



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 14, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Henning
Charter Number 6906

Highways 78 and 108
Ottertail, MN 56571-0000

Office of the Comptroller of the Currency

Minneapolis Field Office
222 S Ninth Street, Suite 800
Minneapolis, MN 55402

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.

The First National Bank (FNB) of Henning has a satisfactory record of helping to meet the credit needs of the assessment area (AA) it serves. Factors contributing to this rating include the following:

- FNB of Henning's quarterly average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans within the AA.
- Lending to residential real estate borrowers and consumer borrowers of different income levels is reasonable.

SCOPE OF EXAMINATION

We assessed the FNB of Henning's record of meeting the credit needs of the entire community, consistent with the provisions set forth in the Community Reinvestment Act (CRA) for the period beginning September 30, 2003 and ending June 30, 2009. In order to determine the bank's lending performance, we selected primary products based on the dollar volume and number of originations for the period beginning January 1, 2007 and ending June 30, 2009. Residential real estate loans are a primary product based on dollar volume of originations of 45%. Consumer loans are a primary product based on the number of loan originations of 59%.

The table below illustrates the dollar volume and number of originations for the evaluation period.

| Loan Type | % by # | % by \$ |
|--------------------------------------|---------------|----------------|
| Commercial (including real estate) | 14 | 23 |
| Residential Real Estate | 14 | 45 |
| Consumer | 59 | 13 |
| Agricultural (including real estate) | 13 | 19 |

We selected a random sample of twenty loans from each of the primary products in order to evaluate lending within the AA and borrower distribution. We used 2000 U.S. Census information for comparison purposes.

DESCRIPTION OF INSTITUTION

The FNB of Henning is an \$85 million bank headquartered in Ottertail, MN. The bank is 100% owned by Henning Bancshares, Inc., a two-bank holding company located in Henning, MN. Holding company assets consist solely of the two banks. The affiliate bank, the First National Bank of Battle Lake, a \$55 million bank, is located in Battle Lake, MN.

The FNB of Henning has one branch located in Henning, MN and has no deposit taking automated teller machines (ATMs). The bank has six non-deposit taking ATMs – one ATM at each bank location, one at Thumper Pond Golf Course in Ottertail, MN, one at Larry's Supermarket in Battle Lake, MN, one at Big Foot Gas and Grocery in Vining, MN, and one at Koep's Korner in Clitherall, MN . Henning is located thirteen miles southeast of Ottertail. The communities of Ottertail and Henning are both located in Otter Tail County of west central Minnesota. No branches were opened or closed during the evaluation period, but the main office was moved from the Henning location to the Ottertail location.

The FNB of Henning is a rural bank that offers traditional banking products and services. As of June 30, 2009, the bank's net loans and leases totaled \$63 million or 75% of the bank's total assets. The loan portfolio was comprised of commercial loans (37%), residential real estate loans (32%), agricultural loans (24%), and consumer loans (7%).

The FNB of Henning received a rating of Satisfactory at the last CRA examination dated September 15, 2003. There are no legal, financial, or other factors that impede the bank's ability to help meet the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA includes five contiguous census tracts located in Otter Tail County. The AA consists of all middle-income census tracts. There are no low-, moderate-, or upper-income census tracts. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

According to 2007 US Census estimates, the communities of Otter Tail and Henning have populations of 490 and 825, respectively. New York Mills and Parkers Prairie are the largest towns within the bank's AA with populations of 1,195 and 1,031, respectively. There are several other communities in the AA with populations of less than 325.

According to the Bureau of Labor Statistics, the 2008 average unemployment rate for Otter Tail County was 6.1%. This is higher than Minnesota's average unemployment rate for 2008 of 5.4% and the nationwide rate of 5.8%. Poverty levels in the AA are high with 12.07% of households and 8.19% of families below the poverty level according to 2000 US Census information.

The local economy is dependent on small businesses and agriculture. The area also experiences a significant amount of seasonal tourism due to the number of surrounding lakes. Major local employers include nursing care facilities, the public school system, and smaller agriculture related businesses.

Competition for market share in Otter Tail County is moderate, with less competition within the local communities of Ottertail and Henning. The nearest competition in the AA is from banks located in Parkers Prairie, New York Mills, and Bluffton. There are

several other banks with a presence just outside of the AA including Dent, Underwood, Vergas, Perham, Wadena, and FNB's affiliate in Battle Lake. Large regional bank branches also reside in Otter Tail County just outside of the AA. The FNB of Henning holds 7.45% of the AA market share according to the FDIC Deposit Market Share Report as of June 30, 2008.

We contacted a city official to better understand the credit needs of the AA. Based on this information we determined that small business, residential real estate, and agricultural operating loans help support the local economy. The contact stated that FNB of Henning responds well to meet the community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The FNB of Henning's quarterly average loan-to-deposit (LTD) ratio is satisfactory based on the bank's financial capacity, lending opportunities available in the AA, and comparison to similarly situated institutions. From September 30, 2003 to June 30, 2009, the bank's quarterly LTD ranged from 70% to 88% and averaged 82%.

When compared to two similarly situated institutions with a presence in the AA, FNB of Henning is ranked first out of the three. These institutions have asset sizes of \$50 and \$120 million and are rural in nature. The average ratio for all three institutions for the evaluation period is 76%.

| Institution | Assets (as of 6/30/09) | Quarterly Average LTD Ratio |
|--|---------------------------|-----------------------------------|
| <i>The First National Bank of Henning</i> | \$85 million | 82% |
| Wadena State Bank | \$120 million | 81% |
| Farmers and Merchants State Bank of New York Mills | \$50 million | 66% |

Lending in Assessment Area

The bank originates a majority of its loans within the AA, meeting the standard for satisfactory performance for lending within the AA. Of the twenty residential real estate loans and twenty consumer loans sampled, the bank originated 65% of those loans by number within the AA. The following table summarizes the bank's lending activity within the AA during the evaluation period.

| Lending in Assessment Area | | | | | | | | | | |
|----------------------------|-----------------|-----|------------|-----|-------|------------------|-----|------------|-----|--------------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside AA | | Outside AA | | Total | Inside AA | | Outside AA | | Total (000s) |
| | # | % | # | % | | \$ (000s) | % | \$ (000s) | % | |
| Residential Real Estate | 12 | 60% | 8 | 40% | 20 | 2,051 | 60% | 1,350 | 40% | 3,401 |
| Consumer | 14 | 70% | 6 | 30% | 20 | 67 | 50% | 68 | 50% | 135 |
| Totals | 26 | 65% | 14 | 35% | 40 | 2,118 | 60% | 1,418 | 40% | 3,536 |

Source: Loan Sample

Lending to Borrowers of Different Incomes

Lending to borrowers of different incomes meets the standard for satisfactory performance. Residential real estate and consumer loans reasonably meet the demographic information.

Residential Real Estate Loans

Residential real estate lending in the AA overall meets the standard for satisfactory performance. The following chart illustrates that the bank exceeds the demographics for moderate-income families, but is below the demographic for low-income families. One factor contributing to the lower penetration of loans to low-income families is that the level of families below the poverty level is 8.19%. These borrowers have a higher degree of difficulty in qualifying for a home purchase loan.

| Borrower Distribution of Residential Real Estate Loans | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans | % of AA Families | % of Number of Loans |
| Residential Real Estate | 22.51 | 5.00 | 23.60 | 30.00 | 25.53 | 25.00 | 28.36 | 40.00 |

Source: Loan Sample, 2000 US Census

Consumer Loans

Consumer lending in the AA overall meets the standard for satisfactory performance. The following chart illustrates that the bank meets the demographics for moderate-income households, but is below the demographics for low-income households. This can be attributed to 12.07% of households being below the poverty level. These borrowers have a higher degree of difficulty in qualifying for a home purchase loan.

| Borrower Distribution of Consumer Loans | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer | 25.98 | 20.00 | 19.40 | 20.00 | 21.68 | 25.00 | 32.95 | 35.00 |

Source: Loan Sample, 2000 US Census

Geographic Distribution of Loans

A geographic distribution analysis is not meaningful because the bank's AA consists only of middle-income geographies.

Responses to Complaints

No CRA related complaints have been reported since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

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