

PUBLIC DISCLOSURE

July 23, 2001
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dacotah Bank
Name of Depository Institution

885458
Identification Number of Institution

Rolla, North Dakota
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

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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*Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a “**Glossary of Common CRA Terms**” is attached as Appendix A at the end of this performance evaluation.*

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

Dacotah Bank's satisfactory rating is based on several factors.

- First, the bank lends to borrowers of different income levels and to businesses of different sizes. The bank extended a majority of its consumer loans to low- and moderate-income borrowers. Similarly, the bank extended the majority of its small business and small farm loans to entities that meet CRA's definition of small businesses and small farms. A majority of those loans was less than \$100,000.
- Second, the bank originated a substantial majority of its loans within the assessment area.
- Third, the geographic distribution of the bank's loans is reasonable.

DESCRIPTION OF INSTITUTION

Offices. The bank is able to meet the credit needs of the communities in its assessment area effectively. The bank became a member bank of the Federal Reserve System (“FRS”) on September 1, 2000. It received a satisfactory CRA rating at its previous evaluation by the Federal Deposit Insurance Corporation dated June 23, 1997. Effective April 30, 2001, the First National Bank, Bowbells, North Dakota, was merged with and into Dacotah Bank, Rolla, North Dakota. According to the September 17, 1998, evaluation, The First National Bank in Bowbells received a satisfactory CRA rating by the Office of the Comptroller of the Currency. The bank currently operates full-service offices in Rolla, Bowbells, and Minot, North Dakota, and limited-service offices in Flaxton and Belcourt, North Dakota. The bank operates normal banking business hours. The main office in Rolla and the branch office in Minot operate 24-hour automated teller machines (“ATMs”). The bank also offers Internet e-banking and is in the process of providing 24-hour telephone banking.

Loan portfolio. According to the June 30, 2001, Report of Condition (“ROC”), the bank’s total assets were \$98.1 million, total deposits equaled \$85.8 million, and the net loan portfolio was \$42.1 million. Agricultural loans made up the largest percentage of the portfolio at 38%. The remainder of the portfolio is approximately 29% commercial loans, 29% consumer loans, and 4% other loans. The composition of the loan portfolio reflects primarily the agricultural nature of the area.

Credit products. The bank offers a variety of conventional loan products to meet the credit needs of residents and businesses of its assessment area. It extends agricultural, commercial, consumer loans, and residential real estate loans. The Minot office originates consumer real estate loans for sale on the secondary market.

DESCRIPTION OF THE BANK’S ASSESSMENT AREA

Assessment area. The assessment area consists of 13 block numbering areas (“BNAs”) and is a combination of three noncontiguous areas, reflecting the April 30, 2001, merger with the First National Bank, Bowbells, North Dakota. The assessment area for the main office in Rolla includes all of Rolette and Towner counties in North Dakota. This assessment area includes one low-income BNA, two moderate-income BNAs, and seven middle-income BNAs. The Minot portion of the assessment area consists of a portion of Ward County and includes three middle-income BNAs and three upper-income BNAs. The Bowbells portion of the assessment area consists of a portion of Burke County and includes one middle-income BNA. Bank management stated that it is looking at the possibility of reconfiguring the bank’s assessment area to reflect the bank’s current structure. The Rolla office’s assessment area includes the only low- and moderate-income BNAs in the bank’s overall assessment area. The BNAs in the Minot and Bowbells portion of the assessment area consist of middle- and upper-income BNAs only.

Examiners made four contacts with community officials in the bank’s assessment areas familiar with the economic and demographic characteristics of the area. Information obtained from these individuals and bank management was used in evaluating the bank’s CRA performance. The examiners spoke with community officials in Minot, Bowbells, and Rolla and at the Turtle Mountain Band of Chippewas, located on the Turtle Mountain Indian Reservation (“Reservation”). According to the contacts and bank management, the current economic condition of the bank’s assessment area is relatively stable.

Population. The population of the bank’s overall assessment area is 50,987, according to 2000 U.S. Census data. The low-income tract population is 4,956 and the two moderate-income tracts population totals 5,871. Table 1 illustrates various demographic characteristics of the bank’s overall assessment area.

TABLE 1	
BANK ASSESSMENT AREA CHARACTERISTICS¹	
<i>Tract Summary</i>	
Total Number of Tracts	13
Number of Low-Income Tracts	1
Number of Moderate-Income Tracts	2
Number of Middle-Income Tracts	7
Number of Upper-Income Tracts	3
<i>Income Summary</i>	
North Dakota Nonmetropolitan Median Family Income² – 2000	\$38,900
Percentage of Low-Income Families	25%
Percentage of Moderate-Income Families	14%
Percentage of Middle-Income Families	21%
Percentage of Upper-Income Families	40%
<i>Miscellaneous Information</i>	
Total Population	50,987
Percentage of Families Below Poverty Level	18%
Total Housing Units	21,648
Percentage Owner-Occupied to Total Units	57%
Percentage Rental to Total Units	33%
Percentage Vacant to Total Units	10%

Economy. The economy in the Rolla and Bowbells portion of the assessment area is heavily dependent on agricultural income. Minot is the largest city in north-central North Dakota, and consequently, the Minot portion of the assessment area enjoys a more diversified economy. Bank management stated that approximately 60% of the cropland in its overall assessment area is used for wheat and barley production. The remaining 40% is used to grow plants to produce oils, such as canola, flax, and sunflower. There is little livestock production in the area. Major nonagricultural employers in the assessment area include the Turtle Mountain Band of Chippewas and the casinos on the Reservation and manufacturing, data processing, and federal, state, and local government off the Reservation. Area school systems and medical offices serve both the Reservation and nonreservation areas.

Bank management estimates that the unemployment rate on the Reservation is between 40% and 50% and between 10% and 12% for the remainder of the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank’s overall performance in meeting the credit needs of its assessment area is satisfactory. This evaluation primarily reflects the bank’s activity in the Rolla portion of the assessment area. The bank’s main office is in Rolla, and currently, the majority of the bank’s activity is concentrated in that portion of

¹All information based on 1990 census data.

²See Appendix A for definitions of low, moderate, middle, and upper income.

the assessment area. In addition, as discussed, the Rolla portion of the assessment area includes the only low- and moderate-income BNAs in the bank's assessment areas. Much of the analysis on the following pages is based on a statistical sample of loans that the bank originated during the six-month period from January 1, 2001, through June 30, 2001. Table 2 shows the bank's loan originations by number and dollar amount for loans generated during this period.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>%</i>	<i>Total Amount of Loans (in thousands)</i>	<i>%</i>
Small Farm	179	29	\$6,705	54
Consumer	365	58	\$1,701	14
Small Business	83	13	\$4,052	32
TOTAL	627	100	\$12,458	100

Based on the volume and dollar amount of activity for the loan categories, examiners elected to review consumer, small business, and small farm loans. The statistical sample consisted of 95 small farm loans, 55 small business loans, and 130 consumer loans.

The following criteria were analyzed to determine the bank's CRA rating:

- Loan-to-deposit ratio
- Lending inside the assessment area
- Lending to borrowers of different income levels and businesses of different sizes
- Geographic distribution of loans
- Record of responding to complaints about the bank's CRA performance

In assigning the overall rating, the greatest weight was placed on the bank's level of lending to borrowers in low- and moderate-income tracts and to businesses and farms of different sizes.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is relatively low in relation to that of its primary competitors. According to the bank's June 30, 2001, Uniform Bank Performance Report, the bank's 49% net loan-to-deposit ratio placed the bank in the third percentile compared to its bank peer group. The bank's peer group consists of all commercial banks with assets between \$100 million and \$300 million with three or more banking offices and located in a nonmetropolitan area. However, according to bank management, it is likely that the post-merger bank with an increased legal lending limit and increased effective lending area will enjoy additional lending opportunities. The bank's average net loan-to-deposit ratio for the past six quarters shown in Table 3 includes the loan and deposit activity for the former First National Bank, Bowbells, North Dakota, that was merged with and into the bank effective April 30, 2001. Table 3 also lists the average quarterly net loan-to-deposit ratio for the past six quarters for six of the bank's major competitors.

<i>Bank</i>	<i>Total Assets as of March 31, 2001 (in thousands)</i>	<i>Quarterly Average Net Loan-to- Deposit Ratio</i>
Dacotah Bank, Rolla, North Dakota (Includes pre-merger First National Bank, Bowbells, North Dakota)	\$103,188	45%
First National Bank and Trust of Bottineau Bottineau, North Dakota	\$ 96,438	38%
United Community Bank of North Dakota Leeds, North Dakota	\$ 86,142	76%
Merchants Bank Rugby, North Dakota	\$ 42,460	34%
Security State Bank Dunseith, North Dakota	\$ 38,021	53%
Rolette State Bank Rolette, North Dakota	\$ 29,340	73%
First Western Bank & Trust Minot, North Dakota	\$268,587	72%

The bank's net loan-to-deposit ratio is the weakest of the CRA performance factors that comprise the bank's CRA composite rating. However, the bank's relatively low net loan-to-deposit ratio in comparison to the net loan-to-deposit ratios of its competitors is mitigated by several factors. First, the bank's net loan-to-deposit ratio reflects a large volume of state, county, and municipal funds. These funds are short-term funds and are considered relatively volatile due to the bidding process. The bank had approximately \$12 million in municipal funds according to the March 31, 2001, ROC. Recalculating the loan-to-deposit ratio to adjust for municipal funds over the last six quarters would increase the bank's average net loan-to-deposit ratio by approximately 10%. Bank management stated several other reasons for the relatively low net loan-to-deposit ratio, including mature main street businesses with little borrowing need, the bank's desire to employ bank deposits for its liquidity needs as opposed to relying on other sources of funding, and the bank's assumption of approximately \$13 million in deposits of a previously failed savings and loan association. According to bank management, competition among financial institutions within the assessment area is strong.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity in the overall assessment area is very strong. A review of the statistical sample reveals that the bank extends a substantial majority of its loans inside the assessment area. Table 4 shows the percentage of consumer, small business, and small farm loans that the bank originated in its assessment area.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Total Dollar Amount of Loans</i>
Consumer	91%	93%
Small Business	82%	72%
Small Farm	85%	93%

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

The bank's level of lending to borrowers of different income levels and to businesses and farms of different sizes in its overall assessment area is strong. Table 5 reflects the percentages of consumer loans made to borrowers of different income levels.

TABLE 5 DISTRIBUTION OF LOANS IN THE ROLLA ASSESSMENT AREA BY BORROWER INCOME LEVELS*										
	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Income Not Available</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer Loans	31%	15%	24%	25%	13%	16%	11%	23%	21%	21%
Percentage of Families by Assessment Area**	25%		14%		21%		40%		N/A	
*2000 North Dakota Nonmetropolitan Median Family Income \$38,900										
**According to 1990 census data.										

Consumer lending. The bank's level of consumer lending to low- and moderate-income borrowers is very good. The percentage of consumer lending to low-income borrowers exceeds the relative number of low-income families in the assessment area. The percentage of consumer loans to moderate-income borrowers exceeds the relative number of moderate-income families in the assessment area as well. The bank also serves the needs of low- and moderate-income borrowers by extending small-dollar loans. These loans are typically made to fund living expenses rather than discretionary purchases. The level of consumer lending to low- and moderate-income borrowers demonstrates the bank's willingness to meet the credit needs of all residents in its assessment area.

Small business and small farm lending. The bank has a very good distribution of loans to small businesses and small farms in its assessment area. Refer to the glossary in Appendix A for definitions corresponding to small business and small farm lending. Table 6 shows the percentages of loans made to businesses and farms of different sizes in the assessment area.

TABLE 6 SMALL BUSINESS AND SMALL FARM LENDING IN THE ASSESSMENT AREA				
	<i>Less Than \$100,000</i>	<i>More Than \$100,000 to Less Than \$250,000</i>	<i>More Than \$250,000 to Less Than \$1,000,000</i>	<i>Total Originations</i>
<i>Small Business Originations</i>				
Percentage of Small Business Loans	94%	2%	4%	100%
Percentage of Loans to Businesses With Revenues Less Than \$1 Million	91%	0%	50%	87%
<i>Small Farm Originations</i>				
Percentage of Small Farm Loans	93%	6%	1%	100%
Percentage of Loans to Farms With Revenues Less Than \$1 Million	100%	100%	0%	99%

Overall, the bank's lending to individuals of different income levels and to entities of different sizes in the assessment area is strong. The majority of the bank's small business and small farm loans was made to entities with revenues of less than \$1 million. In addition, the vast majority of the bank's small business and small farm loans were originated for amounts less than \$100,000. The bank demonstrates very good responsiveness to meeting the credit needs of all residents in its assessment area. A significant number of the bank's consumer loans are extended to low- and moderate-income borrowers. In addition, the bank makes small business and small farm loans throughout the assessment area. The majority of these loans are for less than \$100,000.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans in the bank's assessment area is reasonable and does not reveal any unexplained gaps or lending patterns. The loan sample indicates that the bank actively lends in all of the BNAs that comprise its assessment area, including the low- and moderate-income BNAs. Consequently, the geographic distribution and dispersion of the bank's loans are satisfactory. The bank's Bowbells and Minot portions of the assessment area do not include any low- or moderate-income BNAs.

GENERAL

The bank has not received any CRA-related complaints since the previous evaluation. In addition, the evaluation did not reveal any fair lending issues or concerns.

Appendix A

Glossary of Common CRA Terms

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)

Assessment Area - The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated teller machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

Block Numbering Areas (BNAs) - BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

Census Tracts - Census tracts are small, relatively permanent geographic entities within counties delineated by committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

Community Development - Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan - A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank)

1. has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Community Development Service - A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area, and has not been claimed by other affiliated institutions.

Consumer Loans - Loans to individuals for household, family, and other personal expenditures. These loans do not include real estate-secured loans.

Dun & Bradstreet Data - Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. This data can be sorted by geographies.

Income Level - Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In non-MSA areas, the level is based on the statewide, non-MSA median income.

- **Low Income** - Less than 50 percent of the area median income.
- **Moderate Income** - At least 50 percent and less than 80 percent of area median income.

- **Middle Income** - At least 80 percent and less than 120 percent of the area median income.
- **Upper Income** - At least 120 percent or more of the area median income.

Metropolitan Statistical Area (MSA) - A federally designated geographical unit consisting of an urbanized area with a central city of at least 50,000 residents and a regional population of 100,000. MSAs may cross state boundaries.

Qualified Investment - A lawful, investment, deposit, membership share, or grant that has as its primary purpose community development.

Small Business - A business with gross annual revenues of \$1 million or less.

Small Business Loan - A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by nonfarm nonresidential properties" or "Commercial and industrial loans."

Small Farm - A farm with gross annual revenues of \$1 million or less.

Small Farm Loan - A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by farmland" or "Loans to finance agricultural production and other loans to farmers."