



## **PUBLIC DISCLOSURE**

June 22, 2015

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

The First National Bank of Battle Lake  
Charter Number 8756

101 Lake Avenue South  
Battle Lake, MN 56515

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 Satisfactory.**

The major factors supporting this rating include:

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

**SCOPE OF EXAMINATION**

We evaluated The First National Bank (FNB) of Battle Lake's Community Reinvestment Act (CRA) performance from October 16, 2009 to March 31, 2015. 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 December 31, 2014. Our analysis found that consumer loans are a primary product based on the number of loan originations of 60 percent, and residential real estate loans are a primary product based on the dollar volume of loan originations of 50 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 and 2014</b>		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Consumer	60%	15%
Residential Real Estate	16%	50%
Commercial	15%	19%
Agriculture	9%	16%

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

**DESCRIPTION OF INSTITUTION**

The FNB of Battle Lake is a \$72 million bank headquartered in Battle Lake, 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 Henning, a \$104 million bank, is located in Ottertail, MN. The FNB of Battle Lake has no branches or deposit taking automated teller machines (ATM). The bank has one non-deposit taking ATM located at the main office. The community of Battle Lake is 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 Battle Lake is a rural bank that offers traditional banking products and services. As of March 31, 2015, the bank’s loan portfolio totaled \$34 million, or 46 percent of total assets. According to the March 31, 2015, Call Report, the bank’s outstanding loans are as follows: Residential Real Estate (40%), Commercial (35%), Agricultural (15%), and Consumer (10%). The bank’s Tier 1 Leverage Capital ratio is 12.08 percent as of March 31, 2015.

The FNB of Battle Lake received a “Satisfactory” rating at its October 16, 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 eight 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>	
Population	
Number of Families	7,391
Number of Households	10,364
% of Low-Income Families	21.04
% of Moderate-Income Families	20.44
% of Middle-Income Families	25.25
% of Upper-Income Families	33.27
Geographies	
Number of Census Tracts	8
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	100
% Upper-Income Census Tracts	0
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$52,921
2014 HUD-Adjusted MFI	\$61,700
Economic Indicators	
2014 Average Unemployment Rate	4.5%
2010 Median Housing Value	\$172,075
% of Households Below Poverty Level	12.51

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

According to 2010 U.S. Census data, the AA has a population of 24,182, and the community of Battle Lake has a population of 875. 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 of 6.2 percent. The number of households in the AA below the poverty level is high at 12.5 percent, according to 2010 U.S. Census information.

The local economy is dependent on small businesses, tourism, and agriculture. The area experiences a significant amount of seasonal tourism, as the community of Battle Lake is located on the southwest shore of West Battle Lake. Major local employers include the Good Samaritan Society, a retirement home and assisted living facility, and the public school system.

Banking competition in the AA is moderate. The nearest competition in the AA is from the bank in Underwood, MN and affiliate, The First National Bank of Henning. There are several other banks with a presence in the AA including those located in Bluffton, Deer Creek, Dent, New York Mills, and Parkers Prairie, 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 Battle Lake ranks eighth with 5.20 percent market share. Based on the deposit data, no one institution dominates the banking market area. United Community Bank holds the highest market share with only 17.06 percent of deposits.

We contacted a local community leader to better understand the credit needs of the AA. The community leader indicated that local institutions were actively meeting the credit needs of the community. The contact noted that economic activities in the AA are largely influenced by tourism. Based on this information, we determined residential real estate, consumer, and small business loans help support the local economy.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The FNB Battle Lake’s loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the local credit needs. The bank’s quarterly loan-to-deposit ratio averaged 53 percent since the prior CRA evaluation. The bank ranks fifth among similarly situated banks. Similarly situated banks, defined as banks with a presence in the AA with asset sizes between \$47 million and \$131 million, had loan-to-deposit ratios ranging from 47 percent to 88 percent during the same timeframe.

<b>Loan-to-deposit Ratio Institution</b>	<b>Assets as of 3/31/15 (\$000s)</b>	<b>Average LTD Ratio (%)</b>
Security State Bank of Fergus Falls	\$131,500	88%
Farmers State Bank of Underwood	\$57,300	80%
The FNB of Henning	\$103,800	75%
F&M State Bank of New York Mills	\$60,900	61%
<b>The FNB of Battle Lake</b>	<b>\$72,300</b>	<b>53%</b>
Vergas State Bank	\$47,500	47%

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 Battle Lake originated 83 percent of loans inside the bank’s AA.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	18	90	2	10	20	259	90	30	10	289
Residential RE	15	75	5	25	20	1,845	68	852	32	2,697
Totals	33	83	7	17	40	2,104	70	882	30	2,986

Source: Residential real estate and consumer loan samples.

### Lending to Borrowers of Different Incomes

Overall, The FNB of Battle Lake’s lending to borrowers of different incomes reflects reasonable penetration in the AA.

#### 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, and the bank’s lending to moderate-income individuals exceeds the percentage of moderate-income households in the AA. The table below shows the bank’s lending performance compared to the demographics of the AA.

Borrower Distribution of Consumer Loans in AA								
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	24.38	53.33	16.04	18.33	22.25	13.33	37.33	15.00

Source: Loan Sample, 2010 US Census

#### Residential Real Estate Loans

The distribution of residential real estate loans reflects reasonable penetration among persons of different income levels give the demographics in the AA. The bank’s lending to moderate-income individuals is comparable to the percentage of moderate-income families in the AA. The bank’s performance in lending to low-income individuals was significantly below the demographic comparator; however, we noted that this is reasonable given that 12.5 percent of

families in the AA are below poverty level and, therefore, less likely to be seeking residential real estate loans. The table below shows the bank’s lending performance compared to the demographics of the AA.

<b>Borrower Distribution of Residential Real Estate Loans in AA</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>
<b>Residential RE</b>	21.04	6.67	20.44	18.33	25.25	13.33	33.27	61.67

*Source: Loan sample; 2010 US Census Data*

### **Geographic Distribution of Loans**

The 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 Battle Lake received no CRA related complaints during the evaluation period.

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

Pursuant to 12 CFR 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.