



## **PUBLIC DISCLOSURE**

August 01, 2013

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

Crookston National Bank  
Charter Number 14531

1901 Sahlstrom Drive  
Crookston, MN 56716

Office of the Comptroller of the Currency

Campbell Mithun Tower  
222 South Ninth Street  
Suite 800  
Minneapolis, MN 55402-3393

**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**

Crookston National Bank's (CNB) lending performance reflects a satisfactory response to community credit needs. The major factors supporting this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and the credit needs of its assessment area (AA).
- The bank originated a majority of loans inside its AA.
- Borrower distribution reflects reasonable penetration among farms of different sizes.

**SCOPE OF EXAMINATION**

We evaluated CNB's Community Reinvestment Act (CRA) performance using small bank procedures. The bank's CRA performance was assessed under the lending test and focused on the bank's primary loan products based on loan originations and purchases from January 1, 2011 to June 30, 2013. We selected a random sample of 40 farm loans originated during the evaluation period to determine the bank's lending activity within its AA. We determined the bank's primary loan product to be agriculture loans. The following table shows loan originations by number and dollar volume:

<b>Loan Portfolio Composition</b>	<b>\$(000)</b>	<b>% of Dollars</b>	<b>Number of Loans</b>	<b>% of Number of Loans</b>
Commercial	17,487	24.87	159	19.39
Residential RE	10,975	15.61	91	11.10
<b>Agriculture</b>	<b>37,733</b>	<b>53.66</b>	<b>220</b>	<b>26.83</b>
Consumer	4,127	5.87	350	42.68
Total	70,321	100.00	820	100.00

*Source: Loan Originations from January 1, 2011 through June 30, 2013*

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation to find similarly situated banks. The most recent deposit information is as of June 30, 2012.

**DESCRIPTION OF INSTITUTION**

CNB is a \$62 million bank located in the city of Crookston in Polk County, MN. The bank has no branches and one non-deposit taking ATM located within the bank. The bank is wholly owned by Crookston Financial Services, Inc., a one-bank holding company. There have been no acquisitions or mergers since the previous CRA examination. The bank has one affiliate, Crookston National Insurance Agency, Inc.

CNB is a full service bank offering a variety of loan and deposit products. The bank's primary focus is agricultural lending. As of June 30, 2013, the loan portfolio totaled \$30 million and consisted of the following:

<b>Loan Portfolio Summary by Loan Product</b>		
<b>June 30, 2013</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial	9,763	32.79
Residential RE	6,321	21.23
Agriculture	11,974	40.21
Consumer	1,719	5.77
<b>Total</b>	<b>29,777</b>	<b>100.00</b>

*Source: Call Report Data*

There are no legal or financial circumstances that affect the bank's ability to meet the credit needs of its AA. CNB was rated Satisfactory at the last CRA examination dated April 14, 2008.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

CNB's has one AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA is located within the Grand Forks, ND–MN Metropolitan Statistical Area (MSA) and consists of census tracts 204, 205, 206, 207, and 208 in Polk County, MN. The AA is designated as middle-income based on 2000 and 2010 census data.

The economy is primarily supported by services and agriculture businesses operating with 1-4 employees. Agriculture businesses mainly consist of crop production. Major employers in the area include RiverView Health, Public Schools, the University of MN-Crookston, and American Crystal Sugar Co. Information from the Bureau of Labor Statistics indicates the AA's May 2013 unemployment rate was 4.1 percent. This is lower than the state of Minnesota's unemployment rate of 4.9 percent and the national unemployment rate of 7.6 percent.

Competitive pressures are present in the AA. There are eleven deposit taking financial institutions located in the AA. The bank ranks fifth in deposit market share among the eleven institutions. CNB's market share was 8.76 percent or \$54 million.

We contacted a local community official to better understand the AA demographics and to evaluate the primary credit needs of the AA. The community contact affirmed the local area's economic condition is stable. The primary economic driver in the local community is agricultural operations. The contact stated that local financial institutions are meeting the credit needs of the community.

Below is a summary of key information for the AA using both 2000 and 2010 census data.

<b>Demographic and Economic Characteristics of the AA</b>	
<i>Population</i>	
Number of Families	4,085
Number of Households	5,988
% of Low-Income Families	16.67%
% of Moderate-Income Families	20.49%
% of Middle-Income Families	26.81%
% of Upper-Income Families	36.03%
<i>Geographies</i>	
Number of Census Tracts	5
% of Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MF)</i>	
2000 MFI for AA	\$45,777
2011 HUD-Adjusted MFI	\$63,800
<i>Economic Indicators</i>	
2000 Median Housing Value	\$67,516
% of Households Below Poverty Level	10.42%

Source: 2000 US Census Data

<b>Demographic and Economic Characteristics of the AA</b>	
<i>Population</i>	
Number of Families	3,807
Number of Households	5,806
% of Low-Income Families	16.94%
% of Moderate-Income Families	20.07%
% of Middle-Income Families	26.64%
% of Upper-Income Families	36.35%
<i>Geographies</i>	
Number of Census Tracts	5
% of Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MF)</i>	
2010 MFI for AA	\$64,258
2012 HUD-Adjusted MFI	\$64,700
<i>Economic Indicators</i>	
2010 Median Housing Value	\$103,585
% of Households Below Poverty Level	11.52%

Source: 2010 US Census Data

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The lending test is based on the following five factors: LTD ratio, lending within the AA, income distribution, geographic distribution, and responses to CRA related complaints. Loans originated and purchased in 2011 were compared to 2000 U.S. Census data, and loans originated and purchased in 2012 and 2013 were compared to 2010 U.S. Census data.

### Loan-to-Deposit Ratio

CNB's net LTD ratio is reasonable given the bank's size and the credit needs of the AA. The bank's LTD ratio averaged 53 percent over the 20 quarters since the last CRA examination. The quarterly ratio ranged from a low of 46 percent (1Q12) to a high of 63 percent (3Q08) during this time.

The bank's average LTD ratio is comparable to similarly situated banks. Similarly situated banks are defined as those banks with total assets between \$26 million and \$77 million with a presence in the bank's AA. Of the five similarly situated banks, the bank ranks third. The average LTD ratio for the five similarly situated banks was 57 percent. Individually, the similarly situated bank's average LTD ratios ranged from 46 percent to 77 percent.

### Lending in Assessment Area

CNB originates a majority of its loans to borrowers within its AA. The following table illustrates the bank's lending within its AA during the evaluation period:

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000)	%	\$(000)	%	
Agriculture	32	80.00	8	20.00	40	4,460	62.47	2,679	37.53	7,139
Totals	32	80.00	8	20.00	40	4,460	62.47	2,679	37.53	7,139

Source: OCC Loan Sample

### Lending to Farms of Different Sizes

The penetration of loans to small farms is reasonable. Small farms are defined as having gross annual revenues of \$1 million or less.

The distribution of loans reflects reasonable penetration among farms of different sizes in 2011. CNB's lending to small farms is near the demographic comparative. The following table illustrates CNB's lending to farms of different sizes:

<b>2011 Borrower Distribution of Loans to Farms in the AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.57	1.82	0.61	100.00
% of Bank Loans in AA by #	90.00	10.00	0.00	100.00
% of Bank Loans in AA by \$	86.55	13.45	0.00	100.00

Source: OCC Loan Sample & 2011 Business Geodemographic Data

The distribution of loans reflects reasonable penetration among farms of different sizes in 2012 and 2013. CNB’s lending to small farms is near the demographic comparative. The following table illustrates CNB’s lending to farms of different sizes:

<b>2012 &amp; 2013 Borrower Distribution of Loans to Farms in AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.42	1.58	0.00	100.00
% of Bank Loans in AA by #	85.00	15.00	0.00	100.00
% of Bank Loans in AA by \$	79.76	20.24	0.00	100.00

Source: OCC Loan Sample & 2012 Business Geodemographic Data

**Geographic Distribution of Loans**

The geographic distribution of loans does not provide a meaningful analysis as the bank’s AA does not contain any low- or moderate-income census tracts.

**Responses to Complaints**

The OCC and the bank have not received any CRA related complaints since the last CRA examination

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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

