



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**February 10, 2003**

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

**Crookston National Bank  
Charter Number 14531**

**1901 Sahlstrom Drive  
Crookston, MN 56716**

**Office of Comptroller of the Currency  
North Dakota & NW Minnesota  
3211 Fiechtner Drive, SW  
Fargo, ND 58103**

**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 bank's loan-to-deposit ratio (LTD) is reasonable.
- The bank's lending in its AA exceeds the standard for satisfactory performance. A substantial majority of the bank's loans are made within the AA.
- The bank's record of lending to individuals of different income levels and agricultural borrowers of different sizes meets the standard for satisfactory performance.

## DESCRIPTION OF INSTITUTION

Crookston National Bank (CNB) is located in the city of Crookston, Polk County in Northwestern Minnesota. CNB does not have any branches. It has one non-deposit taking ATM, located in Crookston. CNB's assets total \$37 million as of December 31, 2002. Crookston Financial Services, Inc, a one-bank holding company, owns 100% of the bank. The holding company is located in Crookston, Minnesota and as of December 31, 2002 had \$4 million in total assets of which consist entirely of bank equity. There have been no acquisitions or mergers since the previous CRA evaluation. The bank has one affiliate, Crookston National Insurance Agency Inc.

The bank is conservative in its business strategy and lending philosophy. CNB offers traditional banking products. The bank is primarily an agricultural lender. Net loans represent 40% of total bank assets. Tier One Leverage Capital for the bank is 8.92% of average assets, or \$3.2 million as of December 31, 2002.

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>%</b>
Agricultural (including Real Estate)	6,728	45%
Commercial (including Real Estate)	4,065	27%
Residential Real Estate	2,243	15%
Individual	1,523	10%
Obligations of State & Political Subdivisions	230	2%
Construction	99	1%
<b>Total</b>	<b>14,888</b>	<b>100%</b>

\*Source: December 31, 2002 Call Report

There are no legal impediments that would restrict the bank's ability to meet the credit needs of the community. The evaluation period for the Performance Evaluation is from September 11, 1997 to February 10, 2003. The most recent CRA rating was "Satisfactory", dated September 10, 1997.

## **DESCRIPTION OF CNB's ASSESSMENT AREA (AA)**

CNB's AA includes a majority of the western and central portions of Polk County, Minnesota. The entire AA is located within the Grand Forks, ND – MN Metropolitan Statistical Area (MSA). The AA consists of census tracts (CTs) 204, 205, 206, 207, and 208 in Polk County. All of the CTs are designated as middle-income areas. The bank's AA contains no low-, moderate, or upper-income CTs. The AA contains only middle-income tracts due to the location of the bank. The AA meets the requirements of the regulation.

The bank's AA is dependent on agricultural operations. Employment opportunities outside of the agricultural industry include: manufacturing, secondary education, the independent school district and health care providers. The percentage of households living below the poverty level is 13.57% of total households. The Grand Forks, ND – MN median family income for 2002 is \$48,800.

The bank's competitors include two community banks and a Farm Credit Service's branch, all located in Crookston. Other competition includes five similarly sized community banks operating in or bordering CNB's AA.

During our evaluation, we contacted a local community organization to better understand the AA demographics and to determine the primary credit needs of the AA. We also relied on previous community contacts made by this agency and other governmental agencies. The top credit needs of the AA include agriculture and residential real estate.

The demographics of the AA are illustrated in the table on the next page. The information is based on 1990 census data unless otherwise noted. This is the most recent information available during our evaluation.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Population	16,281
Number of Families	4,206
Number of Households	5,860
Number of Low-Income Families	724
% of Low-Income Families	17.21%
Number of Moderate-Income Families	823
% of Moderate-Income Families	19.57%
Number of Middle-Income Families	1,098
% of Middle-Income Families	26.11%
Number of Upper-Income Families	1,561
% of Upper-Income Families	37.11%
% Minority Population	3.67%
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$29,748
2002 HUD-Adjusted MFI	\$48,800
<i>Economic Indicators</i>	
Unemployment Rate	3.38%
Owner-Occupied Housing	66.62%
Median Housing Value	\$46,441
% of Households Below Poverty Level	13.57%

## LOAN SAMPLING

The bank's primary loan types were determined by taking all loans originated and purchased with an outstanding balance as of December 31, 2002. The following table depicts the number and volume of loans made.

<b>Loan Products</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Agricultural Loans	132	16%	6,728	45%
Commercial Loans	97	11%	4,065	27%
Consumer Loans	541	64%	1,523	10%
Municipal	2	0%	230	2%
Residential Real Estate Loans	72	9%	2,342	16%
<b>Total</b>	<b>844</b>	<b>100%</b>	<b>\$14,888</b>	<b>100%</b>

\*Source: December 31, 2002 Call Report and bank prepared reports.

For the purposes of this evaluation, the primary loan types are agricultural and residential real estate. Agricultural loans account for 45 percent of the loan balances outstanding and 16 percent

of the volume of loans. Residential real estate loans total 9 percent of the loans and 16 percent of the volume of loans. Agricultural and residential real estate loans mirror the community credit needs as identified by the community contacts. Commercial loans were not selected as a primary loan type due to the slowdown of the economy and the lessened recent demand. In addition, consumer loans were not selected as primary products due to the number of Ready Reserve accounts that comprise just over 50 percent of the 541 loans.

To conduct our analysis, we selected a sample of twenty agricultural loans and forty 1-4 family residential real estate loans. We used the bank's HMDA loan activity report for 2001 and 2002 to select the proper real estate loans. The agricultural sample was selected with random sampling techniques. The twenty agricultural loans totaled \$2,790,000. The residential real estate loans totaled \$1,963,000. After the initial sampling to determine the bank's lending within the AA, additional files were selected so all loans in the sample were made within CNB's AA.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

CNB's loan-to-deposit ratio is reasonable given the size, financial condition, assessment area needs, and local economic conditions. Comparisons to four other community banks located within 45 miles of Crookston indicate CNB's loan-to-deposit ratio (LTD) is average. These banks have similar asset sizes, ranging from \$19 million to \$45 million. These four banks had average quarterly LTD ratios ranging from 95 percent to 34 percent. CNB's average quarterly LTD was ranked third highest. The following table lists the average quarterly LTD ratios for the comparison banks.

Institution	Assets (as of 12/31/2002)	Average LTD Ratio
Ultima Bank NA	\$45,238 million	94.71%
American State Bank	\$19,624 million	72.15%
<b>Crookston National Bank</b>	<b>\$36,901 million</b>	<b>54.38%</b>
First National Bank	\$24,924 million	36.92%
First State Bank of Fertile	\$31,271 million	34.30%

### Lending in Assessment Area

CNB makes a substantial majority of its loans to farm operations and residents within the AA. Based on a sample of 52 loans, including agricultural and residential real estate loans, 87 percent by number and 86 percent by volume were within the AA as demonstrated in the following table.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agricultural	19	95	2,740	98	1	5	50	2
Residential Real Estate	33	83	1,335	68	7	17	628	32
Total Reviewed	52	87	4,075	86	8	13	678	14

### **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 agricultural borrowers of different sizes meets the standard for satisfactory performance.

#### ***Agricultural Loans***

CNB's lending to farm operations of different sizes is good. Lending to farm operations with revenues under \$1 million meets the demographics of the AA. All farm loans sampled, with the exception of one loan, were to farms with revenues under \$1 million. The following table illustrates CNB's lending to farm operations.

BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms	95	5
% of Bank Loans in AA #	95	5
% of Bank Loans in AA \$	91	9

#### ***Residential Real Estate***

Residential real estate lending to low- and moderate-income borrowers does not meet the standards for satisfactory performance. The number and dollar volume of loans made to low-income borrowers is below the demographics of the AA. Lending to low-income borrowers is negatively affected due to the number of households falling below the poverty level (13.58%). It is difficult for individuals with this low of income to qualify for a residential real estate loan. Community contacts also indicated the standard lending criteria may limit the number of homes available to low-income households.

The number and dollar volume of loans made to moderate-income borrowers is also below the demographics of the AA. Community contacts indicate that the AA contains housing stock that moderate-income borrowers could purchase. The following table depicts the lending to various borrower income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	17.21		19.57		26.11		37.11	
Sample Loans	% of Number	% of Amount						
40	0%	0%	13%	12%	35%	20%	52%	68%

### **Geographic Distribution of Loans**

Geographic distribution of loans was not completed since the bank's AA does not contain any low- or moderate-income CTs, therefore an analysis of geographic distribution is irrelevant.

### **Responses to Complaints**

CNB has not received any CRA related complaints during the evaluation period.

### **Fair Lending Review**

An analysis of public comments, consumer complaint information, and HMDA data 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.