

**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, Lemmon, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of April 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."

Several factors support the bank's satisfactory rating. First, the bank has maintained a reasonable loan-to-deposit ratio. Second, the bank has originated a substantial portion of its loans within its assessment area. Third, a substantial portion of the bank's consumer loans are to low- and moderate-income borrowers. Also, a significant majority of the bank's small farm and business loans are to businesses with revenues of \$1 million or less.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Dacotah Bank 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 Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior evaluation.		

## **DESCRIPTION OF INSTITUTION**

Based on its size and financial condition, the bank is able to meet the credit needs of the assessment area effectively. According to the December 31, 1995, Report of Condition ("ROC"), the bank's total assets are approximately \$70 million. Total assets have remained steady over the last 12 months. The bank's total gross loans have increased from \$38.7 million as of December 31, 1994, to \$41.8 million as of December 31, 1995. According to the bank, the increase is due to normal loan demand from its various borrowers. Based on the bank's total loans, the loan portfolio consists of 65% agricultural, 15% commercial, 11% consumer real estate, 6% consumer, and 3% commercial real estate.

The bank's main office is in Lemmon, South Dakota; it has a full-service branch in Bison, South Dakota. The bank's operating hours have been expanded to allow greater access and service to residents of the assessment area. The bank offers a full array of loans, deposit products, and services, including a community room in its basement. Its loan products include commercial, agricultural, real estate, consumer, and student loans. The bank has underwritten various loans through federal- and state-guaranteed credit programs.

## **DESCRIPTION OF THE ASSESSMENT AREA: ADAMS, GRANT, AND SIOUX COUNTIES, NORTH DAKOTA, AND PERKINS, CORSON, AND ZIEBACH COUNTIES, SOUTH DAKOTA**

The bank's assessment area consists of three counties in North Dakota and three counties in South Dakota. These six counties encompass seven block numbering areas ("BNA"). The bank and its branch are located in Perkins County, South Dakota, which is BNA 9983. Adams County, North Dakota, has two BNAs, 9655 and 9656. Sioux County, North Dakota, is BNA 9660; Corson County, South Dakota, is BNA 9861; and Grant County, North Dakota, is BNA 9658. A portion of Sioux County and all of Corson County contain the Standing Rock Indian Reservation. The eastern edge of these counties borders the Missouri River. Ziebach County, South Dakota, is BNA 9871 and contains a portion of the Cheyenne River Indian Reservation.

According to the 1990 census, the assessment area has a total population of 18,782. Perkins County, South Dakota, has a total population of 3,932. Lemmon, South Dakota, is situated on the north end of the county, close to the North Dakota border. Bison, South Dakota, is located approximately 40 miles southwest of Lemmon and is the county seat of Perkins County. According to bank management and various contacts, Perkins County's general population has declined over the last few years because of the lack of job opportunities in the area.

CRA divides income levels into four categories: low income, moderate income, middle income, and upper income. 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 individual as one with an income at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography.

As previously mentioned, the bank's assessment area consists of six counties and seven BNAs. Three BNAs in the bank's assessment area are categorized as moderate income: 9660, Sioux County, North Dakota; 9861, Corson County, South Dakota; and 9871, Ziebach County, South Dakota. These three moderate-income

BNAs comprise the eastern side of the assessment area. According to 1990 census data, these three BNAs have a total population of 10,176, or 54% of the total population of the assessment area. However, there are only 2,970 households in the three moderate-income BNAs, as compared with 3,430 households in the middle-income BNAs. The median household income for the assessment area is \$17,740. According to 1990 census data, approximately 31% of the households are classified low income and 18% moderate income. The remaining 51% are classified as middle and upper income.

Bank management and community contacts indicated that much of the area around Lemmon is sparsely populated. The bank is a sizeable distance from the larger towns in the eastern section of the assessment area. The assessment area's main industry is agriculture, with an emphasis on livestock production. Bank management and community contacts consider the local economy to be stable; however, livestock prices continue to be depressed. Contacts indicated that the agricultural economy will continue to suffer in the near future because of depressed livestock prices and reductions in federal farm subsidies. The major employers in Lemmon are a manufacturing company, which has approximately 150 employees, a hospital, and the local school district. The major employers in Bison are the county government and a telephone cooperative.

Examiners communicated with several contacts in the assessment area, including a local government official, a businessperson, and a resident with contacts on a local Indian reservation. Information from these contacts was used in evaluating the assessment area and the bank's CRA performance.

#### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

##### Loan-to-Deposit Ratio Analysis

The bank's loan-to-deposit ratio meets the standard for satisfactory performance. Based on quarterly ROC data, the bank's average net loan-to-deposit ratio since the prior evaluation is 64%. The ratio has ranged from a high of 66% as of the September 30, 1995, ROC, to a low of 60%, as of the December 31, 1994, ROC. The ratio has increased as a result of normal loan growth and deposit fluctuations.

There are a number of competitor financial institutions that serve portions of the bank's assessment area. The following table reflects how competitor banks compare with the bank regarding net loans to deposits since the last evaluation. The total assets are based on December 31, 1995, ROC data.

<b>Banks</b>	<b>Total Assets (In thousands)</b>	<b>Average Loan-to-Deposit Ratio</b>
Subject Bank	\$70,031	64%
Competitor A	\$40,847	64%
Competitor B	\$25,506	64%
Competitor C	\$33,105	73%
Competitor D	\$24,165	65%
Competitor E	\$24,983	38%
Competitor F	\$15,313	61%

The bank's loan-to-deposit ratio is consistent with that of competitor banks, even though it is the largest institution in terms of total asset size. Contacts identified the bank as a leading lender in the assessment area. In addition, the bank has underwritten several Bureau of Indian Affairs-guaranteed loans in the moderate-income BNAs. Based on these facts, the loan-to-deposit ratio meets satisfactory standards.

Lending in Assessment Area

The bank's lending in its assessment area exceeds standards for satisfactory performance. Based on a statistical sample of its loan originations, the bank originated a substantial majority to borrowers residing in the assessment area. The following table reflects the percentage of the total number and dollar volume of loans by loan type originated inside the assessment area.

Major Product Line	Total Number of Loans	Total Dollar Amount of Loans
Agricultural/Small Business	94%	96%
Consumer	89%	87%

As indicated in the table, the two major product categories reviewed were agricultural and small business loans and consumer loans. As previously mentioned, the primary business in the assessment area is agriculture. The percentages for agricultural and small business loans correspond to the agricultural nature of the assessment area. The slightly smaller percentages for consumer loans are attributed to former assessment area residents who have moved out of the area but still borrow from the bank. The high concentration of lending in the assessment area, representing nearly all the bank's originations, exceeds satisfactory standards.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels and to businesses of different sizes exceeds satisfactory performance. As previously discussed, CRA breaks income into four levels: low, moderate, middle, and upper. Because the assessment area is not located in a metropolitan statistical area, the median family income is determined in relation to the statewide nonmetropolitan median family income for both North Dakota and South Dakota. Also, according to 1990 census data, the nonmetropolitan median family income for the assessment area is \$21,263; the nonmetropolitan median family income for North Dakota is \$26,195 and \$25,547 for South Dakota. The assessment area's median family income is 81% of the North Dakota statewide average median family income and 83% of the South Dakota statewide average.

The table below illustrates the bank's distribution of loans by income level.

Distribution of Loans by Income Level in the Assessment Area*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
Consumer				
Percentage of Total Loans	45%	21%	15%	19%
Percentage of Total Loan Amounts	42%	14%	22%	21%

\*Income level is determined based on the 1995 statewide median family income of \$30,400 for North Dakota and \$30,100 for South Dakota.

The loan sample data indicates that the bank originated a substantial majority of its consumer loans to low- and moderate-income borrowers. According to 1990 census data, 31% and 18% of the households in the assessment area are classified as low and moderate income, respectively. The bank made 66% of its consumer loans to low- and moderate-income individuals. This level of lending exceeds the percentage of low- and moderate-income individuals in the community. The table also reflects that the bank provided 56% of the total loan amounts to low- and moderate-income borrowers.

The bank has a strong record of lending to small business and agricultural borrowers. The file sample revealed that the bank originates loans to agricultural and business entities regardless of their revenue level. Only one agricultural or business borrower in the sample had revenues greater than \$1 million. This is significant considering that agricultural and commercial loans are 80% of the bank's loan portfolio. Almost all the bank's business and agricultural loans in its assessment area had loan amounts of \$100,000 or less. Specifically, 90% of the loans had amounts of \$100,000 or less, 8% had amounts greater than \$100,000 but less than or equal to \$250,000, and 2% had amounts greater than \$250,000 but less than \$1 million. The good concentration of consumer loans to low- and moderate-income borrowers and the extensive penetration of small dollar agricultural borrowers exceeds standards for satisfactory performances.

#### Geographic Distribution of Loans

The bank's loans are well distributed throughout the assessment area and meet the standards for satisfactory performance. As previously mentioned, the bank's assessment area includes three moderate-income and four middle-income BNAs. The table below illustrates the distribution of the bank's loans in the moderate- and middle-income areas.

Type of Loan	Moderate Income	Middle Income
<u>Small Business/Agricultural :</u>		
Percentage of Total Loans	14%	86%
Percentage of Total Loan Amounts	24%	76%
<u>Consumer :</u>		
Percentage of Total Loans	1%	99%
Percentage of Total Loan Amounts	1%	99%

Although the bank has few loans in the moderate-income BNAs, there are several reasons for this fact. First, both bank offices are located in a middle-income BNA. Two additional middle-income BNAs are close to the bank's main office. Second, although the majority of the assessment area's residents reside in the moderate-income BNAs, these three BNAs are in the eastern portion of the bank's assessment area and are a considerable distance from the bank and its branch. Bank staff and contacts indicated that a number of residents in these BNAs conduct business with financial institutions closer to their homes, rather than drive to Lemmon, South Dakota. A tribal contact indicated that a number of tribal residents bank in Mandan, North Dakota, and Selfridge and Mobridge, South Dakota. The contact indicated that most reservation residents do not bank in Lemmon, South Dakota, because it is too far away.

General

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

## **PUBLIC DISCLOSURE**

April 15, 1996  
Date of Evaluation

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## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Dacotah Bank  
Name of Depository Institution

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094608400000  
Identification Number of Institution

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Lemmon, South Dakota  
Address of Institution

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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.