



PUBLIC DISCLOSURE

February 18, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Northwoods Bank of Minnesota
Charter Number 714810

1202 E. First Street
Park Rapids, MN 56470

Office of the Comptroller of the Currency

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 Outstanding.

The major factors supporting the institution's rating include:

- The bank originates a substantial majority of its loans within its assessment areas (AA).
- Geographic distribution of loans reflects excellent dispersion throughout the AA.
- Community Development activities benefit the bank's AA and contributed to the overall rating.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels.
- The average loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, and the credit needs of the AA.

SCOPE OF EXAMINATION

We evaluated Northwoods Bank of Minnesota's (Northwoods) Community Reinvestment Act (CRA) performance using small bank examination procedures. We assessed performance by selecting primary products based on the number and dollar volume of loans originated between January 1, 2012 and December 31, 2013. Based on this analysis, we determined that real estate mortgage loans are the bank's primary product. We utilized the bank's Home Mortgage Disclosure Act (HMDA) data for 2012 and 2013 in order to evaluate lending activities within the AA. We compared the bank's lending performance to the HMDA aggregate lending performance as well as to area demographics. Prior to starting this evaluation, we reviewed the accuracy of HMDA data collected and reported by the bank during the evaluation period. We found the data to be reliable for use in our evaluation. We also interviewed a community contact in conjunction with our evaluation.

DESCRIPTION OF INSTITUTION

Northwoods is a \$104 million bank, headquartered in Park Rapids, Minnesota. The community of Park Rapids is located in Hubbard County in north central Minnesota. In addition to the main location, the bank has three branches located in Nevis, Pine City, and Rush City, Minnesota.

Dorset Bancshares, Inc., a one-bank holding company, owns the bank. Northwoods operates ten Automated Teller Machines (ATMs) within their market area. None of the ten ATMs accepts deposits. There were no branches opened or closed during the evaluation period.

Northwoods is a rural bank that offers traditional banking products and services. Its primary business focus is real estate mortgage lending. As of December 31, 2013, the bank’s loan portfolio totaled \$55 million or 53 percent of total assets. The loan portfolio is comprised of commercial and commercial real estate loans (52 percent), residential real estate loans (45 percent), consumer loans (3 percent), and agricultural loans (less than 1 percent).

There are no financial, legal, or other factors that impede the bank’s ability to meet its CRA obligations. Northwoods received a satisfactory rating at the last CRA evaluation dated December 31, 2008.

DESCRIPTION OF ASSESSMENT AREA(S)

Northwoods considers its general service area to be all of Hubbard County, the eastern edge of Becker County, the northern part of Wadena County, the southern corner of Pine County, and the northern part of Chisago County. Hubbard, Becker, Pine and Wadena Counties are located in Non-metropolitan statistical areas (Non-MSA) of Minnesota. Chisago County is one of the 13 counties that comprise the Minneapolis-St. Paul MSA.

Minnesota Non-MSA Assessment Area

The Minnesota Non-MSA AA consists of all of Hubbard County, the eastern edge of Becker County, the northern part of Wadena County, the southern corner of Pine County. This AA is comprised of 12 census tracts including seven contiguous census tracts within Hubbard County, one census tract within Becker County, one census tract within Wadena County, and three census tracts within Pine County. This area consists of 11 middle-income tracts and one moderate-income tract. It includes those census tracts where the bank’s branches are located as well as surrounding census tracts in which the bank can reasonably service. The AA meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The following table shows demographic information for the Non-MSA AA:

Demographic and Economic Characteristics of the Non-MSA AA	
Population	
Number of Families	10,687
Number of Households	15,380
% of Low-Income Families	20.90
% of Moderate-Income Families	21.17
% of Middle-Income Families	24.17
% of Upper-Income Families	33.76

Geographies	
Number of Census Tracts	12
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	8.33
% Middle-Income Census Tracts	91.67
% Upper-Income Census Tracts	0.00
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$58,135
2013 FFIEC-Adjusted MFI	\$61,700
Economic Indicators	
2012 Unemployment Rate	7.50%
2010 Median Housing Value	\$179,891
% of Households Below Poverty Level	12.83

Source: 2010 U.S. Census data with updated information when available

The area unemployment rate of 7.5 percent is the average of Hubbard County, Becker County, Wadena County, and Pine County as reported by the U.S. Bureau of Labor Statistics. The unemployment rate of these counties ranged from a low of 5.8 percent in Becker County to a high of 8.3 percent in Hubbard County. Unemployment levels in the Non-MSA AA are higher than the statewide average of 5.6 percent in 2012.

Economic activities in the Non-MSA AA are dependent on the tourism industry and summer home residents. Major employers in the Park Rapids include a potato processor, a large health care facility, an orthodontics laboratory, local government, and schools. Competition from other financial institutions is high. Northwoods ranks eighth in deposit market share among the 23 financial institutions within Becker, Hubbard, Pine, and Wadena Counties. Northwoods has \$79 million in deposits in the market for a deposit market share of 5 percent.

As part of our evaluation, we interviewed a community contact. The community contact stated the current economic condition in the area is stable and largely centered on tourism. The contact stated most of the homes available for sale in the area are vacation homes due to the number of lakes in the area. The contact also stated that the needs for low- and moderate-income housing are met in the area through organizations and local financial institutions.

Chisago County MSA Assessment Area

The Chisago County MSA AA is comprised of two census tracts located in the northern portion of Chisago County. Both census tracts are middle-income census tracts. This AA includes the census tract where one branch is located as well as a neighboring census tract in which the bank can reasonably service. The AA meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The following table shows demographic information for the census tracts included in the Chisago County AA:

Demographic and Economic Characteristics of the Chisago County Portion of the Minneapolis-St. Paul MSA AA	
Population	
Number of Families	2,555
Number of Households	3,317
% of Low-Income Families	22.43
% of Moderate-Income Families	21.21
% of Middle-Income Families	27.51
% of Upper-Income Families	28.85
Geographies	
Number of Census Tracts	2
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	0.00
% Middle-Income Census Tracts	100.00
% Upper-Income Census Tracts	0.00
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$80,925
2013 FFIEC-Adjusted MFI	\$82,300
Economic Indicators	
2012 Unemployment Rate	6.70%
2010 Median Housing Value	\$239,847
% of Households Below Poverty Level	7.18

Source: 2010 U.S. Census data with updated information when available

According to the U.S. Bureau of Labor Statistics, the area unemployment level of 6.7 percent in Chisago County is higher than the statewide average of 5.6 percent for 2012.

Economic activities in the Chisago County MSA AA are centered on light manufacturing and services and a large state penitentiary. Many of the residents of the AA commute to the north metro area for work. Competition from other financial institutions is moderate. Northwoods ranks tenth in deposit market share among ten financial institutions within Chisago County. The bank has deposits totaling \$7 million in this market for a deposit market share of 1.48 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Northwoods' LTD ratio is reasonable given the bank's size, financial condition, and the credit needs of the AA. The LTD ratio averaged 68.24 percent over the 20 quarters since the previous evaluation. This compares to similarly situated banks that have had quarterly average LTD ratios ranging from 60.82 percent to 100.95 percent over the

same period. The comparable banks have a presence in Becker, Hubbard, Pine, and Wadena Counties and have total assets ranging from \$57 million to \$102 million.

Institution	Assets as of 12/31/13 (\$000s)	Average LTD Ratio (%)
State Bank of Park Rapids	101,918	60.82
The First National Bank in Wadena	56,538	61.88
First National Bank of Menahga & Sebeka	87,936	67.42
Northwoods Bank of Minnesota	104,381	68.24
Community Development Bank FSB	73,959	69.31
Mid-Central Federal Savings Bank	96,096	100.95

Source: Call Report data as of December 31, 2013.

Lending in Assessment Area

Northwoods originates a substantial majority of its loans to borrowers inside its defined AA. Based on 2012 and 2013 HMDA LAR data, loans originated to individuals within the bank’s AA totaled 89.91 percent by number and 88.70 percent by dollar volume. The following table shows the results of our analysis:

Lending in Northwoods AAs										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate Loans	294	89.91	33	10.09	327	38,792	88.70	4,943	11.30	43,735

Source: 2012-2013 HMDA Data.

Lending to Borrowers of Different Incomes

Northwoods’ overall distribution of borrowers reflects reasonable penetration among individuals of different income levels.

Non-MSA Assessment Area

The distribution of borrowers reflects reasonable penetration among individuals of different income levels when compared to all HMDA reporting lenders (peer) in the AA. Northwoods exceeds the peer comparator for loans originated to both low- and moderate-income individuals. The following table compares the bank’s residential real estate lending activity to the HMDA reporting lenders in the AA:

2012-2013 Borrower Distribution of Home Loans in Non-MSA AA			
Borrower Income Level	% of Number of Loans*	% Aggregate Lenders**	% of AA Families
Low	7.19	5.74	20.90
Moderate	19.42	16.53	21.17
Middle	25.90	24.00	24.17
Upper	39.93	44.49	33.76

Source: 2012-2013 HMDA Data; 2013 Aggregate Lending Data; 2010 Demographic Data

* 7.55% of bank loans income information was not available

** 8.95% of HMDA lenders income information was not available

Chisago County MSA Assessment Area

The distribution of borrowers in the Chisago County MSA AA reflects reasonable penetration among individuals of different income levels when compared to HMDA peer group in the AA. Although the bank’s performance in lending to moderate-income borrowers fell below the peer comparator, the bank’s performance significantly exceeds the aggregate lending performance among low-income borrowers. When combined the bank’s performance meets the performance of the aggregate lenders. The following table compares the bank’s residential real estate lending activity to the HMDA reporting lenders in the AA:

2012-2013 Borrower Distribution of Home Loans in Minneapolis-St. Paul MSA AA			
Borrower Income Level	% of Number of Loans*	% Aggregate Lenders**	% of AA Families
Low	25.00	14.46	22.43
Moderate	12.50	25.82	21.21
Middle	31.25	26.16	27.51
Upper	18.75	21.17	28.85

Source: 2012-2013 HMDA Data; 2013 Aggregate Lending Data; 2010 Demographic Data

*12.50% of bank loans income information was not available

**12.39% of HMDA lenders income information was not available

Geographic Distribution of Loans

Northwoods’ overall geographic distribution of loans reflects excellent dispersion.

Non-MSA Assessment Area

The geographic distribution of residential real estate loans in the Non-MSA AA reflects excellent dispersion when compared to area demographic data and all HMDA reporting lenders in the AA. Lending in the moderate-income census tract significantly exceeds the performance of the HMDA peer group and the demographic comparator. The following table compares the bank residential real estate lending activity to the area demographics and all HMDA reporting lenders within the Non-MSA AA:

2012-2013 Geographic Distribution of Home Loans in Non-MSA AA			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00	0.00	0.00
Moderate	12.59	5.74	6.95
Middle	87.41	94.26	93.05
Upper	0.00	0.00	0.00

Source: 2012-2013 HMDA Data; 2013 Aggregate Lending Data; 2010 Demographic Data

Chisago County MSA Assessment Area

An analysis of the geographic distribution of loans is not meaningful in the Chisago County MSA AA because all the census tracts are middle-income.

Community Development Services

Northwoods' Community Development (CD) activities benefit the AA and contributed to the overall rating.

Northwoods originated one qualifying (CD) loan during the evaluation period with a current book value of \$598 thousand. The loan was made to Park Rapids Area Health Care, a hospital located in Park Rapids, and helped to stabilize this moderate-income area by employing and serving residents from the community.

Northwoods participated in an investment fund established by the Midwest Minnesota Community Development Corporation (MMCDC) using New Markets Tax Credits during the evaluation period. The funds are lent to small businesses (through MMCDC) that are unable to obtain traditional financing. The investment has a current book value of \$414 thousand.

Northwoods made qualifying donations totaling approximately \$20 thousand during the evaluation period. The donations were to Kinship of Park Rapids, a community based one-to-one mentoring program that helps low- and moderate-income school aged children living in the Park Rapids area.

Responses to Complaints

Northwoods has not received any CRA complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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

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