

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 the 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 CRA performance of Dacotah Bank, Webster, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of November 4, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

There are several factors that support the bank's satisfactory rating. First, the bank maintains a reasonable loan-to-deposit ratio. Second, it has made a significant majority of its loans within its assessment area. Third, it lends to borrowers of many different income levels and to small farms. Finally, its loans are reasonably distributed among geographies of different income levels in its assessment area.

The following table indicates the performance level of Dacotah Bank, Webster, South Dakota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	DACOTAH BANK WEBSTER, SOUTH DAKOTA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

DESCRIPTION OF INSTITUTION

The bank is able to meet the credit needs of the communities in its assessment area effectively. The bank received a satisfactory rating at its last performance evaluation. In addition to the main banking office in Webster, the bank operates a full-service branch in Roslyn, South Dakota. The bank has installed a 24-hour, full-service automated teller machine at one of the gas stations in Webster since the last evaluation.

The bank's size supports its ability to meet the credit needs in its assessment area. According to the September 30, 1996, Report of Condition, ("ROC"), the bank's total assets were approximately \$45.1 million. The bank's total assets have increased \$.7 million since March 31, 1995. Loan volume has been stable, with a decrease of \$2.5 million since March 31, 1995. The major component of the bank's loan portfolio is agricultural loans, which reflects the agricultural nature of the local economy. According to the September 30, 1996, ROC, agricultural-related lending makes up 57% of the portfolio. The remaining loan mix is 21% commercial, 14% consumer real estate, and 8% consumer.

The bank's many loan products serve the wide variety of local residents' credit needs. The bank offers conventional loan products for agricultural, commercial, consumer, and consumer real estate loans. In addition, it provides loans guaranteed by a number of state and federal agencies, including the Small Business Administration and the Farm Service Agency. The bank is just beginning to offer consumer real estate loans that will be sold on the secondary market. The bank also offers government-guaranteed student loans.

DESCRIPTION OF DACOTAH BANK'S ASSESSMENT AREA

The bank defines its assessment area as Day County, South Dakota. Located in east-central South Dakota, the county is made up of three block numbering areas ("BNA"), 9526, 9527, and 9528. The population of the assessment area according to 1990 census data is 6,978. Webster, located in BNA 9528, is the largest community in the county; it has a population of 2,017. Roslyn, the site of the branch office, is located in BNA 9527; it has a population of 251. The assessment area includes a small portion of the Lake Traverse Indian Reservation.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median income. An individual with an income that is 120% or more of the statewide nonmetropolitan median income is considered an upper-income person. BNAs are classified using similar categories based on the level of the median family income in the geography.

BNA 9526 is classified as moderate income, while BNAs 9527 and 9528 are classified as middle income. According to 1990 census data, the assessment area's median family income is \$22,906, while the median family income for nonmetropolitan areas in South Dakota is \$25,547. Of the 2,754 households in the assessment area, approximately 26% are low income, 19% are moderate income, 19% are middle income, and 36% are upper income. Approximately 21% of the assessment area's households and 16% of its families have incomes below the poverty level.

Agriculture is the dominant industry in the area. The average farm size is about 600 acres. Small grains such as corn, soybeans, and wheat are the major

crops. While flooding has been a problem in the past few years, this year's growing season has been very good. According to a community contact, this is the first time in the last six years that the county has not been declared a disaster area. Although the number of livestock operations has decreased, many farmers have diversified their operations to remain profitable. The outlook for agriculture remains stable.

While agriculture is the primary industry in Day County, there are also several large commercial enterprises. Dakotah, Inc., is a home-decorating fabrics manufacturer and retailer with approximately 400 employees. Mereen Johnson is a foundry operation with approximately 75 employees. In addition, Lake Area Hospital and the Day County Medical Center have recently completed a \$3 million expansion project. Webster's proximity to Aberdeen is also seen as a positive influence on the prospects for the local economy.

According to a community contact, the majority of the members of the Sisseton-Wahpeton Sioux Tribe ("Tribe") live in the Sisseton area, which is outside the bank's assessment area. The majority of tribal members bank in Sisseton at the bank's affiliated institution. The Tribe also owns a credit union that provides credit products for many tribal members.

Examiners made community contacts with a government official familiar with tribal credit needs and a government official familiar with agricultural credit needs as part of this evaluation. Information obtained from these individuals was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs of its assessment area. The following criteria were reviewed in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 56.4%. According to the September 30, 1996, ROC, the bank's loan-to-deposit ratio was 51.8%. The following chart, based on quarterly ROC data, shows the relative stability of the bank's loan and deposit volume. The decrease in the September 1996 ratio reflects significant payments received in the bank's loan portfolio.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO- DEPOSIT RATIO
September 30, 1996	\$20,250	\$39,098	51.8%
June 30, 1996	\$21,441	\$37,479	57.2%
March 31, 1996	\$20,946	\$37,981	55.1%
December 31, 1995	\$22,062	\$39,258	56.2%
September 30, 1995	\$22,574	\$38,779	58.2%
June 30, 1995	\$22,478	\$38,778	57.9%
March 31, 1995	\$22,833	\$39,020	58.5%

According to its June 30, 1996, Uniform Bank Performance Report, the bank's 57.2% loan-to-deposit ratio is below its peer group average of 66.6%. The bank's ratio places it in the 26th percentile compared with its peers. The following chart shows the average loan-to-deposit ratio for the bank's competitor.

BANK	TOTAL ASSETS September 30, 1996 (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
Subject Bank	\$45,093	56.4%
Competitor A	\$22,811	55.7%

As shown above, the bank's quarterly average net loan-to-deposit ratio compares favorably with the ratio of its main local competitor. Webster is less than 50 miles from Aberdeen, South Dakota, a large regional trade center with many financial institutions. The bank has felt the effects of this competitive market on its loan volume. Information from community contacts did not identify any unmet credit needs. Accordingly, based on the level of lending by the bank and the information from community contacts, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of a statistical sample of the loans originated by the bank in the six months preceding the evaluation reveals that a significant majority of its loans were made inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and loan amount in each major loan category.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	79	79
Agricultural	97	100

As discussed previously, a majority of the bank's loans are agricultural. As shown in the chart, the bank made 97% of its agricultural loans to assessment area residents. The percentage of consumer loans is lower because of borrowers who reside close to the branch office in Roslyn, but who live just outside the assessment area boundary. Based on the high concentration of lending within the assessment area, the bank's lending in the assessment area exceeds the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different income levels and to businesses of different sizes exceeds the standards for satisfactory performance. The following table shows the percentage of consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low- Income Borrowers	Moderate- Income Borrowers	Middle- Income Borrowers	Upper- Income Borrowers
<u>Consumer</u>				
Total Number of Loans	43%	25%	18%	14%
Total Amount of Loans	28%	20%	23%	29%

*Income level based on South Dakota's 1996 median family income of \$32,800.

As shown above, the bank made more than two-thirds of its consumer loans to low- and moderate-income borrowers. As discussed earlier, approximately 45% of the area's households are classified as low and moderate income, 19% are middle income, and 36% are classified as upper income. Therefore, the bank's level of lending to low- and moderate-income borrowers significantly exceeds the percentage of such individuals living in the assessment area.

Almost all of the bank's agricultural borrowers are small farms. Almost all (99%) of the loans in the sample were to borrowers with gross annual revenues

of \$1 million or less. In addition, the data reveal that 99% of the agricultural loans in the sample were for amounts less than \$250,000. The bank had one loan in the sample that was more than \$250,000. The size and volume of the loans appear reasonable given that agricultural loans represent the majority of the bank's loan portfolio. The bank's emphasis on lending to small farms and its high percentage of consumer loans to low- and moderate-income borrowers demonstrate a strong commitment to meeting the credit needs of all segments of the community and exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans between geographies of different income levels in its assessment area is reasonable. As previously discussed, the bank's assessment area includes one moderate-income and two middle-income BNAs. Approximately 34% of the area's population resides in the moderate-income BNA; the remaining 66% is almost evenly divided between the middle-income BNAs. The following chart illustrates the bank's lending in the different geographies.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL		
LOAN TYPE	MODERATE INCOME	MIDDLE INCOME
CONSUMER		
Total Number of Loans	23%	77%
Total Amount of Loans	14%	86%
AGRICULTURAL		
Total Number of Loans	47%	53%
Total Amount of Loans	26%	74%

The bank's assessment area does not include any low- or upper-income BNAs. The distribution of the bank's agricultural loans exceeds the representation of the residents in the moderate-income BNA classification. While the percentage of consumer loans in the moderate-income BNA may seem low given the population, there are a couple of factors that influence this number. Of the low-income households, 31% are classified below the poverty level in the moderate-income BNA while only 17% of the households in the middle-income BNAs fall into this category. Consumers with incomes below the poverty level are less likely to borrow money from financial institutions. Another factor is the number of financial institutions serving the moderate-income BNA, including the tribal credit union, which may offer more competitive or attractive consumer loan products. Given the number of low-income households in the moderate-income BNA, especially the number below the poverty level, it appears that the bank's consumer lending between different geographies is reasonable. The bank's lending to borrowers in the different geographies in the assessment area meets the standards for satisfactory performance.

GENERAL

The evaluation revealed a violation of a technical aspect of the Equal Credit Opportunity Act. Bank management promised to correct the violation promptly.

In addition, the bank has received no CRA-related complaints since the previous evaluation.

PUBLIC DISCLOSURE

November 4, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dacotah Bank
Name of Depository Institution

094615600000
Identification Number of Institution

Webster, South Dakota
Address of Institution

Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55401-2171

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.