



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 9, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**101 Lake Avenue South
Battle Lake, Minnesota**

**Office of the Comptroller of the Currency
Alexandria Field Office
1309 Highway 29 North, P. O. Box 849
Alexandria, Minnesota 56308**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Battle Lake** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 9, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The First National Bank of Battle Lake's rating is based on the following factors:

- o The bank's record of extending credit to businesses, farms of different sizes, and individuals of different income levels is very good.
- o The bank's loan-to-deposit ratio is reasonable.
- o A majority of the number of loans extended are within the bank's assessment areas.

DESCRIPTION OF INSTITUTION

The First National Bank of Battle Lake (FNB) is a \$18 million dollar bank located in Otter Tail County in west central Minnesota. FNB is a full service bank offering traditional loan and deposit products. The bank has an automated teller machine located in the bank.

The primary lending focus is loans to residential and commercial real estate. The bank's December 31, 1997 financial information reflects that gross loans represent 51% of total assets. The loan portfolio distribution includes 71% real estate, 11% commercial, 10% consumer, and 8% agriculture.

The bank is owned by Henning Bancshares, a multi-bank holding company which also owns the bank in Henning, Minnesota.

The First National Bank of Battle Lake was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination dated March 7, 1995. There are no legal or financial impediments limiting FNB's ability to help meet the credit needs of the community.

DESCRIPTION OF THE FIRST NATIONAL BANK OF BATTLE LAKE'S ASSESSMENT AREA

The bank's assessment area (AA) includes five block numbering areas (BNAs) in central Otter Tail County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Based on 1990 census data, 3,561 families reside in the AA with median family income of \$22,771. Of the 3,561 families, 28% are considered low income, 24% moderate income, 23% middle income, and 25% upper income. The AA consists of two BNAs that are considered moderate income and three BNAs that are middle income.

The local economy is heavily reliant on tourism. Primary employers include local retailers, the school system, and employment opportunities in neighboring Fergus Falls. Primary competitors include the banks in Fergus Falls, Ashby, and Dalton.

An outreach contact with the area economic development person was positive about the local economy and credit services the bank offers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable. The quarterly LTD ratio has averaged 53% since the last CRA examination. As of December 1997, the LTD was 55%, which ranks second lowest out of seven banks similar in size and located in or adjacent to the bank's AA. The range of ratios for these seven banks is 46% to 76%.

Lending in the Assessment Area

A majority of the loans originated are in the bank's AA. This was determined by using a bank-generated report which lists all new loans originated during 1997, and the BNA location of these loans. A sampling of these credits verified the accuracy of the report. The table below illustrates the bank's lending activities within its AA.

	Loans Originated
Total number of Loans Originated	385
Number of Loan Originations in AA	301
Percentage In AA	78%
Total Dollar of Total Loans Originated	\$3,359,195
Dollar of Loans Originated In AA	\$2,588,051
Percentage of In AA	77%

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the AA

FNB has a very good record of lending to individuals of different income levels and businesses of all sizes.

Consumer and Residential Real Estate Loans

The following table illustrates consumer lending. We sampled 32 loans totaling \$520 thousand. The sample represents 13% of the total number and 28% of the dollar volume of consumer and residential real estate loan originations during 1997. Of the 32 loans we sampled, 25 files had sufficient income information to determine the following income distribution.

Income Level	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income > 50% Median Family income *	36%	35%
Moderate-Income at least 50% < 80% Median Family Income*	28%	7%
Middle-Income at least 80% < 120% Median Family Income*	28%	23%
Upper-Income 120% and > Median Family Income*	8%	35%

* 1997 Outstate Median Family Income \$38,400

Business and Small Farm Loans

The table below illustrates loans to small businesses and farmers in the bank's AA. Our sample included 16 loans totaling \$529 thousand. The sample represents 11% of total number of loans extended during 1997 and 36% of the total dollar volume for the same time period.

Annual Gross Sales (000's)	% Number of Loans Sampled	% Dollar Volume Sampled
\$100 or less	63%	61%
\$100 - \$250	25%	27%
\$250 - \$1,000	6%	7%
> \$1,000	6%	5%

Geographic Distribution of Loans

Distribution of loans within the AA is reasonable. The BNAs with the largest number of loans include the city of Battle Lake and the immediate surrounding area. BNAs 9613 and 9615 are at the far east end of the AA and include competing banks that provide similar services. The lower number of loans in BNA 9614 is attributed to Otter Tail Lake encompassing a majority of the BNA. Only 32% of the housing units in this BNA are owner occupied.

BNA	Number of Loans	Income Level
#9612	138	Middle
#9613	24	Moderate
#9614	9	Middle
#9615	22	Moderate
#9616	108	Middle

Record of Response to Complaints

The bank received no complaints concerning its performance in meeting the credit needs of its assessment area.

Record of Compliance with Anti-discriminatory laws

Based on our review, the bank is complying with anti-discriminatory laws. We found no substantive violations of the fair lending laws.