



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**October 16, 2009**

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

The First National Bank of Battle Lake  
Charter Number 8756

101 Lake Avenue South  
Battle Lake, MN 56515-0000

Office of the Comptroller of the Currency

Minneapolis Field Office  
222 S Ninth Street, Suite 800  
Minneapolis, MN 55402

**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 First National Bank (FNB) of Battle Lake has a satisfactory record of helping to meet the credit needs of the assessment area (AA) it serves. Factors contributing to this rating include the following:

- FNB of Battle Lake's quarterly average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans within the AA.
- Lending to residential real estate borrowers and consumers borrowers of different income levels is reasonable.

**SCOPE OF EXAMINATION**

We assessed the FNB of Battle Lake's record of meeting the credit needs of the entire community, consistent with the provisions set forth in the Community Reinvestment Act (CRA). In order to determine the bank's lending performance, we selected primary products based on the dollar volume and number of originations for the period beginning January 1, 2007 and ending June 30, 2009. Residential real estate loans are a primary product based on the dollar volume of originations of 59%. Consumer loans are a primary product based on the number of loan originations of 55%.

The table below illustrates the dollar volume and number of originations for the evaluation period.

<b>Loan Type</b>	<b>% by #</b>	<b>% by \$</b>
Commercial (including real estate)	19	23
Residential Real Estate	18	59
Consumer	55	11
Agricultural (including real estate)	8	7

We selected a random sample of twenty loans from each of the primary products in order to evaluate lending within the AA and borrower distribution. We used 2000 U.S. Census information for comparison purposes.

**DESCRIPTION OF INSTITUTION**

The FNB of Battle Lake is a \$55 million bank headquartered in Battle Lake, MN. The bank is wholly owned by Henning Bancshares, a two-bank holding company, located in Henning, MN. Holding company assets consist solely of the two banks. The affiliate bank is the First National Bank of Henning, an \$85 million bank, whose main office is located in Ottertail, MN.

The community of Battle Lake is located in Otter Tail County in west central Minnesota. The bank has no branches or deposit taking automated teller machines (ATMs). The bank has two non-deposit taking ATMs – one at the main office in Battle Lake and one at Ben's Bait in Battle Lake. No branches were opened or closed during the evaluation period.

The FNB of Battle Lake is a rural bank that offers traditional banking products and services with a focus on small business and real estate lending. As of June 30, 2009, the bank's net loans and leases totaled \$30 million or 55% of the bank's total assets. The loan portfolio was comprised of commercial loans (45%), residential real estate loans (36%), agricultural loans (11%), and consumer loans (8%).

The FNB of Battle Lake was rated Satisfactory at the last CRA examination dated September 15, 2003. There are no legal, financial, or other factors that impede the bank's ability to help meet the credit needs of its AA.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's AA includes eight contiguous census tracts located in Otter Tail County. All geographies in the AA are middle-income. There are no low-, moderate-, or upper-income census tracts. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income tracts.

Projected 2009 geodemographic data for the AA has a total population of 24,388 individuals. The 2007 US Census estimates the community of Battle Lake has a population of 773. The three largest communities in the AA include New York Mills, Parkers Prairie, and Henning having populations of 1,195, 1,031, and 825, respectively. There are several other communities in the AA with populations under 500.

The Bureau of Labor Statistics shows the 2008 average unemployment rate for Otter Tail County is 6.1%. This is higher than Minnesota's average unemployment rate for 2008 of 5.4% and the nationwide rate of 5.8%. Poverty levels in the AA are high with 11.29% of households and 7.25% of families below the poverty level per the 2000 US Census information. The AA has a total of 9,448 households and 6,900 families.

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 public school system and the Good Samaritan Center, a retirement and assisted living center.

Competition in Otter Tail County is moderate, with less in the local community of Battle Lake. The nearest competition in the AA is from the bank in Underwood and FNB of Battle Lake's affiliate in Henning and Ottertail. 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. The FNB of Battle Lake holds 4.72% of the AA market share according to the FDIC Deposit Market Share Report as of June 30, 2008.

We contacted a city official to better understand the credit needs of the AA. Based on this information we determined that agricultural, residential real estate, consumer, and small business loans help support the local economy. The contact stated that FNB of Battle Lake is a very strong participant in the community and they effectively meet the community credit needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The FNB of Battle Lake's quarterly average loan-to-deposit (LTD) ratio is satisfactory based on the bank's financial capacity, lending opportunities available in the AA, and comparison to similarly situated institutions. From September 30, 2003 to June 30, 2009, the bank's quarterly LTD ranged from 51% to 75% and averaged 64%.

When compared to four similarly situated institutions with a presence in the AA, FNB of Battle Lake is ranked fifth of the five. This is primarily a result of the bank's business strategy to originate and sell loans on the secondary market. The bank originated and sold loans totaling \$2.5 million in 2007, \$7.4 million in 2008, and \$9.8 million year-to-date 2009.

The similar banks have asset sizes ranging from \$29 million to \$85 million and are rural in nature. The average ratio for all five banks for the evaluation period is 73%.

Institution	Assets (as of 6/30/09)	Average Quarterly LTD Ratio
The First National Bank of Henning	\$85 million	82%
Farmers State Bank of Underwood	\$42 million	78%
Farmers State Bank of Dent	\$29 million	73%
Farmers and Merchants State Bank of New York Mills	\$50 million	66%
<i>The First National Bank of Battle Lake</i>	<i>\$55 million</i>	<i>64%</i>

### Lending in Assessment Area

The bank meets the standard for satisfactory performance for lending within the AA. A majority of the loans were originated in the bank’s AA. Of the twenty residential real estate loans and twenty consumer loans sampled, the bank originated 80% of those loans by number within the AA. The following table summarizes the bank’s lending activity within the AA during the evaluation period.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside AA		Outside AA		Total	Inside AA		Outside AA		Total (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Residential Real Estate	15	75%	5	25%	20	3,271	85%	588	15%	3,859
Consumer	17	85%	3	15%	20	122	53%	108	47%	230
Totals	32	80%	8	20%	40	3,393	83%	696	17%	4,089

Source: Loan Sample

### Lending to Borrowers of Different Incomes

Lending to borrowers of different incomes meets the standard for satisfactory performance. Residential real estate and consumer lending reasonably meets the demographic information.

#### Residential Real Estate Loans

Residential real estate lending in the AA overall meets the standard for satisfactory performance. The following chart illustrates that the bank exceeds the demographics for low-income families, and is comparable to the demographics for moderate-income families.

Borrower Distribution of Residential Real Estate Loans								
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 Real Estate	20.85	25.00	22.86	20.00	25.87	15.00	30.43	40.00

Source: Loan Sample, 2000 US Census

*Consumer Loans*

Consumer lending in the AA overall meets the standard for satisfactory performance. The following chart illustrates that the bank significantly exceeds the demographics for moderate-income households, but is below the demographics for low-income households. This can be attributed to 11.29% of households being below the poverty level. These borrowers have a higher degree of difficulty in qualifying for loans.

<b>Borrower Distribution of Consumer Loans</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
<b>Loan Type</b>	% 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	24.49	15.00	18.54	35.00	21.48	30.00	35.49	20.00

*Source: Loan Sample, 2000 US Census*

**Geographic Distribution of Loans**

A geographic distribution analysis is not meaningful because the bank’s AA consists only of middle-income geographies.

**Responses to Complaints**

No CRA related complaints have been reported since the last CRA examination.

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

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