



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

September 15, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**512 Douglas Avenue
Henning, MN 56551**

**Comptroller of the Currency
North Dakota & NW Minnesota Field Office
1309 Hwy 29 N
Alexandria, MN 56308**

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.

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Institution's CRA Rating

The First National Bank of Henning is rated Satisfactory. An institution in this group has a satisfactory record of helping to meet the credit needs of the assessment area it serves, consistent with its resources and capabilities. Factors contributing to this rating include the following:

- First National Bank of Henning's lending to moderate-income geographies exceeds the standard for satisfactory performance.
- The bank's overall record of lending to households of different income levels and to businesses of different sizes meets the standard for satisfactory performance.
- The bank's lending within its designated assessment area shows a willingness to meet the credit needs of the area.

Description of Institution

First National Bank (FNB) of Henning is a \$66 million bank located in Henning, MN. The community of Henning is located in Otter Tail County in west central Minnesota. The bank is 100% owned by Henning Bancshares, a two-bank holding company which is also located in Henning, MN. Holding company assets consist primarily of the two banks.

The bank has one branch located in Ottertail, MN, fifteen miles north of Henning, MN. The affiliate bank, First National Bank of Battle Lake, is located in Battle Lake, MN.

The bank's loan portfolio is diverse. As of June 30, 2003, the composition of the portfolio was as follows:

Loan Portfolio Composition	\$ (000)	%
Commercial (including real estate)	16,103	37%
Agricultural (including real estate)	9,353	22%
Residential Real Estate Loans	12,943	30%
Consumer Loans	4,862	11%
Total	43,261	100%

FNB of Henning offers traditional banking products and services. During the assessment period, lending practices focused on small businesses and consumer loans. As of June 30, 2003, net loans represent 65% of total assets and the bank's Tier One Leverage Capital is 10.74% or \$7 million. There are no legal or financial impediments that restrict the bank's ability to meet the credit needs of the community.

FNB of Henning was rated Satisfactory at the last CRA examination dated April 13, 1998.

Description of First National Bank of Henning's Assessment Area

FNB of Henning's assessment area (AA) includes five contiguous block numbering areas (BNAs) all located in Otter Tail County. The AA includes two moderate-income BNAs and three middle-income BNAs. There are no low-income or upper-income BNAs in the AA. The AA meets the requirements of the regulation. The AA does not exclude low- or moderate-income geographies. Cities in the AA include, but are not limited to Henning, New York Mills, Parkers Prairie, Ottertail, Clitherall, Vining, and Richville. These communities are small with the largest being New York Mills and Parkers Prairie with populations of 1,162 and 1,013 respectively. All other cities in the AA have populations of less than 800 people. Primary competition includes banks in the surrounding communities of Perham, Parkers Prairie, and Wadena. Farm Credit Services has provided intense competition for agricultural loans and State Bank of Fargo is heavily involved in dealer paper for car loans in the Perham community.

The bank's AA is dependent on small business and agriculture. Local employers include nursing care facilities, the public school system, and several small manufacturing companies. Employment is also available in the surrounding communities of Alexandria, Wadena, New York Mills, and Perham.

Information from the Bureau of Labor Statistics lists the 2002 unemployment rate for Otter Tail County at 5.1%. The average unemployment rate for Minnesota is 4.4% and 5.8% nationwide.

During our evaluation, we contacted a community member to better understand the credit needs of the AA. Based on this information we determined that small business loans help support the local economy. The contact stated that FNB of Henning effectively meets the community credit needs.

The demographics of the AA are illustrated on the next page. The information is based on 1990 census data unless otherwise noted. This is the most recent information available during our evaluation.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	3,977
Number of Households	5,340
Number of Low-Income Families	1,082
% of Low-Income Families	27%
Number of Moderate-Income Families	946
% of Moderate-Income Families	24%
Number of Middle-Income Families	910
% of Middle-Income Families	23%
Number of Upper-Income Families	1,039
% of Upper-Income Families	26%
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	40%
% Middle-Income Census Tracts/BNA	60%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,933
2002 HUD-Adjusted MFI	\$47,100
<i>Economic Indicators</i>	
Unemployment Rate	3%
2002 Median Housing Value	\$40,876
% of Households Below Poverty Level	20%

Loan Sampling

The bank's primary loan types were determined by reviewing all loans originated from April 13, 1998 through December 31, 2002.

For purposes of this evaluation, the primary loan types are small business loans and consumer loans. Business loans account for 35% of the dollar volume of loans originated and consumer loans represent 63% of the number of loans originated.

The table below shows a breakdown of all originations in our evaluation period.

Loan Products	#	%	\$ (000)	%
Agricultural Loans	436	13%	16,150	22%
Business Loans	409	13%	25,065	35%
Consumer Loans	2,050	63%	11,288	16%
Residential Real Estate Loans	350	11%	19,767	27%
Total	3,245	100%	72,270	100%

To conduct our analysis, we performed statistically valid sampling techniques selecting a sample

of twenty business loans and twenty consumer loans. After initial sampling to determine the bank's lending within the AA, additional files were selected as needed so all loans in the sample were made in the AA.

Conclusions about Performance Criteria

Loan-to-Deposit Ratio

FNB of Henning's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance given the size and financial condition of the bank, assessment area needs, and local economic conditions. Since the last CRA evaluation, the bank's quarterly average LTD ratio is 69%.

When compared to five similarly situated institutions in or around the AA, FNB of Henning is ranked fourth out of six banks. These banks have asset sizes ranging from \$49 to 95 million and are rural in nature. The average LTD ratio of all six banks for the evaluation period is 71%.

Institution	Assets (as of 06/30/03)	Average LTD Ratio
Midwest Bank, NA	\$62 million	80%
Security State Bank of Fergus Falls	\$70 million	77%
Wadena State Bank	\$95 million	73%
<i>First National Bank of Henning</i>	<i>\$66 million</i>	<i>69%</i>
Farmers and Merchants Bank of New York Mills	\$49 million	68%
First National Bank of Wadena	\$49 million	60%

Lending in Assessment Area

The FNB of Henning meets the standard for satisfactory performance for lending within the AA. A majority of the loans are originated in the AA. The following table illustrates lending activity within the AA during the evaluation period.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Business Loan Sample	17	85%	972	55%	3	15%	790	45%
Consumer Loan Sample	16	80%	60	79%	4	20%	16	21%
Total Reviewed	33	82.5%	1,032	56%	7	17.5%	806	44%

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

Lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance. Consumer loans exceed the demographics of the AA and small businesses meet the demographic information.

Consumer Loans

The borrower distribution of consumer loans to low- and moderate-income households exceeds the demographics of the AA. The following chart illustrates that 60% of the number and 39% of the dollar volume of loans sampled are to low-income households and 20% of the number and 26% of the dollar volume of loans sampled are to moderate-income households. The demographic information indicates that 32% of the households in the AA are low-income and 18% are moderate-income.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	32%		18%		20%		30%	
	% of Number	% of Amount						
Loans	60%	39%	20%	26%	5%	3%	15%	32%

Business Loans

Lending to small businesses meets the demographics of the AA. Of the loans included in our sample, 85% of the number and 71% of the dollar volume are to businesses with revenues of less than \$1 million. The demographic information indicates that 93% of the businesses in the AA have revenues in this category.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93%	7%
% of Bank Loans in AA #	85%	15%
% of Bank Loans in AA \$	71%	29%

Geographic Distribution of Loans

FNB of Henning’s geographic distribution of loans throughout the AA exceeds the standard for satisfactory performance. A substantial majority of the loans sampled are located in the moderate-income BNAs of the AA. A contributing factor is that the bank is located in one of the moderate-income BNAs.

Consumer Loans

Consumer loans made to low- and moderate-income households exceed the demographics for the

distribution of the AA. As illustrated in the table below, 75% of the number and 82% of the dollar volume of loans are made to moderate-income households. This compares favorably to the demographic information indicating that 48% of the AA households are located in the moderate-income BNAs.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		48%		52%		0%	
	% of Number	% of Amount						
Loans	N/A	N/A	75%	82%	25%	18%	N/A	N/A

Business Loans

Lending to small businesses within the AA exceeds the demographic information. Out the loans sampled, 65% of the number and 73% of the dollar volume of loans are made to small businesses located in the two moderate-income BNAs in the AA. The demographic information indicates that 45% of small businesses are located in this area.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		45%		55%		0%	
	% of Number	% of Amount						
Loans	N/A	N/A	65%	73%	35%	27%	N/A	N/A

Responses to Complaints

FNB of Henning has not received any complaints about the performance in helping to meet the credit needs of the AA during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

An analysis of public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. During our evaluation, we found no evidence of illegal discrimination or other illegal credit practices.