



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 17, 2003

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
North Dakota & Northwest Minnesota
P. O. Box 849
Alexandria, MN 56308**

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.

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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 lending to individuals of different income levels and to businesses of different sizes exceeds the standard for satisfactory performance.
- The bank's lending in its AA meets the standard for satisfactory performance. The majority of loans are extended within the bank's assessment area.
- The bank's loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

The Citizens National Bank of Park Rapids (CNB) is a \$142 million institution located in Hubbard County in Northwestern Minnesota. The bank has one office, which is located in Park Rapids and contains a drive-through facility. They have four automated teller machines, three in Park Rapids and one in the nearby city of Nevis. The Nevis location also contains a night depository. Park Rapids Bancshares, a one-bank holding company, owns 100% of CNB. The holding company is located in Park Rapids, Minnesota and has approximately \$142 million in total assets. There have been no acquisitions or mergers since the last CRA examination.

CNB's loan portfolio is diverse. As of September 30, 2002, the composition of the portfolio was as follows:

Loan Portfolio Composition	\$ (000)	%
Residential Real Estate	\$40,465	44.69%
Commercial (including Real Estate)	\$26,065	28.78%
Individual	\$9,966	11.00%
Lease Financing Receivables	\$6,314	6.97%
Construction	\$3,596	3.97%
Agricultural (including Real Estate)	\$2,166	2.39%
Obligations of State & Political Subdivisions	\$1,965	2.17%
All Other Loans	\$27	.03%
Total	\$90,564	100.00%

*Source: September 30, 2002 Call Report

The bank is conservative in its business strategy and lending philosophy. CNB offers traditional banking products and focuses its lending on residential real estate, individual, and small business loans. Within the past year, the bank has increased its attention on indirect lending in an effort to generate loan growth, as local demand is slack. Net loans and leases represent 63% of total assets. Tier One Leverage Capital for the bank is 8.01% of quarterly adjusted average assets, or \$11.3 million.

CNB was rated “Satisfactory” at the last CRA examination dated January 15, 1998. There are no legal, financial, or other factors impeding the bank’s ability to meet the credit needs in its assessment area.

DESCRIPTION OF CNB’S ASSESSMENT AREA

CNB’s assessment area (AA) is comprised of portions of Becker, Hubbard, and Wadena counties in Northwestern Minnesota. The AA includes block-numbering areas (BNAs) 9501 in Becker County, 9702 through 9707 in Hubbard County, and 9801 in Wadena County. The AA consists of five moderate-income tracts (9501, 9703, 9704, 9706, and 9801) and three middle-income tracts (9702, 9705, and 9707). The bank’s AA contains no low-income or upper-income BNAs.

The AA complies with the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. It consists of only whole, contiguous BNAs. Cities included in the AA are Osage, Laporte, Nevis, Park Rapids, and Menahga.

The bank’s AA is dependent on tourism. Numerous hotels, resorts, restaurants, grocery stores, and convenience stores provide significant employment opportunities for the area. Additional large employers in the area include Lamb-Weston RDO Frozen Foods – 570 people, Americold – over 150 people, and Team Industries – over 250 people. Unemployment for the area is low at 4.05%. Current economic conditions are relatively stable. The real estate market remains strong; however, some retail stores are suffering due to the temporary slowdown in tourism. This slowdown is associated with the lack of snow in winter months.

Numerous national and state banks located in Park Rapids, Sebeka, Walker, and Menahga compete with CNB. These banks range in size from \$23 million to \$212 million in assets. CNB’s strongest competition comes from the State Bank of Park Rapids and Northwoods Bank of Minnesota (a Savings and Loan Association).

Primary credit needs of the AA include residential housing, consumer loans, and small business loans (including real estate). We made this determination through discussions with management and via our community contact with a local real estate broker. We also relied on previous community contacts made by this agency and other governmental agencies. Our community contact with the local real estate broker indicated that CNB adequately meets the needs of the community, partially through offering first time homebuyer, VA, and FHA loan programs.

Demographics of the AA are illustrated in the table at the top of the next page. The information is based on 1990 census data unless otherwise noted. This is the most current information available.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Population	16,899
Number of Families	4,776
Number of Households	6,579
Number of Low-Income Families	1,287
% of Low-Income Families	26.95%
Number of Moderate-Income Families	1,167
% of Moderate-Income Families	24.43%
Number of Middle-Income Families	1,155
% of Middle-Income Families	24.18%
Number of Upper-Income Families	1,167
% of Upper-Income Families	24.43%
<i>Geographies</i>	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	None
% Moderate-Income Census Tracts/BNA	62.50%
% Middle-Income Census Tracts/BNA	37.50%
% Upper-Income Census Tracts/BNA	None
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,933
2001 HUD-Adjusted MFI	\$47,100
<i>Economic Indicators</i>	
Unemployment Rate	4.05%
Owner-Occupied Housing	48.16%
Median Housing Value	\$47,333
% of Households Below Poverty Level	20.66%

LOAN SAMPLING

We determined the bank's primary loan types through discussions with bank management and through analysis of all loans outstanding as September 30, 2002. For the purpose of this evaluation, the primary loan types of the bank are residential real estate, consumer, and small business loans.

To conduct our analysis, we selected a sample of twenty residential real estate, twenty consumer, and twenty small business loans made since the last examination. Statistically valid sampling techniques were used to select the sample. The twenty residential real estate loans totaled \$1,478,092. The twenty consumer loans totaled \$196,760, and the twenty small business loans totaled \$1,467,952. After initial sampling to determine the bank's lending within the AA, we selected additional files so the borrower and geographic distribution sample would encompass twenty-five loans of each type that were made within CNB's AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio Analysis

The bank's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance given the size, financial condition, and local economic conditions in the bank's assessment area. Since the last CRA evaluation, the bank's average quarterly LTD ratio is 70%. CNB's trend in lending has been relatively stable over the last year and a half.

CNB's average quarterly LTD ratio ranks fourth among six similarly situated banks within the AA. All of these financial institutions are located in close proximity to one another and offer similar loan products. The quarterly ratios range from 64% to 95%. The table below depicts the comparison of these banks.

Institution	Assets 9/30/02	Average Quarterly LTD Ratio
State Bank of Park Rapids	\$84 Million	95%
Centennial National Bank	\$44 Million	88%
The First National Bank of Walker	\$212 Million	88%
Citizens National Bank of Park Rapids	\$142 Million	70%
Security State Bank of Sebeka	\$23 Million	66%
The First National Bank of Menahga	\$45 Million	64%

Lending in Assessment Area

Lending within the AA meets the standards for satisfactory performance. A majority of loans are originated within the AA. Based on a sample of 60 loans, including residential real estate, consumer, and small business loans, 75% by number and 58% by volume were within the AA. The bank's recent focus on indirect lending has led to increased lending to individuals outside of the bank's AA; nonetheless, the analysis below reflects management's satisfactory commitment to promote their AA and meet the credit needs of those residents and businesses.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Real Estate	16	80%	880,802	60%	4	20%	597,291	40%
Consumer	12	60%	93,742	48%	8	40%	103,018	52%
Small Business	17	85%	859,600	59%	3	15%	608,352	41%
Total Reviewed	45	75%	1,834,143	58%	15	25%	1,308,661	42%

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

The bank's record of lending to individuals of different income levels and to businesses of different sizes is excellent. We detail our analysis of the bank's major products below.

Residential Real Estate Loans

Residential real estate lending to borrowers of different income levels is excellent. Lending to low- and moderate-income individuals exceeds the demographics of the AA. This is illustrated in the chart below.

RESIDENTIAL REAL ESTATE LOANS			
Borrower Income Level	% Families in AA	% Number of Loans Sampled	% Dollar Volume of Loan Sampled
Low	17%	24%	18%
Moderate	21%	24%	17%
Middle	25%	12%	16%
Upper	38%	40%	49%

*Note- Income level categories are based on the 2001 updated HUD median family income of \$47,100.

Consumer Loans

Consumer lending to low- and moderate-income borrowers is excellent. The number and dollar volume of loans made to low-income borrowers exceeds the demographics of the AA. In addition, the number of loans to moderate-income borrowers exceeds demographics of the AA. The following table illustrates the bank's consumer loan distribution.

CONSUMER LOANS			
Borrower Income Level	% Households in AA	% Number of Loans Sampled	% Dollar Volume of Loan Sampled
Low	32%	44%	34%
Moderate	19%	32%	17%
Middle	20%	12%	4%
Upper	29%	12%	45%

*Note- Income level categories are based on the 2001 updated HUD median family income of \$47,100.

Small Business Loans

CNB's lending to businesses of different sizes is good. Loans to businesses with revenues under \$1 million are similar to the business demographics of the AA. The table at the top of the next page summarizes the revenue distribution of our small business loan sample.

SMALL BUSINESS LOANS			
Annual Business Revenues	% of Businesses in AA*	% of Bank Loans by #	% of Bank Loans by \$
≤ \$1,000,000	74%	76%	71%
> \$1,000,000	3%	16%	18%
Unreported	23%	8%	11%

Geographic Distribution of Loans

The geographic distribution of the bank's loans throughout its AA meets the standard for satisfactory performance. The bank's assessment area includes 5 moderate-income tracts and 3 middle-income tracts. The AA contains no low- or upper-income tracts.

Our residential real estate sample indicated that 40% of loans sampled by both number and dollar volume were to borrowers in moderate-income tracts as illustrated in the table below.

RESIDENTIAL REAL ESTATE LOANS			
Census Tract Income Level	% Owner Occupied AA Households	% Number of Loans Sampled	% Dollar Volume of Loan Sampled
Moderate	64%	40%	40%
Middle	36%	60%	60%

We determined that the bank made 44% of consumer loans by number and 49% by dollar to borrowers in moderate-income tracts. The table below illustrates the geographic distribution of our consumer loan sample.

CONSUMER LOANS			
Census Tract Income Level	% Households in AA	% Number of Loans Sampled	% Dollar Volume of Loan Sampled
Moderate	68%	44%	49%
Middle	32%	56%	51%

Our analysis of small business files indicated that 68% of small business loans by number and 41% by dollar volume were made to businesses located in one of the five moderate-income tracts as depicted in the table below.

SMALL BUSINESS LOANS			
Census Tract Income Level	% of Businesses in AA*	% of Bank Loans by #	% of Bank Loans by \$
Moderate	92%	68%	41%
Middle	8%	32%	59%

As the geographic distribution tables on the previous page indicate, the bank's lending in moderate-income tracts does not coincide with household and business demographics. However,

this is reasonable when we consider the location of moderate- and middle-income tracts in relation to the bank's location. BNA 9706, the City of Park Rapids, is a small moderate-income tract where the bank is located, while the three tracts nearest to the City of Park Rapids (9702, 9705, and 9707) are large middle-income tracts. As the bank extends further out into the remaining moderate-income tracts, they face additional competition from other financial institutions located in Walker, Sebeka, and Menahga.

RESPONSES TO COMPLAINTS

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

FAIR LENDING REVIEW

An analysis of public comments and consumer complaint information over the evaluation period 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.