



---

Comptroller of the Currency  
Administrator of National Banks

**SMALL BANK**

---

## **PUBLIC DISCLOSURE**

**September 15, 2003**

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

**The First National Bank of Battle Lake  
Charter Number 8756**

**101 Lake Avenue South  
Battle Lake, MN 56515**

**Comptroller of the Currency  
North Dakota & NW Minnesota Field Office  
1309 Hwy 29 N  
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.**

# Table of Contents

<b>Institution's Rating .....</b>	<b>1</b>
<b>Description of Institution .....</b>	<b>1</b>
<b>Description of Assessment Area .....</b>	<b>2</b>
<b>Loan Sampling .....</b>	<b>3</b>
<b>Conclusions about Performance Criteria.....</b>	<b>4</b>
Loan-to-Deposit Ratio.....	4
Lending in Assessment Area.....	4
Lending to Borrowers of Different Incomes and to Farms of Different Sizes .....	5
Geographic Distribution of Loans .....	6
<b>Responses to Complaints .....</b>	<b>7</b>
<b>Fair Lending .....</b>	<b>7</b>

## Institution's CRA Rating

First National Bank of Battle Lake is rated Satisfactory. An institution in this group has a satisfactory record of helping to meet the credit needs of the assessment area it serves, consistent with its resources and capabilities. Factors contributing to the rating include the following:

- The bank's record of lending to businesses of different sizes and individuals of different income levels exceeds the standard for satisfactory performance.
- First National Bank of Battle Lake's performance for lending within the assessment area shows a willingness to meet the credit needs in the area.
- Lending to moderate-income geographies meets the standard for satisfactory performance.

## Description of Institution

First National Bank (FNB) of Battle Lake is a \$35 million bank located in Battle Lake, MN. The community is located in Otter Tail County in west central Minnesota. The bank is owned 100% by Henning Bancshares, a two-bank holding company which is located in Henning, MN. Holding company assets consist primarily of the two banks. The bank does not have any branches. The affiliate bank is First National Bank of Henning located in Henning, MN.

The bank's loan portfolio is diverse. As of June 30, 2003, the composition of the portfolio was as follows:

<b>Loan Portfolio Composition</b>	<b>\$ (000)</b>	<b>%</b>
Commercial (including real estate)	8,448	50.3%
Agricultural (including real estate)	946	5.6%
Residential Real Estate Loans	5,849	34.9%
Consumer Loans	1,538	9.2%
<b>Total</b>	<b>16,781</b>	<b>100%</b>

FNB of Battle Lake offers traditional banking products and services. During the assessment period, lending practices focused on small businesses, residential real estate, and consumer loans. As of June 30, 2003, net loans represented 48% of total assets and the bank's Tier One Leverage Capital was 9.42% or \$3.2 million. There are no legal or financial impediments that restrict the bank's ability to meet the credit needs of the community.

FNB of Battle Lake was rated "Satisfactory" at the last CRA examination dated March 9, 1998.

## **Description of First National Bank of Battle Lake's Assessment Area**

FNB of Battle Lake's assessment area (AA) includes eight contiguous Block Numbering Areas (BNAs) all located in Otter Tail County. The AA includes two moderate-income BNAs and six middle-income BNAs. There are no low-income or upper-income BNAs in the AA.

The AA meets the requirements of the regulation. The AA does not exclude low- or moderate-income geographies. Cities in the AA include, but are not limited to Battle Lake, Henning, Parkers Prairie, Ottertail, Clitherall, Richville, and New York Mills. These communities are small in size with the largest being New York Mills and Parkers Prairie with populations of 1,162 and 1,013 respectively. All other cities in the AA have populations of less than 800 people. Primary competition includes banks in the surrounding communities of Fergus Falls, New York Mills, and Underwood.

The bank's AA is dependent on residential real estate and small businesses. The community is primarily a resort and tourist area. Local employers include retail businesses and the school system. In addition, Battle Lake has the largest number of commuters to the city of Fergus Falls for additional employment opportunities. This community is located outside of the bank's AA.

Information from the Bureau of Labor Statistics lists the 2002 unemployment rate for Otter Tail County at 5.1%. The average unemployment rate for Minnesota is 4.4% and 5.8% nationwide.

During our evaluation, we contacted a community member to better understand the credit needs of the AA. Based on this information we determined that residential real estate and small business loans help support the local economy. The contact stated that the FNB of Battle Lake effectively meets the community credit needs.

The demographics of the AA are illustrated 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>	
Number of Families	6,051
Number of Households	8,056
Number of Low-Income Families	1,513
% of Low-Income Families	25%
Number of Moderate-Income Families	1,403
% of Moderate-Income Families	23.2%
Number of Middle-Income Families	1,450
% of Middle-Income Families	24%
Number of Upper-Income Families	1,685
% of Upper-Income Families	27.8%
<i>Geographies</i>	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	25%
% Middle-Income Census Tracts/BNA	75%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,933
2002 HUD-Adjusted MFI	\$48,500
<i>Economic Indicators</i>	
Unemployment Rate	3%
2002 Median Housing Value	\$42,960
% of Households Below Poverty Level	18%

## Loan Sampling

The bank's primary loan types were determined by reviewing all loans originated from March 9, 1998 through December 31, 2002.

For purposes of this evaluation, the primary loan types are residential real estate loans, small business loans, and consumer loans. Residential real estate loans and business loans account for 37% and 45%, respectively, of the dollar volume of loans originated. Consumer loans represent 47% of the number of loans originated.

The table below shows a breakdown of all originations in our evaluation period.

<b>Loan Products</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Agricultural Loans	136	16%	1,749	7%
Business Loans	166	20%	11,253	45%
Consumer Loans	387	47%	2,815	11%
Residential Real Estate Loans	139	17%	9,071	37%
<b>Total</b>	<b>828</b>	<b>100%</b>	<b>24,888</b>	<b>100%</b>

To conduct our analysis, we performed statistically valid sampling techniques selecting a sample

of twenty residential real estate loans, twenty business loans, and twenty consumer loans. After initial sampling to determining the bank’s lending within the AA, additional files were selected as needed so all loans in the sample were made in the AA.

## Conclusions about Performance Criteria

### Loan-to-Deposit Ratio

FNB of Battle Lake’s loan-to-deposit (LTD) ratio meets the standards for satisfactory performance given the size and financial condition of the bank, assessment area needs, and local economic conditions. Since the last CRA evaluation, the bank’s average quarterly LTD ratio is 52%.

When compared to five similarly situated institutions in or around the AA, FNB of Battle Lake is ranked sixth out of six banks. This is a direct result of low loan demand in the Battle Lake area. Although the bank experienced some loan growth, it has not kept pace with the deposit growth so the LTD ratio remains lower.

The comparison banks have asset sizes ranging from \$24 to \$49 million and are rural in nature. The average LTD ratio of all six banks for the evaluation period is 66%.

Institution	Assets (as of 06/30/03)	Average LTD Ratio
Farmers State Bank of Dent	\$25 million	78%
Farmers State Bank of Underwood	\$30 million	77%
Farmers & Merchants State Bank of New York Mills	\$49 million	67%
First State Bank of Ashby	\$24 million	66%
Vergas State Bank	\$34 million	55%
<i>First National Bank of Battle Lake</i>	<i>\$35 million</i>	<i>52%</i>

### Lending in Assessment Area

The FNB of Battle Lake meets the standard for satisfactory performance for lending within the AA. A majority of the loans were originated in the bank’s AA. The following table illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Commercial Loan Sample	18	90%	815	72%	2	10%	299	28%
Real Estate Loan Sample	20	100%	1,108	100%	0	0%	0	0%
Consumer Loan Sample	18	90%	114	85%	2	10%	19	15%
Total Reviewed	56	93%	2,037	86.5%	4	7%	318	13.5%

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

Overall, lending to borrowers of different incomes and businesses of different sizes exceeds the standard for satisfactory performance. Although residential real estate loans meets the demographics of the AA, loans to consumers and loans to small businesses exceed the demographic information.

*Residential Real Estate Loans*

The borrower distribution of residential real estate loans to low- and moderate-income families meets the demographics of the AA. As detailed in the following chart, 15% of the number and 11% of the dollar volume of loans sampled are to low-income families. Similarly, 15% of the number and 12% of the dollar volume of loans are to moderate-income families. The demographics indicate that 25% of the families are low-income and 23% are moderate-income families in the AA. This is reasonable given the resort nature of the community. Many borrowers are those with second homes located on lake property in the AA.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	25%		23%		24%		28%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	15%	11%	15%	12%	30%	29%	40%	48%

*Consumer Loans*

The borrower distribution of consumer loans to low- and moderate-income households exceeds the demographics of the AA. The following chart illustrates that 55% of the number and 49% of the dollar volume of loans are to low-income households and 20% of the number and 18% of the dollar volume are to moderate-income households. The demographic information indicates that 30% of the households in the AA are low-income and 18% are moderate-income.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	30%		18%		20%		32%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	55%	49%	20%	18%	20%	26%	5%	7%

*Business Loans*

Lending to small businesses exceeds the demographics of the AA. All loans sampled were made to businesses with revenues of less than \$1 million. The demographic information indicates that 94% of all businesses have revenues in this category.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94%	6%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

**Geographic Distribution of Loans**

FNB of Battle Lake’s geographical distribution of loans throughout the AA meets the standard for satisfactory performance. This is based on demographic information as well as the location of the bank and other institutions serving the same AA. The bank is located in a middle-income BNA, in which a large portion of the sampled loans are also located. Although the percentages of sampled loans were slightly below the demographic information, the location of the bank and location of other financial institutions serving the moderate-income BNAs, is taken into consideration. The bank does extend credit in both moderate-income BNAs.

*Residential Real Estate Loans*

FNB of Battle Lake’s lending for residential real estate meets the demographics for geographical distribution. The loans sampled indicate that 20% of the number and 14% of the dollar volume of loans are made in the moderate-income BNAs while demographic information indicates that 31% of owner-occupied housing in the AA is located in the moderate-income BNAs. As stated previously, the bank is located in a middle-income BNA where much of the lending occurs.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0%		31%		69%		0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	N/A	N/A	20%	14%	80%	86%	N/A	N/A



### Consumer Loans

Consumer loans to low- and moderate-income households does not meet the demographics for the geographic distribution of the AA. As detailed in the table below, 10% of the number and 13% of the dollar volume of loans sampled were in the moderate-income BNAs. The demographic information indicates that 40% of all households in the AA are located in the moderate-income BNAs. This is a result of other financial institutions serving the moderate-income BNAs that are included in FNB of Battle Lake’s AA.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		40%		60%		0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	N/A	N/A	10%	13%	90%	87%	N/A	N/A

### Business Loans

Lending to small businesses meets the standard for satisfactory performance. The results of our sampled loans indicate that 15% of the number and 21% of the dollar volume are made to businesses located in the moderate-income BNAs. Demographic information states that 29% of all businesses are located in these tracts. This is reasonable given the facts previously stated.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		29%		71%		0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Loans	N/A	N/A	15%	21%	85%	79%	N/A	N/A

### Responses to Complaints

FNB of Battle Lake has not received any complaints about the performance in helping to meet the credit needs of the AA during the evaluation period.

### Fair Lending

An analysis for public comments and consumer complaint information was performed according to the OCC’s risk based fair lending approach. During our evaluation, we found no evidence of illegal discrimination or other illegal credit practices.