



## **PUBLIC DISCLOSURE**

June 22, 2015

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

The First National Bank of Henning  
Charter Number 6906

Highways 78 and 108  
Ottertail, MN 56571

Office of the Comptroller of the Currency

123 3rd Ave E. Suite 400  
Alexandria, MN 56308-0849

**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 this rating include:

- The bank has excellent penetration of loans to individuals of different income levels for residential real estate loans and consumer loans.
- The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area (AA).
- The bank originates a majority of loans to customers inside the AA.

**SCOPE OF EXAMINATION**

We evaluated The First National Bank (FNB) of Henning's Community Reinvestment Act (CRA) performance from October 15, 2009 to June 22, 2015, using small bank procedures. We assessed the bank's lending performance using primary products based on the number and dollar volume of loans originated between January 1, 2013 and March 31, 2015. Our analysis found that consumer loans are a primary product based on the number of loan originations of 57 percent, and residential real estate loans are a primary product based on the dollar volume of loan originations of 38 percent. We selected a sample of 60 consumer loans and 60 residential real estate loans in order to evaluate lending activities within the AA. The following table shows the bank's primary products by loan originations and purchases.

<b>Loan Originations and Purchases in 2013, 2014, and 2015</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	57%	15%
Residential Real Estate	11%	38%
Commercial	18%	29%
Agriculture	13%	18%

*Source: Bank loan origination report for 2013, 2014, and 2015*

**DESCRIPTION OF INSTITUTION**

The FNB of Henning is a \$104 million bank headquartered in Ottertail, MN. The bank is 100 percent 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 \$72 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 four non-deposit taking ATMs – one ATM at the main office and branch location, one at Big Foot C Store in Vining, MN, and one at Ron's Ready Mart in Clitherall, MN. Henning, MN is located thirteen miles southeast of Ottertail. The communities of Ottertail and Henning are both located in Otter Tail County in west central Minnesota. The bank did not have any mergers or acquisitions, or conduct any other significant corporate activity during the evaluation period.

The FNB of Henning is a rural bank that offers traditional banking products and services. As of March 31, 2015, the bank’s loan portfolio totaled \$70 million, or 67 percent of total assets. According to the March 31, 2015, Call Report, the bank’s outstanding loans are as follows: Commercial (37%), Residential Real Estate (30%), Agricultural (20%), and Consumer (9%). The bank’s Tier 1 Leverage Capital ratio is 12.27 percent as of March 31, 2015.

The FNB of Henning received a “Satisfactory” rating at its October 14, 2009 CRA evaluation. There are no legal, financial, or other factors impeding the bank’s ability to help meet the credit needs of its AA.

## DESCRIPTION OF ASSESSMENT AREA

The bank’s AA consists of five contiguous middle-income census tracts located in Otter Tail County. The AA meets the regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The AA includes the political subdivision where the bank is located and does not reflect discrimination. The following table shows the demographic and economic characteristics of the AA.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA</b>	
<b>Population</b>	
Number of Families	4,843
Number of Households	6,855
% of Low-Income Families	23.00
% of Moderate-Income Families	22.30
% of Middle-Income Families	24.53
% of Upper-Income Families	30.17
<b>Geographies</b>	
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
<b>Median Family Income (MFI)</b>	
2010 MFI for AA	\$50,141
2014 HUD-Adjusted MFI	\$57,683
<b>Economic Indicators</b>	
2014 Average Unemployment Rate	4.5%
2010 Median Housing Value	\$167,153
% of Households Below Poverty Level	14.16

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

According to 2010 U.S. Census data, the communities of Ottertail and Henning have populations of 573 and 801, respectively. Parkers Prairie and New York Mills remain the largest towns

within the bank's AA with populations of 1,010 and 1,198, respectively. There are several communities in the AA with populations of less than 200.

According to the Bureau of Labor Statistics, the average unemployment rate for Otter Tail County was 4.5 percent in 2014. This is similar to Minnesota's average unemployment rate of 4.1 percent and lower than the nationwide average rate of 6.2 percent. The number of households in the AA below the poverty level is high at 14 percent, according to 2010 U.S. Census information.

The local economy remains dependent on small businesses and agriculture. Small businesses include tourism and financial services. Tourism is a large part of the county's economy due to the number of lakes within its boundaries. Major local employers include the public school system, a privately owned nursing home, the hospital, and boat manufacturing.

Banking competition in the AA is moderate. The nearest competition is located in New York Mills, MN and Parkers Prairie, MN. The bank also experiences moderate competition from banks located outside of the AA in Perham, Wadena, and Dent, MN. According to the June 30, 2014 FDIC Deposit Market Share Report, there are 19 national and state chartered deposit taking financial institutions with a presence in Otter Tail County. The FNB of Henning ranks fifth with 7.37 percent market share. Based on the deposit data, no one institution dominates the banking market in the area. United Community Bank holds the highest market share with only 17.06 percent of deposits.

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

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The FNB of Henning's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and local credit needs. The bank's quarterly loan-to-deposit ratio averaged 75 percent since the prior CRA evaluation. The bank ranks second among similarly situated banks. Similarly situated banks, defined as banks with a presence in the AA with asset sizes between \$60 million and \$132 million, had loan-to-deposit ratios ranging from 53 percent to 88 percent during the same timeframe.

<b>Loan-to-deposit Ratio</b>	<b>Assets as of 3/31/15 (\$000s)</b>	<b>Average LTD Ratio (%)</b>
<b>Institution</b>		
Security State Bank of Fergus Falls	\$131,500	88%
<b>The FNB of Henning</b>	<b>\$103,800</b>	<b>75%</b>
F&M State Bank of New York Mills	\$60,900	61%
The FNB of Battle Lake	\$72,300	53%

*Source: Call Report data as of March 31, 2015.*

### Lending in Assessment Area

The bank originates a majority of its loans inside the AA. Based on a sample of primary products, The FNB of Henning originated 65 percent of loans by number within the AA. The following table shows loans originated inside and outside of the AA by number and dollar volume.

<b>Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	18	90	2	10	20	631	98	15	2	646
Residential RE	8	40	12	60	20	1,316	34	2,517	66	3,833
Totals	26	65	14	35	40	1,947	43	2,532	57	4,479

*Source: Residential real estate and consumer loan samples.*

### Lending to Borrowers of Different Incomes

Overall, The FNB of Henning’s lending to borrowers of different incomes reflects excellent penetration in the AA.

#### *Residential Real Estate Loans*

The distribution of residential real estate loans reflects excellent penetration among persons of different income levels given the demographics of the AA. The bank’s lending to low- and moderate-income individuals exceeds the percentage of low- and moderate-income families in the AA.

<b>Borrower Distribution of Residential Real Estate Loans in AA</b>								
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 RE	23.00	38.33	22.30	26.67	24.53	13.33	30.17	21.67

Source: Loan sample; 2010 US Census Data

**Consumer Loans**

The distribution of consumer loans reflects excellent penetration among borrowers of different income levels given the demographics of the AA. The bank’s lending to low-income individuals significantly exceeds the demographic comparator of low-income households in the AA.

<b>Borrower Distribution of Consumer Loans in AA</b>								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans	% of AA House holds	% of Number of Loans
Consumer	27.40	68.33	16.85	8.33	22.35	15.00	33.41	8.33

Source: Loan Sample, 2010 US Census

**Geographic Distribution of Loans**

A geographic distribution of loans does not provide a meaningful analysis as the bank’s AA has no low- or moderate-income census tracts.

**Responses to Complaints**

The FNB of Henning received no CRA related complaints during the evaluation period.

**Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.