



Office of the  
Comptroller of the Currency  
Washington, DC 20219

**SMALL BANK**

## **PUBLIC DISCLOSURE**

March 27, 2017

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

First National Bank and Trust Co. of Bottineau  
Charter Number 8029

424 Main Street  
Bottineau, ND 58318

Office of the Comptroller of the Currency

Campbell Mithun Tower  
222 South Ninth Street  
Suite 800  
Minneapolis, MN 55402-3393

**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 that support this rating include:

- A substantial majority of First National Bank & Trust Company of Bottineau's (FNB Bottineau) loan originations are within the bank's assessment area (AA).
- FNB Bottineau's distribution of loans represents excellent penetration among farms of different sizes.
- FNB Bottineau's loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, and assessment area credit needs.

**SCOPE OF EXAMINATION**

We conducted a Community Reinvestment Act (CRA) evaluation of FNB Bottineau to evaluate the bank's performance in meeting the credit needs of its community. We assessed FNB Bottineau's performance from October 26, 2010 to March 27, 2017 (the evaluation period). We focused our assessment on the bank's primary loan product based on the dollar volume and number of loan originations from January 1, 2014 to December 31, 2016. Agriculture loans were determined to be the primary product for the bank during this timeframe. Agriculture loans were 42.36 percent of total originations by number of loans and 76.14 percent by dollar volume.

We randomly sampled 60 agriculture loans to evaluate lending performance within the AA. Loan sample results were compared to 2016 Business Geodemographic data to determine lending performance. We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation (FDIC) to find similarly situated banks. The most recent deposit information is as of June 30, 2016.

During our evaluation, we contacted a local community leader to discuss the economic conditions of the area and efforts of local financial institutions to meet the credit needs of the Bottineau community.

**DESCRIPTION OF INSTITUTION**

FNB Bottineau is a \$144 million commercial bank located in Bottineau, ND. The bank operates a main office, detached drive-up facility, and one ATM in Bottineau, ND. FNB Bottineau is a wholly owned subsidiary of First Bottineau, Inc., a one-bank holding company. FNB Bottineau provides traditional banking services, including loans for commercial, agricultural, consumer, and residential real estate purposes. FNB Bottineau's business strategy is to provide lending services to local farmers and families. As of December 31, 2016, outstanding loans by dollar volume totaled: 75.42 percent agricultural, 11.46 percent residential real estate, 8.04 percent commercial, and 5.08 percent consumer. On December 31, 2016, the bank's net loan-to-deposit ratio was 69.43 percent.

FNB Bottineau received an "Outstanding" rating at their October 25, 2010 CRA evaluation. There are no legal or financial circumstances impeding the bank's ability to meet the credit needs of the AA.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The Bottineau AA consists of four census tracts (CTs): #9556 in McHenry County, and #9523, #9524, and #9525 in Bottineau County. Census tract #9525 is upper-income, while the remaining three CTs are middle-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts. Banking competition in the Bottineau AA is average. On June 30, 2016, nine financial institutions offered banking services in the Bottineau AA. FNB Bottineau ranked first in deposit market share, with 34.15 percent of the market share, based on June 30, 2016 deposit information obtained from the FDIC.

The population of the Bottineau AA was 8,941 according to the 2010 U.S. Census Data. The U.S. Department of Housing and Urban Development weighted average median family income for the non-metropolitan areas of North Dakota in 2016 was \$56,736. Unemployment in Bottineau and McHenry County stood at 4.3 percent and 5.4 percent in December 2016, respectively. The 2010 U.S. Census Data indicated 13.74 percent of households were below the poverty level in the Bottineau AA. The Bottineau AA includes two census tracts (#9523 and #9524) considered distressed and underserved by the Federal Financial Institutions Examination Council (FFIEC).

Our community contact indicated local banks are active in the community and meeting the area's primary credit needs. Small farmers have access to financing. Our contact also stated the local economy is heavily reliant on the agricultural sector and has remained relatively stable.

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

FNB Bottineau's performance under the lending test is Outstanding. A substantial majority of loan originations are within the AA. The bank's borrower distribution for agricultural loans was found to have excellent penetration among farms of different sizes. All criteria of the lending test are documented below:

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

The LTD ratio is reasonable given the bank's size, financial condition, and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 26 quarters since the previous CRA examination is 60.44 percent. Similarly-situated banks have quarterly average LTD ratios ranging from 38.41 percent to 88.08 percent over the same timeframe. FNB Bottineau is ranked fifth out of the seven banks. These banks have a share of deposits in the Bottineau AA, with total assets between \$64 million and \$339 million. The lower ratio of this bank is attributed to a strong stable deposit base, limited loan demand, and competition for agriculture loans. FNB Bottineau's LTD ratio is cyclical due to agriculture's impact on the local economy. Deposits peak during third quarter. FNB Bottineau's LTD ratio reflects an increasing trend over our

evaluation period. The low was a 48.30 percent loan-to-deposit ratio in the first quarter of 2012, with a high of 78.66 percent in the third quarter of 2016.

Institution	Asset Size as of 12/31/2016	Average Loan-to-Deposit Ratio 3Q10 to 4Q16
First State Bank of Harvey	\$84 million	38.41%
Peoples State Bank	\$64 million	49.66%
<b>FNB &amp; Trust Co. Bottineau</b>	<b>\$144 million</b>	<b>60.44%</b>
Citizens State Bank at Mohall	\$64 million	81.61%
Peoples State Bank of Velva	\$114 million	86.06%
United Community Bank of ND	\$339 million	88.06%
State Bank of Bottineau	\$73 million	88.08%

Source: *Consolidated Report of Condition as of 12/31/2016*

### Lending in Assessment Area

FNB Bottineau originated a substantial majority of loans inside its AA. Based on a sample of 20 loans originated from January 1, 2014 to December 31, 2016, 90 percent by number and 97.3 percent by dollar volume were made to farms within the bank's AA.

Lending in Bottineau, North Dakota AA								
Loan Type	Number of Loans			Dollars of Loans (000s)				
	Inside	Outside	Total	Inside	Outside	Total	#	%
Agricultural	18	90.0%	20	\$2,171	97.3%	\$2,232	\$61	2.7%

Source: *Agricultural loan sample*

### Lending to Farms of Different Sizes

FNB Bottineau's distribution of credit among farms of different sizes in the AA is excellent. Based on a sample of 60 agriculture loans, 93.33 percent of loans by number were originated to farms with gross annual revenues of less than \$1 million. Loans originated to farms with revenues less than \$1 million totaled 94.97 percent by dollar volume. This is comparable to the AA demographics, based on 2016 business Geodemographic data. Business data indicated only three farms in the AA with revenues greater than \$1 million; however, our sample indicated the assessment area had at least four such farms based on bank financial data collected from 2014 to 2016.

Borrower Distribution of Loans to Businesses in Bottineau AA				
Business Revenues (or Sales)	$\le \$1,000,000$	$> \$1,000,000$	Unavailable/Unknown	Total
% of AA Businesses	98.91%	1.09%	0.00%	100%
% of Bank Loans in AA by #	93.33%	6.67%	0.00%	100%
% of Bank Loans in AA by \$	94.97%	5.03%	0.00%	100%

Source: *Agricultural loan sample & 2016 Business Geo-demographic Data*

## **Geographic Distribution**

Geographic distribution analysis is not meaningful as the AA has no low or moderate-income census tracts. FNB Bottineau has one assessment area, Bottineau County AA. The Bottineau County AA consists of four census tracts (CTs). Three CTs are middle-income and one is upper-income.

## **Responses to Complaints**

The bank has not received any complaints regarding its CRA performance since the last evaluation.

## **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 assessment area 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.