



## **PUBLIC DISCLOSURE**

April 25, 2016

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

First National Bank Mahnommen Twin Valley  
Charter Number 12941

103 N Main Street  
Mahnommen, MN 56557

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 Satisfactory.**

The major factors supporting this rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size and the credit needs of the assessment area (AA).
- The bank originates a majority of loans to customers inside its AA.
- The distribution of loans to borrowers of different income levels and businesses of different sizes reflects excellent penetration within the bank's AA.
- The geographic distribution of loans reflects excellent dispersion to geographies of different income levels within the bank's AA.

**SCOPE OF EXAMINATION**

We evaluated First National Bank Mahnomen Twin Valley's (Mahnomen) Community Reinvestment Act (CRA) performance using small bank procedures. We assessed the bank's lending performance using primary products based on the number and dollar volume of loan originations and purchases between January 1, 2014 and December 31, 2015. Our analysis found that consumer loans and commercial loans were the bank's primary products during the evaluation period. We selected a sample of 20 consumer loans and 20 commercial 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 2014 and 2015</b> |                    |                     |
|---|--------------------|---------------------|
| <i>Loan Type</i>  | <i>Volume by #</i> | <i>Volume by \$</i> |
| Consumer  | 74.09%             | 10.76%              |
| Commercial  | 11.16%             | 51.94%              |
| Residential Real Estate                                 | 2.15%              | 5.46%               |
| Agriculture   | 12.60%             | 31.84%              |

*Source: Bank Loan Origination Report for 2014-2015*

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation to find similarly situated banks. The most recent deposit information is as of June 30, 2015.

**DESCRIPTION OF INSTITUTION**

Mahnomen is a \$94 million bank located in Mahnomen, Minnesota. Mahnomen is located in Mahnomen County in the northwestern part of the state. The bank operates two branches, one in Mahnomen and one in Twin Valley, Minnesota. In addition, the bank operates four automated teller machines (ATMs), none of which accept deposits.

Mahnomen is 100% owned by a one-bank holding company, Mahnomen Bancshares, Inc.

Mahnomen primarily offers traditional banking products and services. Non-retail products include commercial, multi-family, and farm real estate loans as well as commercial construction and business loans. Retail loan products include single-family mortgage loans, home equity products, construction loans, and consumer loans for various purposes.

As of December 31, 2015, tier one capital totaled \$8.5 million with a tier one leverage ratio of 8.91 percent. Total loans represented 77 percent of total assets and were comprised of 47 percent commercial loans, 31 percent agriculture loans, 13 percent residential real estate loans, and 9 percent consumer loans.

Mahnomen received a “Satisfactory” rating on its last CRA examination dated October 12, 2010. 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(S)**

The bank’s AA consists of five contiguous census tracts (CTs) in Becker, Clearwater, Mahnomen, and Norman counties. This area consists of two middle-income CTs and three moderate-income CTs. It includes the CTs where the bank’s branches and ATMs are located as well as surrounding CTs in which the bank lends substantially and can reasonably serve. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income CTs.

According to 2010 U.S. Census data, the bank’s AA has a population of 14,830. According to the Bureau of Labor Statistics, the average unemployment rate for Mahnomen County was 5.6 percent in 2015, which is well above the 2015 state average of 3.7 percent. The number of households in the AA below the poverty level is high at 16.98 percent. Major employers include health and nursing care facilities, Shooting Star Casino, and the Mahnomen School District.

Competition in the AA is high. According to the June 30, 2015 FDIC Deposit Market Share Report, there are 20 institutions in the AA holding \$1.1 million in deposits. Mahnomen ranks fourth in the AA with a 7.46 percent market share. Bremer Bank has the highest market share with 20.10 percent of deposits, and Midwest Bank has the next highest market share with 17.61 percent of deposits.

The table on the following page shows the demographic and economic characteristics of the bank’s AA.

| <b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA</b> |           |
|---|-----------|
| <b>Population</b>   |           |
| Number of Families  | 3,975     |
| Number of Households                                      | 5,653     |
| % of Low-Income Families                                  | 26.99%    |
| % of Moderate-Income Families                             | 21.89%    |
| % of Middle-Income Families                               | 23.67%    |
| % of Upper-Income Families                                | 27.45%    |
| <b>Geographies</b>  |           |
| Number of Census Tracts                                   | 5         |
| % Low-Income Census Tracts                                | 0%        |
| % Moderate-Income Census Tracts                           | 60.00%    |
| % Middle-Income Census Tracts                             | 40.00%    |
| % Upper-Income Census Tracts                              | 0%        |
| <b>Median Family Income (MFI)</b>                         |           |
| 2010 MFI for AA   | \$47,494  |
| 2015 HUD-Adjusted MFI                                     | \$63,600  |
| <b>Economic Indicators</b>                                |           |
| 2015 Unemployment Rate                                    | 5.6%      |
| 2010 Median Housing Value                                 | \$101,161 |
| % of Households Below Poverty Level                       | 16.98%    |

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

We contacted a local community leader to better understand the credit needs of the bank's AA. The community leader indicated that local institutions are active in the community and meeting the area's credit needs. The contact indicated that consumer lending is the primary credit need of the community. Small businesses have access to financing and community members have access to consumer and home loans.

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

The lending test is based on the LTD ratio, lending within the AA, borrower lending distribution, geographic lending distribution, and responses to CRA related complaints.

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

Mahnomen's LTD ratio is reasonable given the bank's size, financial condition, and the credit needs of their AA. The bank's quarterly LTD ratio averaged 68 percent over the 24 quarters since the last CRA examination. The LTD ratio ranged from a high of 82 percent to a low of 53 percent. The bank's average LTD ratio is comparable to similarly situated banks. The following table shows the bank's average LTD ratio compared to similarly situated banks:

| <b>Loan-to-Deposit Ratio<br/>Institution (Headquarters)</b> | <b>Assets as of<br/>12/31/15<br/>(\$000s)</b> | <b>Average LTD<br/>Ratio<br/>(%)</b> |
|---|---|--------------------------------------|
| Red River State Bank  | \$84,411                                      | 93.79%                               |
| Northwestern Bank, National Association                     | \$143,215                                     | 77.61%                               |
| Community Development Bank FSB                              | \$72,882                                      | 69.23%                               |
| <b>First National Bank Mahnomen Twin Valley</b>             | <b>\$94,014</b>                               | <b>67.52%</b>                        |
| Valley Premier Bank   | \$106,593                                     | 63.90%                               |
| First National Bank   | \$83,552                                      | 59.86%                               |

Source: Call Report Data as of December 31, 2015

### Lending in Assessment Area

The bank originates a majority of its loans within its designated AA. Based on a sample of primary products, Mahnomen originated 65 percent of loans by number and 37 percent of loans by dollar volume within the bank's AA. The following table illustrates the number and dollar amount of loans originated inside and outside the bank's AA during the evaluation period:

| <b>Lending in Mahnomen's AA</b> |                 |       |         |       |       |                         |       |         |       |         |
|---------------------------------|-----------------|-------|---------|-------|-------|-------------------------|-------|---------|-------|---------|
| Loan Type                       | Number of Loans |       |         |       |       | Dollars of Loans (000s) |       |         |       |         |
|                                 | Inside          |       | Outside |       | Total | Inside                  |       | Outside |       | Total   |
|                                 | #               | %     | #       | %     |       | \$                      | %     | \$      | %     |         |
| Commercial                      | 9               | 45.00 | 11      | 55.00 | 20    | 741                     | 34.64 | 1,398   | 65.36 | \$2,139 |
| Consumer                        | 17              | 85.00 | 3       | 15.00 | 20    | 123                     | 61.81 | 76      | 38.19 | \$199   |
| Totals                          | 26              | 65.00 | 14      | 35.00 | 40    | 864                     | 36.95 | 1,474   | 63.05 | \$2,338 |

Source: OCC Loan Sample

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans reflects excellent penetration among businesses of different sizes and borrowers of different income levels.

### Business Loans

The distribution of loans reflects excellent penetration among businesses of different sizes given the demographics of the AA. Lending to businesses with revenues of \$1 million or less exceeds the demographic comparator. The table on the following page shows the bank's lending performance compared to the demographics of the AA:

| <b>Borrower Distribution of Loans to Businesses in AA</b> |              |              |     |       |
|---|--------------|--------------|-----|-------|
| Business Revenues (or Sales)                              | ≤\$1,000,000 | >\$1,000,000 | NA  | Total |
| % of AA Businesses  | 81%          | 2%           | 17% | 100%  |
| % of Bank Loans in AA by #                                | 100%         | 0%           | 0%  | 100%  |
| % of Bank Loans in AA by \$                               | 100%         | 0%           | 0%  | 100%  |

Source: Loan Sample; 2010 US Census Data

### Consumer Loans

The distribution of loans reflects excellent penetration among borrowers of different income levels given the demographics of the AA. The bank's lending to low- and moderate-income individuals exceeds the demographic comparator. The table below shows the bank's lending performance compared to the demographics of the AA:

| <b>Borrower Distribution of Consumer Loans in AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level                                | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
|  | % 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   | 27.68%             | 30.00%               | 20.24%             | 45.00%               | 19.44%             | 15.00%               | 32.64%             | 10.00%               |

Source: Loan Sample; 2010 US Census Data

### Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the bank's AA.

### Business Loans

The geographic distribution of business loans reflects excellent dispersion throughout the AA. Mahnomen's lending performance in the moderate-income CTs significantly exceeds the demographic comparator. The following table illustrates the geographic distribution of business loans throughout the bank's AA:

| <b>Geographic Distribution of Loans to Businesses in AA</b> |                    |                      |                    |                      |                    |                      |                    |                      |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level                                   | Low                |                      | Moderate           |                      | Middle             |                      | Upper              |                      |
|   | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Commercial  | 0.00%              | 0.00%                | 53.29%             | 75.00%               | 46.71%             | 25.00%               | 0.00%              | 0.00%                |

Source: Loan Sample; 2010 US Census Data

**Consumer Loans**

The geographic distribution of consumer loans reflects excellent dispersion throughout the AA. Mahnomen's lending performance in the moderate-income CTs significantly exceeds the demographic comparator. The following table illustrates the geographic distribution of consumer loans throughout the bank's AA:

| <b>Geographic Distribution of Consumer Loans in AA</b> |                     |                      |                     |                      |                     |                      |                     |                      |
|--|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|----------------------|
| Census 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   | 0.00%               | 0.00%                | 55.28%              | 70.00%               | 44.72%              | 30.00%               | 0.00%               | 0.00%                |

*Source: Loan Sample; 2010 US Census Data*

**Responses to Complaints**

Mahnomen 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), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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