

PUBLIC DISCLOSURE

October 15, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dacotah Bank
Name of Depository Institution

094605300000
Identification Number of Institution

Faulkton, 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.

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, Faulkton, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of October 15, 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."

The CRA evaluation revealed numerous factors that support the bank's satisfactory CRA rating. First, although the bank's net loan-to-deposit ratio is low, it appears to reflect the assessment area's demographics. Second, the bank has originated a majority of its loans to assessment area residents and farms. Third, the bank actively extends loans to individuals with low and moderate incomes and to small farms.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	DACOTAH BANK FAULKTON, 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	The bank has not received any CRA complaints since the last evaluation.		

DESCRIPTION OF INSTITUTION

For a variety of reasons, the bank is able to fulfill area credit needs effectively. The prior CRA evaluation, dated September 12, 1995, revealed that the bank's performance in meeting community credit needs was satisfactory. The bank operates one full-service office in Faulkton, South Dakota. Although the bank does not operate an automated teller machine ("ATM"), it does issue ATM and debit cards. The bank's main office, centrally located within the assessment area, is in a middle-income block numbering area ("BNA").

The bank's size does not restrict its ability to meet the credit needs of members of its assessment area. According to its June 30, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$22 million. Since the last evaluation, the bank's loan portfolio's size has remained relatively constant. The bank's quarterly net loan and deposit growth rates are set forth in the table below.

QUARTERLY GROWTH RATES		
Period	Loans	Deposits
October 1, 1995 to December 31, 1995	7%	2%
January 1, 1996 to March 30, 1996	(7%)	4%
April 1, 1996 to June 30, 1996	12%	(1%)

The June 30, 1996, ROC indicates that the bank is primarily an agricultural lender; approximately 78% of its portfolio is agriculture and agricultural real estate loans. The balance of the bank's loan portfolio is composed of 11% commercial, 7% consumer, and 4% consumer real estate loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by members of the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of residents and businesses within its assessment area. It extends the following types of loans: consumer, residential real estate, mobile home, commercial, and agricultural. In addition to these conventional loan products, the bank is willing to extend Small Business Administration, Rural Housing Service (formerly Farmers Home Administration), Federal Housing Administration, Department of Veterans Affairs, and South Dakota Department of Agriculture Junior Livestock loans. It also originates government-insured student loans. Each year the bank originates low-interest loans for Faulkton Dollars, which borrowers spend at local businesses during the holiday season. The bank also occasionally refers applicants for residential real estate loans to a third-party creditor.

DESCRIPTION OF DACOTAH BANK'S ASSESSMENT AREA

The bank has defined its assessment area as Faulk County, South Dakota. The assessment area is in central South Dakota, approximately 60 miles southwest of Aberdeen, South Dakota. Faulk County is sparsely populated; it has only 2,744 residents. Faulkton, the county seat, has a population of 809, making it the largest town in the county. Other towns located in the bank's assessment area include Onaka, Norbeck, Wecota, Cresbard, Chelsea, Seneca, Miranda, Orient, Zell, and Rockham. The entire assessment area is defined as BNA 9811. This BNA is classified as a middle-income area; there are no low- or moderate-income BNAs in the assessment area.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not located in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to the CRA's definitions, 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 middle-income individuals as persons with incomes of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the statewide nonmetropolitan median family income are classified as upper-income persons. According to the 1995 updated data, the statewide nonmetropolitan median family income in South Dakota is \$30,100; this figure is used to classify income levels of borrowers. BNAs are classified using similar categories based on the level of the median family income in the geography compared with the 1990 statewide nonmetropolitan median family income of \$25,547.

According to the 1990 U.S. Census data, the assessment area's median household income is \$18,709, while its median family income is \$21,526. There are 1,065 households and 763 families within the assessment area. Approximately 21.7% of the households and 19.5% of the families residing within the assessment area have incomes below the poverty level. The percentage of such households and families in the assessment area is generally higher than the statewide percentages of 15.5% and 11.6%, respectively. The distribution of household and family income for the assessment area is summarized in the table below.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Household Income	27%	17%	22%	33%
Families Compared to Median Family Income	25%	21%	24%	30%

The local economy is stable. Agriculture is the primary local industry, employing approximately 40% of the county's residents. Local ranchers and farmers raise cattle and grow grain crops, such as wheat, corn, oats, and barley. Other significant crops include soybeans and sunflowers. Livestock prices have not been good lately, but crops have been very strong. Many local ranch and farm owners transfer ownership of real estate to relatives through gifting programs, which do not require financing by local financial institutions. Given agriculture's local dominance, the strength of all other economic sectors fluctuates with agriculture prices.

Faulkton has two grain elevators, two hotels, two cafes, and one supper club. It also has a pharmacy and grocery and hardware stores. Based on 1993 County Business Patterns data, Faulk County has only one commercial establishment with 50 to 499 employees; all other business establishments have fewer than 50 employees. Local residents can obtain medical services at Faulkton's hospital and medical clinic. The local nursing home serves area elderly persons, who comprise approximately 21% of the county's population. Nonetheless, many area residents travel to Aberdeen for retail and medical services.

Although the bank is the only financial institution with a main office located in Faulk County, the residents and businesses of the assessment area have access to several other financial institutions. Only one other financial institution operates a branch office within the bank's assessment area; this financial institution is the bank's affiliate, located in Aberdeen, South Dakota, which operates a branch office in Cresbard, South Dakota. Several other financial institutions have main offices in neighboring counties. A significant local provider of agricultural credit is Farm Credit Services.

Examiners contacted local government officials and a private individual who resides in Faulk County as part of the bank's CRA evaluation. Information from these contacts was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

NET LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio meets the standards for satisfactory performance. The bank's net loan-to-deposit ratio has fluctuated between 40% and 46% since the last evaluation. It does not compare favorably with its peer group, based on the June 30, 1996, Uniform Bank Performance Report data. These data indicate that the bank's June 30, 1996, net loan-to-deposit ratio of 46% ranks the bank in the 18th percentile as compared with its peers. The quarterly average of the bank's net loan-to-deposit ratio, based on the data for the four calendar quarters since September 30, 1995, is 43%. The following chart summarizes the bank's loan-to-deposit ratio and its components since September 30, 1995.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO-DEPOSIT RATIO
September 30, 1995	\$7,557	\$17,666	43%
December 31, 1995	\$8,086	\$18,059	45%
March 31, 1996	\$7,526	\$18,739	40%
June 30, 1996	\$8,457	\$18,554	46%

The bank has sold government-insured student loans since the last evaluation. These loans are not reflected in the net loan-to-deposit ratios set forth above; however, the ratios would be slightly higher if adjusted for the bank's sale of government-insured student loans.

The bank's average net loan-to-deposit ratio is lower than the quarterly average ratio of its local competitors, none of which are located in the assessment area. Based on quarterly ROC data, the following table identifies the asset size and quarterly average net loan-to-deposit ratios for the bank and its competitors.

BANK	TOTAL ASSETS (June 30, 1996) (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
Dacotah Bank Faulkton, South Dakota	\$ 21,502	43%
Competitor A	\$160,527	72%
Competitor B	\$ 74,889	68%
Competitor C	\$ 48,433	72%

According to bank management, local loan demand is significantly influenced by population demographics. First, Faulk County's population of persons age 65 and older represents 21% of the assessment area's residents. These persons have few credit needs. Second, approximately 18% to 26% of Faulk County's residents reside in Huttarien colonies. Individual members of the colonies do not borrow; if credit financing is required, the community borrows money as a colony. In general, the Huttarien colonies' farming activities are not credit-financed. When such financing is required, however, the colonies usually require large loans that local banks are unable to fund individually. Third, retiring ranchers and farmers transfer agricultural real estate to relatives through gifting programs; consequently, the loan demand for such transactions is limited. These observations were confirmed by community contacts familiar with agricultural credit needs and demographics in the community.

Another significant factor restricting loan growth is the bank's history in the community. According to bank management, the bank's previous owners were very conservative lenders. As a result, many community residents developed successful relationships with banks in neighboring counties. These residents are loyal customers and continue to obtain deposit and credit services from banks in neighboring

counties despite the bank's change of ownership. According to bank management, the bank serves the deposit and credit needs of most new community residents. Community contacts indicated that the bank offers credit and deposit products appropriate for the needs of the community and did not identify any unmet credit needs.

The bank's low loan-to-deposit ratio appears to be a reflection of the community's loan demand and the bank's historical relationship with area residents. Consequently, despite the low loan-to-deposit ratio, the bank's lending activity meets this category's standards for a satisfactory rating.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its assessment area exceeds the standards for satisfactory performance. The bank has extended a substantial majority of its loans to residents of its assessment area since the last evaluation. The table below shows the percentage of consumer and agricultural loans by total number and dollar amount originated within the assessment area.

LOANS IN THE ASSESSMENT AREA		
LOAN TYPE	TOTAL NUMBER OF LOANS	TOTAL DOLLAR AMOUNT OF LOANS
Consumer	96%	98%
Agriculture	90%	89%

The data is based on a statistical sampling of consumer and agricultural loans originated during the six months preceding the evaluation. As the data indicate, the bank's lending activity is heavily concentrated within the assessment area. For this reason, the bank's lending activity in the assessment area exceeds this category's 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 incomes and to businesses of different sizes meets the standards for satisfactory performance. As previously discussed, the CRA classifies income levels into four categories: low, moderate, middle, and upper. The median household and family incomes for the bank's assessment area are \$18,709 and \$21,526, respectively. Both figures are below the statewide nonmetropolitan household and family incomes for the state of South Dakota.

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 LEVELS*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
CONSUMER				
Total Number of Loans	39%	36%	16%	9%
Total Amount of Loans	28%	38%	27%	7%
*Income level is determined based on South Dakota's 1995 nonmetropolitan median family income of \$30,100.				

The consumer loan data, based on a statistical sampling of loans originated during the six months preceding the evaluation, reveal that the bank extends a large percentage of consumer loans to low- and moderate-income borrowers. Consumer loans to these borrowers represented 75% of the total number of loans and 66% of the total amount of loans in the sample. Low- and moderate-income households and families comprise 44% and 46% of the assessment area population, respectively. More specifically, low-income households and families represent 27% and 25% of the local population, respectively; moderate-income households and families represent the balance. Thus, the bank's consumer lending to low- and moderate-income borrowers exceeds the representation of such persons in the assessment area. This concentration of the number of consumer loans to members of both income categories is particularly commendable considering the demographic data.

The sample of agricultural loans reviewed during the evaluation showed that the bank originates loans to small farms, defined as entities with gross annual revenues of \$1 million or less. In fact, all of the sampled loans were to small farms. According to the data, the bank originates loans of varying amounts to small farms. Almost all of the sampled small farm loans had loan amounts of \$100,000 or less. More specifically, 84% of the total number of agricultural loans, representing 36% of the total amount of loans, to borrowers in the assessment area had loan amounts of \$100,000 or less. Of the remaining 16% of the sampled agricultural loans, 9% had amounts greater than \$100,000 but less than or equal to \$250,000.

The bank's small farm loan performance reflects the concentration of such entities in the assessment area. The bank's lending to low- and moderate-income consumers is very strong, but represents only 7% of the bank's loan portfolio. Consequently, based on the income distribution of the bank's borrowers and the demographics of the assessment area, the bank's level of lending to low- and moderate-income borrowers and to small businesses meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans in the assessment area meets the standards for satisfactory performance. As previously discussed, the bank's assessment area has one middle-income BNA; it does not have any low-, moderate-, or upper-income BNAs. As a result, the bank's lending activity within the assessment area was only in the middle-income BNA. Consequently, no further analysis was conducted.

GENERAL

The evaluation did not reveal any violations of the substantive or technical provisions of the fair lending and fair housing laws and regulations. In addition, the bank has not received any CRA complaints since the last evaluation.