

PUBLIC DISCLOSURE

July 9, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dacotah Bank-Valley City
240 Third Street N.W.
Valley City, ND 58072
RSSD 986850

**Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291**

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-Valley City's satisfactory CRA rating is based on the following factors.

- First, the bank lends to borrowers of different income levels and to small businesses and small farm entities of different sizes. The consumer loan samples show that the bank originated a sizable percentage of loans to low- and moderate-income individuals in the assessment area. Similarly, the bank originated a substantial majority of small business and small farm loans to qualified entities.
- Second, given the bank's asset size and financial condition, and the assessment area credit needs, the bank's net loan-to-deposit ratio is reasonable.
- Third, the bank originated a sizable majority of consumer, small farm, and small business loans within its assessment area.
- Fourth, the geographic distribution of the bank's loans is satisfactory. The bank originated consumer, small farm, and small business loans in all of the middle- and upper-income geographies that comprise the assessment area.

DESCRIPTION OF INSTITUTION

The bank is capable of meeting the credit needs of assessment area residents, businesses, and farms effectively based on its size, financial condition, and credit products. The bank received a satisfactory rating at its previous Community Reinvestment Act (“CRA”) evaluation conducted as of April 12, 1999, by the Federal Deposit Insurance Corporation.

Offices. Dacotah Bank-Valley City is a full-service bank with its main and only office in Valley City, North Dakota. The bank is wholly owned by Dacotah Banks, Inc., Aberdeen, South Dakota (“DBI”), which operates banking offices throughout North and South Dakota. The bank operates two automated teller machines (“ATM”); one at its main office location and one at the Marketplace Foods grocery store in Valley City. The ATMs do not accept deposits. The bank has expanded its office hours since the previous CRA evaluation. The bank’s lobby is open Monday through Friday from 9:30 a.m. to 4:00 p.m. The bank’s drive-up facility is open Monday through Friday from 8:00 a.m. to 5:00 p.m. and Saturday 8:30 a.m. to 12:00 p.m.

The bank continues to operate an Internet web site; however, the web site is maintained and operated through its parent, DBI. The web site allows individuals and businesses to conduct transactional activities and apply to open new deposit and credit card accounts, lists the bank’s loan and deposit products, provides office and ATM locations, and includes general information on the bank and its affiliates.

Loan portfolio. The bank is primarily an agricultural lender. According to the bank’s March 31, 2003, report of condition (“ROC”), agricultural loans comprise 43% of the bank’s loan portfolio. The remainder of the portfolio consists of 33% commercial loans, 14% consumer loans, 9% residential real estate loans, and 1% other loans. The composition of the loan portfolio has changed only slightly since the previous evaluation. According to the December 31, 1998, ROC, the bank’s loan portfolio consisted of 52% agricultural loans, 26% commercial loans, 11% residential real estate loans, 10% consumer loans, and 1% other loans.

Credit products. The bank offers a variety of loan products designed to meet the credit needs of its assessment area. Consumer products include personal closed-end loans, and open-end credit products including home equity lines of credit, overdraft protection, and credit cards. Residential real estate products include conventional and secondary market loans. In conjunction with the Bank of North Dakota, the bank also originates interest-assistance and purchase-assistance residential real estate loans. The bank continues to coordinate loans guaranteed by the Small Business Administration and participates in Farm Services Agency lending. While the bank does not offer government-guaranteed student loans, it takes the applications and forwards the information to another lender. Since the last evaluation, the bank has not introduced any new credit products or discontinued any products.

DESCRIPTION OF DACOTAH BANK-VALLEY CITY ASSESSMENT AREA

Assessment area. The bank has defined its assessment area as Barnes County, North Dakota. The county, which is located in the eastern section of North Dakota, consists of four middle-income census tracts (“CT”): 9679, 9680, 9682, and 9683. Valley City is located approximately 65 miles west of Fargo and 35 miles east of Jamestown, North Dakota. The bank’s main office in Valley City is located in CT 9683. Valley City serves as the county seat for Barnes County.

In addition to discussions with bank management, examiners contacted individuals familiar with the economic development needs of the area. Information received from the contacts and bank management was used in the evaluation of the bank’s CRA performance.

Population. According to 1990 census data, the population of the bank's assessment area is 12,545. Recently released 2000 census data shows the population of the assessment area decreased to 11,775, or a decline of 6% as compared to the 1990 population. The assessment area includes Valley City State University, which has a total student population of approximately 1,077.

Income. See Appendix A on page 8 for definitions of low, moderate, middle, and upper income. For purposes of classifying borrowers' incomes, this evaluation used the U.S. Department of Housing and Urban Development's estimated 2003 and 2002 median family income of \$46,800 and \$41,700 for nonmetropolitan North Dakota when analyzing the bank's lending performance.

Based on 1990 census data, the geographies that comprise Barnes County consisted of five block number areas ("BNA"). Based on the 2000 census data, the U.S. Census Bureau changed the composition of Barnes County to consist of four geographies and now refers to these geographies as CTs. For purposes of classifying CT and BNA income levels, this evaluation used the 1990 and 2000 median family incomes of \$26,096 and \$42,068 for nonmetropolitan North Dakota. The 1990 census data classified four BNAs as middle income and one BNA as upper income. As mentioned, the 2000 census data renamed and reclassified all of the CTs that comprise the assessment area as middle income.

Housing. According to 1990 census data, there were 5,801 housing units in the assessment area: 59% are owner occupied, 27% are rental units, and 14% are vacant units. The 2000 census data shows that there are now 5,599 housing units in the assessment area: 62% are owner occupied, 25% are rental units, and 13% are vacant units. According to 2000 census data, the median housing value for Barnes County was \$57,600.

The Sheyenne River flows through Valley City and Barnes County. According to community contacts and bank management, in the mid-1990s flooding from the Sheyenne River damaged a sizable number of homes. Based on persistent flooding, federal and state officials removed homes located within the Sheyenne River flood hazard area. Bank management indicated that Valley City and other areas of Barnes County have not experienced a sizable amount of new housing development. As previously mentioned, Valley City is located between Fargo and Jamestown, North Dakota. According to community contacts and bank management, both Fargo and Jamestown have experienced new housing development. Many individuals who live in Valley City commute to these cities for work.

Economy. According to bank management and community contacts, economic conditions in the assessment area are stable. The bank's assessment area is primarily rural agricultural land used to grow crops. The major industry in the assessment area is agricultural production and related industries. According to community contacts, the assessment area has retained its base of stable employers; however, a majority of new jobs tend to be lower-paying retail and service jobs. Aside from farming, principal employers in the assessment area continue to be federal and state government, the school system, health care facilities, and the John Deere Company. According to bank management, because Valley City is located between Fargo and Jamestown, a number of retail businesses in Valley City have closed. These small businesses closed because large retailers moved into Fargo and Jamestown. Most Valley City residents now travel to these cities to do their shopping. As a result, service-related and specialty small businesses have opened new offices in the vacant retail spaces located in downtown Valley City. Data collected by the Valley City-Barnes County Development Corporation for 2001 shows the median average weekly wage for retail trade and private service jobs ranged between \$9.03 and \$25.42 per hour.

Community contacts. To help determine the economic and demographic characteristics of the assessment area, examiners contacted representatives of two local organizations familiar with local business and agricultural conditions in the assessment area. According to the agricultural contact, Barnes County

consists of crop producers that primarily grow wheat, soybeans, and corn. During the spring and early summer of 2003, Barnes County has received above-average rainfall, which should result in higher crop yields. As a result, the price of agricultural land in Barnes County has steadily increased. According to the contact, local agricultural producers can afford these higher prices because of higher yields, high crop prices, and the corresponding increased cash flow. The agricultural contact also stated that Barnes County has experienced a consolidation of farmland when long-time farmers retire and sell their land. The contact indicated that there was active competition among the county's agricultural lenders. According to contacts, Farm Credit Service was the leading agricultural lender in Barnes County.

The small business community contact indicated that Valley City readily attracts new businesses and jobs because of its location between Fargo and Jamestown. The existing businesses in Valley City are looking to create new jobs, but the majority of these positions pay relatively low wages. The contact stated that Valley City State University students who graduate leave the area for higher-paying employment opportunities. If new graduates do decide to stay in Valley City, they usually accept lower-paying retail and service sector jobs. The contact mentioned the need for more stable and better paying jobs and did not identify any unmet credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. Table 1 shows the bank's combined loan originations by number and dollar volume between January 1, 2003, and June 30, 2003.

TABLE 1 LOAN ORIGINATIONS – JANUARY 1, 2003, TO JUNE 30, 2003				
<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Percentage of Total Loans</i>	<i>Total Dollar of Loans (000s)</i>	<i>Percentage of Total Dollar</i>
Consumer	323	45%	\$ 2,801	8%
Residential real estate	19	3%	\$ 1,084	3%
Small farm	251	35%	\$18,734	32%
Small business	119	17%	\$10,449	57%
Tax Exempt	2	1%	\$ 13	<1%
Total	714	100%	\$33,081	100%

Given the relatively high number of consumer, small farm, and small business loans originated between January 1 and June 30, 2003, the bank's CRA evaluation was based on a six-month statistical sample of these loans. The sample period uses loan data from December 1, 2002, to May 31, 2003.

The overall CRA analysis is based on a sample of 134 consumer, 82 small business, and 123 small farm loans. Approximately 15% of the sampled consumer loans originated in the assessment area are missing income information. Overall, examiners assigned equal weight to the bank's consumer, small business, and small farm lending.

Examiners compared the bank's 2002 consumer lending activity to the 1990 census data and 2003 consumer lending activity to 2000 census data. Based on the sample period mentioned above, the majority of loans were originated during 2003. As such, we assigned greater weight to the bank's 2003 lending activity than 2002's lending activity. In determining the overall CRA rating, examiners placed the greatest weight on the bank's level of lending to borrowers of different income levels, followed by the

net loan-to-deposit ratio, the comparison of credit extended inside and outside the assessment area, and the geographic distribution of loans.

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 is satisfactory and reflects its responsiveness to community credit needs. Table 2 shows the distribution of consumer loans by borrower income level and the distribution of families in the assessment area.

TABLE 2 DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*								
<i>Loan Category</i>	<i>Low-Income Borrowers</i>		<i>Moderate-Income Borrowers</i>		<i>Middle-Income Borrowers</i>		<i>Upper-Income Borrowers</i>	
	#	\$	#	\$	#	\$	#	\$
Consumer-2003	35%	33%	27%	20%	15%	13%	23%	33%
Percentage of families-2000	17%		17%		23%		42%	
Consumer-2002	19%	6%	44%	32%	25%	30%	13%	32%
Percentage of families-1990	19%		20%		36%		12%	
*Based on the 2003 and 2002 median family income of \$46,800 and \$41,700, respectively, for the nonmetropolitan areas of North Dakota.								

Table 2 shows that the bank originated consumer loans to individuals of various income levels, especially low- and moderate-income individuals. As mentioned, examiners compared the bank's 2003 consumer lending to 2000 census data and 2002 consumer lending activity to 1990 census data. As noted in Table 2, the bank's level of lending to low- and moderate-income borrowers exceeds the percentage of low-income families in the assessment area. The bank originates loans to individuals based on the borrower's individual income. However, because the bank relies on individual incomes and not family incomes, lending to low- and moderate-income individuals may be overstated. In addition, as discussed, approximately 15% of the consumer loans did not have income information in the credit file. A review of the consumer loan sample showed that the bank also originates small-dollar loans. Approximately 31% of the consumer loans were for amounts of less than \$2,000. Based on the factors mentioned, the bank's level of lending is satisfactory and shows a commitment to meeting the credit needs of low- and moderate-income borrowers in the assessment area.

The bank has a satisfactory record of providing small business and small farm loans to entities with gross annual revenues of \$1 million or less. As defined by CRA, small business loans are classified as commercial loans with original principal amounts of \$1 million or less. Small farm loans are most farm loans with original principal amounts of \$500,000 or less. Please refer to Appendix A on page 8 for more definitions concerning small business and small farm lending. Tables 3 and 4 show the bank's distribution of small business and small farm loans by loan amount in the assessment area.

TABLE 3 SMALL BUSINESS LENDING IN THE ASSESSMENT AREA				
<i>Small Business Originations</i>	<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>
Percentage of the Number of Small Business Loans	95%	1%	4%	100%
Percentage of the Amount of Small Business Loans	45%	5%	50%	100%

The data shows that the bank originated 95% of its small business loans to entities with gross annual revenues of \$1 million or less. In addition, the bank originated the majority of its small business loans for amounts less than \$100,000. According to 2002 Dun & Bradstreet reports, 74% of the entities located in the bank's assessment area are classified as small businesses. Community contacts identified the bank as one of the leading financial institutions in the assessment area. The bank's small business loan activity demonstrates that it actively assists small businesses with their credit needs.

TABLE 4 SMALL FARM LENDING IN THE ASSESSMENT AREA				
<i>Small Farm Originations</i>	<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 \$500,000</i>	<i>Total Originations</i>
Percentage of the Number of Small Farm Loans	80%	16%	4%	100%
Percentage of the Amount of Small Farm Loans	31%	49%	20%	100%

The bank originated 98% of its small farm loans to entities and individual farmers with gross annual revenues of \$1 million or less. In addition, the bank originated the majority of its small farm loans for amounts less than \$100,000. According to the 2002 Dun & Bradstreet report, 99% of the farms in the assessment area are classified as small farms. As mentioned, agricultural loans represent the largest component of the bank's loan portfolio. Community contacts indicated that there are a number of agricultural lenders in Barnes County competing for agricultural loans. As such, the bank's small farm lending demonstrates its commitment to meeting the credit needs of farmers in the assessment area.

LOAN-TO-DEPOSIT RATIO ANALYSIS

Given the bank's asset size and financial condition and the assessment area's credit needs, the bank's net loan-to-deposit ratio is satisfactory and reflects that the bank is an active lender in its assessment area. The bank's quarterly net loan-to-deposit ratio has fluctuated between 66% and 75% since the previous CRA performance evaluation. The bank's average quarterly net loan-to-deposit ratio since the last CRA evaluation is 72%. As of March 31, 2003, the net loan-to-deposit ratio was 75%. The bank attributes the fluctuation to its agricultural loan portfolio. At the end of each year, agricultural producers generally pay off their operating lines of credit from the sale of harvested crops. At the beginning of the following year, agricultural producers establish new operating lines of credit to fund their farm operations and the planting of new crops.

As mentioned, DBI acquired the bank on September 24, 2001. According to bank management, DBI subsidiary banks purchase and sell portions of large agricultural and commercial loans between each other. As such, bank management potentially has the opportunity to offset the seasonal fluctuations in the

loan-to-deposit ratio with the underwriting and acquisition of agricultural and commercial loans with extended maturities.

The bank operates in a relatively competitive market. Branch offices of U.S. Bank, National Association; Wells Fargo Bank North Dakota, National Association; First Community Credit Union; and Security State Bank of North Dakota are located in Valley City. The total assets of these financial institutions exceed the bank's total assets. ROC data is not available on these branch offices. As such, there are no financial institutions of similar asset size in the assessment area with published loan-to-deposit ratio data to perform a meaningful comparison. In addition, other private and public financial service providers operate in the assessment area.

Based on the bank's net loan-to-deposit ratio, lending activity, and overall asset size, the bank's net loan-to-deposit ratio is satisfactory.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated a substantial majority of loans in its assessment areas. Table 5 shows combined 2002 and 2003 sample data of loans extended inside the assessment area for each loan category by total number and dollar amount.

TABLE 5		
LOANS ORIGINATED INSIDE THE ASSESSMENT AREA		
<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Total Dollar Amount of Loans</i>
Consumer	87%	86%
Small business	90%	71%
Small farm	85%	75%

The dollar amount of small business and small farm loans is less than the percentage of the total number of loans originated in the bank's assessment area. Bank management indicated that the lower percentages for these two categories result from loan participations purchased from other banks or affiliate DBI banks.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution and dispersion of the bank's loans in its assessment area are satisfactory and do not reveal any unexplained gaps in lending patterns. Based on 1990 census data, the bank's assessment area consisted of four middle-income and one upper-income BNA. The 2000 U.S. Census data redefined the geographies for Barnes County to consist of four middle-income CTs. Discussions with bank management and the community contact did not reveal any significant concentrations of low- and/or moderate-income families in any of the CTs in the assessment area. The loan sample indicates that the bank actively originates loans in the CTs in the assessment area. Therefore, further analysis of the bank's lending in geographies of different income levels is not meaningful. As such, the geographic distribution and dispersion of sampled loans are satisfactory.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair lending and housing laws and regulations. Also, the bank has not received any CRA-related complaints since the previous evaluation.

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 ("BNA") - 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 a 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):

- 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
- 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.”