in different income tracts.

<b>Geographic Distribution of Loans to Businesses in AA</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	n/a	n/a	38.5%	45.0%	61.5%	55.0%	n/a	n/a

Source: OCC Loan Sample & 2008 Business Geodemographic Data

CNB also exceeds the demographics in lending to consumers living in moderate-income census tracts. The AA does not contain any low- income tracts. The following table shows the distribution of consumer loans in different income tracts.

<b>Geographic Distribution of Consumer Loans in AA</b>								
CT Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	n/a	n/a	32.7%	40.0%	67.3%	60.0%	n/a	n/a

Source: OCC Loan Sample & 2000 U.S. Census Data

### Responses to Complaints

CNB has not received any complaints about performance in helping to meet the credit needs of the AA during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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