



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 14, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Crookston National Bank
Charter Number: 14531

1901 Sahlstrom Drive
Crookston, MN 56716

Office of the 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

We base the Crookston National Bank (CNB) rating on the following factors:

- The bank's lending in its assessment area exceeds the standard for satisfactory performance. A substantial majority of the bank's loans are made within the assessment area.
- The bank's record of lending to farms and businesses of different sizes meets the standard for satisfactory performance.
- CNB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.

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 totaled \$46 million as of December 31, 2007. Crookston Financial Services, Inc., a one-bank holding company located in Crookston, MN, owns 100% of the bank. 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 56% of total bank assets. Tier 1 Leverage Capital for the bank was 8.76% of average assets, or \$3.7 million as of December 31, 2007.

Loan Portfolio Composition*	\$ (000)	%
Commercial and Agricultural Real Estate Loans	11,333	49%
Commercial and Agricultural Loans	7,633	33%
Residential Real Estate Loans	2,442	11%
Consumer Loans	1,492	7%

*Source: December 31, 2007 Call Report

No legal impediments exist that restrict the bank's ability to meet the community's credit needs. The most recent CRA rating, dated February 10, 2003, was "Satisfactory".

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. The AA meets the requirements of the regulation.

The bank's AA is dependent on agricultural operations. The agricultural economy recently experienced high yields combined with high commodity and milk prices. 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 10.42% of total households. The Grand Forks, ND – MN median family income for 2007 is \$58,200.

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. Primary credit needs identified by the contact include affordable housing (including housing rehabilitation and new homes) and small business lending.

The demographics of the AA are illustrated in the table on the following page. The information is based on 2000 census data unless otherwise noted. This is the most recent information available during our evaluation.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	4,085
Number of Households	5,988
Number of Low-Income Families	681
% of Low-Income Families	16.67%
Number of Moderate-Income Families	837
% of Moderate-Income Families	20.49%
Number of Middle-Income Families	1095
% of Middle-Income Families	26.81%
Number of Upper-Income Families	1472
% of Upper-Income Families	36.03%
% Minority Population	7.86%
<i>Geographies</i>	
Number of Census Tracts	5
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$45,278
2007 HUD-Adjusted MFI	\$58,200
<i>Economic Indicators</i>	
Unemployment Rate	5.19%
2007 Median Housing Value	\$67,516
% of Households Below Poverty Level	10.42%

LOAN SAMPLING

The bank's primary loan types were determined by taking all loans originated and purchased between January 1, 2006 and April 18, 2008. The following table depicts the number and volume of loans originated:

Loan Products	#	%	\$ (000)	%
Agricultural Loans	262	24%	\$5,653	34%
Commercial Loans	203	19%	\$7,753	47%
Consumer Loans	523	49%	\$1,339	8%
Residential Real Estate Loans	84	8%	\$1,856	11%
Total:	1,072	100%	\$16,601	100%

For this evaluation, the primary loan types are Agricultural and Commercial loans. Commercial loans account for 47% of dollars originated and 19% of the volume of loans. Agricultural loans account for 34% of dollars originated and 24% of loan volume. While the number of consumer loans accounts for 49% of all loans originated, the dollar volume of consumer loans accounts for

just 8% of the dollar volume of all loans originated. This is primarily due to the large number of checking reserve loans originated for small dollar amounts.

To conduct our analysis, we randomly selected a sample of twenty agricultural loans and twenty commercial loans originated between January 1, 2006 and April 18, 2008. We determined the percentage of loans originated within the bank's AA using this initial sample. Additional files were subsequently selected for the analysis of farm and business revenue size within the bank's AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, assessment area's credit needs, and local economic conditions. Since the previous CRA examination, the bank's average quarterly loan-to-deposit ratio is 57.29%. 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 \$80 million with average quarterly LTD ratios ranging from 45% to 99%. CNB's average quarterly LTD ratio was ranked third highest.

The following table depicts the loan-to-deposit ratios of similar sized banks that are located in CNB's assessment area or have overlapping assessment areas:

LOANS-TO-DEPOSITS RATIO		
Institution	Assets 12/31/07	Average Ratio
First State Bank of Fertile	\$32 Million	44.88%
First National Bank of McIntosh	\$25 Million	48.20%
Crookston National Bank	\$46 Million	57.29%
American State Bank of Erskine	\$19 Million	76.08%
Ultima Bank Minnesota, Winger	\$80 Million	98.50%

Lending in Assessment Area

CNB makes a substantial majority of its loans to farm and commercial operations within its AA. Based on a sample of 40 loans, including 20 agricultural and 20 commercial loans, the bank originated 98% by number and 89% by dollar volume of loans within its AA as demonstrated in the following table:

LENDING IN CNB'S ASSESSMENT AREA										
LOAN TYPE	Number of loans					Dollars of Loans				
	Inside AA		Outside AA		Total #	Inside AA		Outside AA		Total \$ (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Agricultural	20	100%	0	0%	20	\$1,421	100%	\$0	0%	\$1,421
Commercial	19	95%	1	5%	20	\$493	67%	\$240	33%	\$733
Total reviewed	39	98%	1	2%	40	\$1,914	89%	\$240	11%	\$2,154

Lending to Farms of Different Sizes and Businesses of Different Sizes

The bank's record of lending to agricultural and business borrowers of different sizes is good and meets the standard for satisfactory performance.

Commercial Loans

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

Borrower Distribution of Loans to Businesses in CNB's AA			
Business Revenues	≤1,000,000	>1,000,000	Total
% of AA Businesses	91.0%	9.0%	100.0%
% of Bank Loans in AA by #	95.0%	5.0%	100.0%
% of Bank Loans in AA by \$	94.0%	6.0%	100.0%

Agricultural Loans

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

Borrower Distribution of Loans to Farms in CNB's AA			
Farm Revenues	≤1,000,000	>1,000,000	Total
% of AA Farms	98.5%	1.5%	100.0%
% of Bank Loans in AA by #	90.0%	10.0%	100.0%
% of Bank Loans in AA by \$	77.0%	23.0%	100.0%

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 complaints, during this evaluation period, regarding its performance in helping to meet assessment area credit needs.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.