



## **PUBLIC DISCLOSURE**

November 2, 1998

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Menahga  
Charter: 11740**

**21 Main St. NE  
Menahga, Minnesota 56464**

**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 Menahga** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of November 2, 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 Menahga's rating is based on the following factors:

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

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Menahga (FNB) is a \$36 million bank located in Wadena County in north central Minnesota. FNB's main office is located in downtown Menahga. The bank has no branches. The bank has one automated teller machine located in the main office's walk-up area. FNB is owned by Menahga Bancshares, Inc., a one-bank holding company located in Menahga, Minnesota.

The bank offers traditional loan and deposit products and services. Primary product lines include small business and agriculture loans, residential real estate loans, and consumer loans. Using September 1998 information, loans totaled \$19.6 million or 54% of total assets. The loan portfolio consists of commercial (38%), agriculture (27%), residential real estate (23%), and consumer loans (12%).

At the last CRA examination dated December 21, 1995, FNB was rated "Outstanding Record of Meeting Community Credit Needs." 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 MENAHGA'S ASSESSMENT AREA**

FNB's assessment area (AA) includes fourteen contiguous Block Numbering Areas (BNAs). These are in portions of Wadena, Hubbard, Cass, Becker, and Otter Tail Counties including the cities of Menahga, Wadena, Verndale, Park Rapids, New York Mills, Perham, Pine River, and Backus. The AA complies with the requirements of the regulation and does not exclude low- and moderate-income geographies. According to the 1990 census, the AA contained 11,606 families with a median family income of \$23,147. The median family income represents 57% of the outstate non-metro family income of \$40,500. The total family population consists of low income of 27%, moderate income of 23%, middle income of 24%, and upper income of 26%.

The AA consists of eight moderate-income BNAs and six middle-income BNAs. Much of the area is rural and sparsely populated. Total AA population consists of 6,529 families and a total of 42,665 persons. Of this, 21% are below the poverty level. The median value of housing is \$42,932. About 56% of housing units are owner occupied. Three percent of the population are unemployed. Current economic conditions are stable with limited local economic expansion. Agricultural conditions are mixed, with

some concern for the low commodity prices, although milk prices are currently strong.

The local Menahga economy is reliant on agriculture, logging/lumber operations, and small businesses. The major employers, outside small farms and small businesses, include the public school system and local health care facilities. Some community members commute to Park Rapids or Wadena for employment. Those communities are home to several small manufacturing and lumber-related businesses. Also, much of the AA is located in or close to tourism destinations. Employment from logging and tourism is seasonal.

There are eight other commercial banks located in six cities within the AA which contribute to meeting the financial needs within their respective communities. Primary credit needs include agricultural, residential housing, small business, and consumer loans. Determination of this need was confirmed through two community contacts. The city administrator of Menahga and the editor of the local newspaper were contacted to determine perception of the needs and the bank's success in meeting these needs. Both individuals felt the needs are sufficiently met and the bank has been active in meeting community needs.

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

### *Loan-to-Deposit Ratio*

FNB's loan-to-deposit (LTD) ratio is reasonable. The quarterly average ratio since the last CRA examination is 61%. As of September 30, 1998, the LTD ratio was 63% which ranks fifth of the nine commercial banks in the AA. The range of the LTD ratio is 48% to 78% for those banks. FNB has a small amount of loan participations sold and purchased of approximately equal amounts.

### *Lending in the Assessment Area*

A majority of the loans FNB originates are to residents and businesses within the AA. The bank codes all loans to determine where the applicants are located. The following table illustrates the bank's lending activities within the AA. The information is from bank reports made available during our examination. We sampled the reports and found them to be accurate.

|                              | <b>All Loans Outstanding<br/>as of 7/19/98</b> | <b>Loans Originated from<br/>1/1/98 to 11/4/98</b> |
|------------------------------|--|--|
| Total number of Loans        | 688  | 1,191  |
| Number in AA                 | 682  | 1,170  |
| Percentage in AA             | 99%  | 98%  |
| Total Dollar Amount of Loans | \$19,105,000                                   | \$12,040,000                                       |
| Dollar Amount in AA          | \$18,849,000                                   | \$11,689,000                                       |
| Percentage in AA             | 99%  | 97%  |

*Lending to Borrowers of Different Incomes and to Businesses of Different Sizes*  
FNB has a good record of lending to individuals of different income levels and businesses of different sizes. The bank's primary product lines include consumer, agricultural, and commercial loans. The following tables represent the samples for each product type and indicate the distribution for each product.

**Consumer Loans:**

We reviewed the income distribution of 51 consumer borrowers with loan originations between January 1, 1998 and November 10, 1998. Total loan originations to these borrowers was \$2.4MM. Our consumer sample represented 10% of the number of consumer loans and 13% of the dollar volume of consumer loan originations during this period.

**Consumer Loans**

| <b>Income Levels</b> | <b>% Families<br/>in the AA</b> | <b>% Number of<br/>Loans Sampled</b> | <b>%Dollar Volume<br/>Loans Sampled</b> |
|----------------------|---------------------------------|--------------------------------------|---|
| Low-Income*          | 27%                             | 49%                                  | 35%                                     |
| Moderate-Income*     | 23%                             | 30%                                  | 28%                                     |
| Middle-Income*       | 24%                             | 10%                                  | 20%                                     |
| Upper-Income*        | 26%                             | 10%                                  | 20%                                     |

\* Based on 1998 Outstate Median Family Income of \$40,500

**Agricultural Loans:**

We reviewed the revenue distribution of 28 agricultural borrowers with loan originations between January 1, 1998 and November 10, 1998. Total loan originations to these borrowers was \$2.8MM. Our agricultural sample represented 10% of the number and 13% of the dollar volume of agricultural loans originated during this period.

**Agriculture Loans**

| <b>Revenue Size</b>   | <b>% by Number</b> | <b>% by Dollar Volume</b> |
|-----------------------|--------------------|---------------------------|
| < \$50,000            | 36%                | 37%                       |
| \$50,000 - \$100,000  | 32%                | 17%                       |
| \$100,000 - \$250,000 | 32%                | 46%                       |
| > \$250,000           | 0%                 | 0%                        |

**Commercial Loans:**

We reviewed the revenue distribution of 26 commercial borrowers with loan originations between January 1, 1998 and November 10, 1998. Total loan originations to these borrowers was \$4.6MM. Our commercial sample represented 11% of the number and 12% of the dollar volume of commercial loan originations during this period.

**Commercial Loans**

| <b>Annual Sales</b>   | <b>% by Number</b> | <b>% by Dollar Volume</b> |
|-----------------------|--------------------|---------------------------|
| < \$100,000           | 39%                | 29%                       |
| \$100,000-\$250,000   | 23%                | 27%                       |
| \$250,000-\$500,000   | 8%                 | 3%                        |
| \$500,000-\$1,000,000 | 15%                | 8%                        |
| >\$1,000,000          | 15%                | 33%                       |

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans is reasonable. We sampled 109 commercial, agricultural, and consumer loans with a dollar volume of \$1,194M made from January 1, 1998 to November 10, 1998. Lending activity is heaviest near Menahga and thins out at further distances from the bank. We found that the majority of the loans were concentrated in 2 moderate income BNA's: 9801 - including the City of Menahga, and 9501 - to the west and north of Menahga. Those loans accounted for 70% of the number and 67% of the dollar volume of the sample. The table below summarizes the bank's lending to moderate- and middle-income BNA's.

|                         | Number of Loan Originations | Dollar Amount of Loan Originations |
|-------------------------|-----------------------------|------------------------------------|
| 8 Moderate-Income BNA's | 87%                         | 83%                                |
| 6 Middle-Income BNA's   | 13%                         | 18%                                |

We noted loan activity in all BNAs except for BNA 9803, which includes the city of Wadena. We also noted limited activity (less than 5 loans) in four other moderate-income BNAs and all six middle-income BNAs, three of which are on the fringes of the bank's AA. Management indicated that they receive few loan applications from those areas because of sparse populations and competition from other banks. We reviewed all denials for 1998 and could not find any for those areas. Bank management indicated that they will be reviewing the assessment area and may exclude some BNAs in future revisions.

## **RECORD OF RESPONSE TO COMPLAINTS**

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

## **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.