



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 13, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Henning
Charter Number 6906**

**512 Douglas Avenue
Henning, Minnesota 56551**

**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 Henning** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 13, 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 Henning's rating is based on the following factors:

- ▶ The bank's record of extending credit to businesses and farms of all sizes and to individuals of all income levels is good.
- ▶ A majority of the loans are extended within the bank's assessment area.
- ▶ The bank's loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank of Henning (FNB) is a \$49 million institution located in Otter Tail County in west central Minnesota. FNB's facilities include the main office located in the city of Henning and a branch located in Ottertail, Minnesota. The bank has an automated teller machine located at the main bank and one in at a retail store in Ottertail. FNB is a full service bank offering traditional loan and deposit products and services. New products and services include debit cards and telephone banking. The bank's primary lending focus is small business and agriculture, residential real estate, and consumer loans.

Using loan data as of December 31, 1997, gross loans represent 53% of total assets. The loan portfolio is comprised of the following loans by dollar volume: residential real estate 29%, agriculture and agriculture real estate 29%, commercial and commercial real estate 25%, and consumer loans 17%.

FNB is owned by Henning Bancshares, a multi-bank holding company located in Henning, Minnesota. The holding company also owns The First National Bank of Battle Lake, Battle Lake, Minnesota. Total assets of the holding company are approximately \$67 million.

FNB was rated "Outstanding Record of Meeting Community Credit Needs" at the last CRA examination dated April 13, 1995. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of the community.

DESCRIPTION OF THE FIRST NATIONAL BANK OF HENNING'S ASSESSMENT AREA

The bank's assessment area (AA) includes five contiguous Block Numbering Areas (BNAs) surrounding the cities of Ottertail and Henning. The AA complies with the requirements of the regulation. According to the 1990 census, 3,977 families live in the AA with a median family income of \$22,856. The median family income represents 59% of the outstate non-metro family income of \$38,400.

The AA consists of two moderate-income BNAs and three middle-income BNAs. Family incomes within the AA include low 27%, moderate 24%, middle 23%, and upper 26%. The following table illustrates income level designations and the major cities/towns within the individual BNAs.

BNA #	9606	9613	9614	9615	9616
Major City	New York Mills	Henning	Ottertail	Parkers Prairie	Clitherall
Income Designation	Middle	Moderate	Middle	Moderate	Middle

The local economy is reliant on agriculture and tourism industries. Primary employers include the local school district, the Henning Health Care Center, the agriculture industry, and employment opportunities in neighboring Fergus Falls. Primary competition in the AA includes twelve banks, two thrifts, and two credit unions. Also, the surrounding area includes branches of three regional banks and three offices of Farm Credit Services.

The primary credit needs of the assessment area include small business/small farm loans and residential real estate loans. We made this determination by contacting two local development officials and through discussions with bank management.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Businesses of Different Revenue Sizes and Individuals of Different Income Levels in the AA

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

Lending to Individuals

FNB makes consumer real estate loans to borrowers of all income levels. The bank originated 70 residential real estate loans totaling \$2,226,510 during 1997. We sampled 45 residential real estate loans totaling \$1,254,586. The following table illustrates FNB's consumer real estate lending patterns.

Income Level	% of Families in AA	Number of Loans	Number of Loans %	\$ Volume of Loans	Volume of Loans %
Low	27%	7	16%	\$183,689	15%
Moderate	24%	11	24%	\$415,297	33%
Middle	23%	17	38%	\$535,900	42%
Upper	26%	10	22%	\$119,700	10%

*Note - The income categories listed above were determined utilizing the 1997 updated HUD Median Family income of \$38,400.

Business and Small Farm Loans

During 1997, FNB extended 474 loans totaling \$5,363,196 to businesses and small farms. To assess FNB's efforts to lend to businesses and farms of all sizes, we sampled 53 loans totaling \$1,816,907. The following table depicts small business/farm lending.

Annual Sales	# of Loans	# of Loans %	Dollar Volume	Dollar Volume %
\$100,000 or less	28	53%	\$461,468	25%
\$100,000 - \$250,000	10	19%	\$577,550	32%
\$250,000 - \$500,000	11	21%	\$258,889	14%
\$500,000 - \$1,000,000	1	2%	\$396,000	22%
\$1,000,000 or more	3	5%	\$123,000	7%

Lending in the Assessment Area

The bank originates a majority of its loans in the AA. We determined the level of lending within and outside of the AA by analyzing a bank generated report which tracks all loans extended by BNA. Our sampling of loans to individuals of all income levels and businesses of different sizes verified the accuracy of the report. The following table illustrates lending in and out of the AA for all loans originated during 1997.

Category of In/Out of Assessment Area	Loans Originated in 1997
Total Number of Loan Originations	1,975
Number of Loans in AA	1,720
Percentage in the AA	87%
Total Dollar Volume Originated	\$13,549,160
Dollar Volume Originated in the AA	\$11,956,396
Percentage of Dollar Volume in AA	88%

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable and has remained stable since the last CRA examination. The bank's quarterly average LTD ratio of 60% ranks the bank seventh out of twelve similarly situated banks located in or adjacent to the bank's assessment area. The ratios for the competing banks range from 45% to 89%.

Geographic Distribution of Loans

FNB's loans are reasonably disbursed throughout its AA. We utilized bank reports which code loans by BNA to determine the dispersion of loans across the bank's entire AA. The following table reveals the dispersion of all loans originated in 1997 within the AA.

BNA	# of Loans	# of Loans %	\$ of Loans	\$ of Loans %	BNA Income Level
9606	150	9%	\$844,522	7%	Middle
9613	860	50%	\$6,524,402	54%	Moderate
9614	427	25%	\$2,354,885	20%	Middle
9615	262	15%	\$2,147,877	18%	Moderate
9616	21	1%	\$84,710	1%	Middle

The low lending level in BNA #9616 is due to the BNA being the furthest away from the two bank locations. Also, this BNA's credit needs are met by competing banks and FNB's affiliated bank which are located in or adjacent to the BNA.

Record of Response to Complaints

FNB received no complaints concerning its performance in meeting assessment area credit needs.

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.