

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

There are several factors to support the bank's outstanding rating. First, the bank maintains a reasonable loan-to-deposit ratio that is supplemented by significant community development lending activity. Second, the bank has made a significant majority of its loans within its assessment area. Third, the bank lends to borrowers of many different income levels and to small businesses and farms. Finally, the bank is proactive in providing a high level of service that benefits low- and moderate-income individuals. These services contribute to the outstanding rating.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	DACOTAH BANK, CLARK, 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 Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the prior 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 CRA evaluation. In addition to its main office in Clark, the bank operates full-service branches in Watertown, Willow Lake, and Bradley, South Dakota. A loan officer with the Watertown office goes to the Bradley branch once a week. The bank also operates a paying and receiving office in Henry, South Dakota. The bank's branch in Watertown serves a small portion of the Lake Traverse Indian Reservation of the Sisseton-Wahpeton Sioux Tribe. The bank also operates an automated teller machine in Watertown.

The bank's size supports its ability to meet the credit needs in its assessment area. According to the bank's June 30, 1996, Report of Condition ("ROC"), the bank's total assets were approximately \$59.6 million. Since March 31, 1995, the bank's total assets have increased approximately \$5.1 million. The bank's volume of loans has increased \$4.6 million since the previous evaluation. A significant portion of the bank's loan portfolio includes agriculture-related loans, which mirrors the agricultural nature of the local economy. According to the bank's June 30, 1996, ROC, agricultural loans make up 55% of the bank's portfolio. The remainder of the portfolio includes 25% commercial, 11% consumer, and 9% consumer real estate loans.

The bank offers many different types of loan products that serve the local residents' credit needs. Its products include consumer, real estate, commercial, and agricultural loans. In addition to conventional loan products, the bank provides loans guaranteed by a number of federal and state agencies, including the South Dakota Housing Development Authority, Small Business Administration, Farm Service Agency, and Department of Veterans Affairs. The bank also offers government-guaranteed student loans.

## **DESCRIPTION OF DACOTAH BANK'S ASSESSMENT AREA**

The bank defines its assessment area as Clark and Codington counties in east-central South Dakota. The assessment area contains block numbering areas ("BNAs") 9556 and 9557 in Clark County and BNAs 9541 through 9545 in Codington County. BNA 9543 is designated as upper income, the remaining BNAs are classified as middle income.

The bank's main office and the branches in Bradley and Willow Lake are located in Clark County. The bank's branches in Watertown and Henry are located in Codington County. Based on 1990 census data, the bank's assessment area has a population of 27,101. Watertown is the largest community in the assessment area, with a population of 17,592.

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's 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 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.

According to 1990 census data, the assessment area's median family income is \$27,038, while the median family income for nonmetropolitan areas in South Dakota is \$25,547. Of the 10,474 households in the assessment area, approximately 21% are low income, 18% are moderate income, 19% are middle

income, and 42% are upper income. Approximately 14% of the households have incomes below the poverty level.

Agriculture is the dominant industry in the assessment area. According to bank management and a community contact, the area had suffered from excess moisture in recent years, which hurt grain farmers. However, conditions have been ideal so far this season, and higher grain prices are contributing to the area's improved economy. A few cattle operations have been hurt by the recent decline in cattle prices. The farm operations that have diversified will be more successful than operations that are concentrated in either grain or cattle.

Watertown is also a growing trade center for the area. There has been a lack of affordable housing due to the rapid growth in Watertown. According to another community contact, civic leaders have taken a proactive approach to this issue. One obstacle the city faced was the lack of available lots on which to build housing. Lots have become available and projects are now under construction that are targeted to low- and moderate-income households.

According to a community contact, the majority of the members of the Sisseton-Wahpeton Sioux Tribe live outside the bank's assessment area in Sisseton, South Dakota. The tribe also operates its own credit union that provides credit products for many of the tribal members' needs.

Examiners relied on information received from several members of the community, including government officials and an individual with knowledge about tribal credit needs, to complete the CRA evaluation.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank has done an outstanding 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 exceeds the standards for satisfactory performance based on its consistently high loan-to-deposit ratio, secondary market real estate lending, and community development loans. Since the previous evaluation, the quarterly average of the bank's loan-to-deposit ratio is 70%. Loan-to-deposit ratio fluctuations are due to cyclical swings in agricultural advances or paydowns on operating lines of credit. The bank's loans and deposits have grown steadily since the last evaluation. The following chart, based on quarterly ROC data, shows that the bank's ratio has been consistently high since the last evaluation. The loan-to-deposit ratio for the quarter ending September 30, 1995, reflects the effect the late harvest had on paydowns of agricultural lines of credit.

<b>Date</b>	<b>Net Loans (In thousands)</b>	<b>Deposits (In thousands)</b>	<b>Loan-to-Deposit Ratio</b>
June 30, 1996	\$38,099	\$53,132	72%
March 31, 1996	\$36,611	\$52,707	69%
December 31, 1995	\$36,885	\$53,618	69%
September 30, 1995	\$36,883	\$49,860	74%
June 30, 1995	\$34,561	\$50,155	69%
March 31, 1995	\$33,501	\$48,831	69%

Also not included in the bank's loan-to-deposit ratio is a significant number of real estate loans that were sold on the secondary market in 1995 and 1996.

If included, the bank's loan-to-deposit ratio would increase by several percentage points.

As listed in the March 31, 1996, Uniform Bank Performance Report, the bank's loan-to-deposit ratio was 69%, which places the bank in the 55th percentile in relation to its peer group. The bank is the only financial institution in Clark County. Watertown has several financial institutions, most of which are branches of large regional banks; therefore, loan-to-deposit information is not available or meaningful. In addition, the bank is facing stiff competition for both consumer and agricultural loans from several nonbank entities.

The bank has made several significant community development loans since the last evaluation. Two loans were made to develop real estate that will be used for low- and moderate-income housing. A loan was made to build an assisted living center for senior citizens. Twelve units of this development are set aside for low-income residents.

Based on the bank's consistently high loan-to-deposit ratio, secondary market lending, and significant number of community development loans, the bank exceeds the standards for satisfactory performance.

Lending in the Assessment Area

A review of the statistical sample of the loans originated by the bank in the six months preceding the evaluation reveals that a substantial 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 amount in each major loan category.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Product	Number of Loans	Amount of Loans (\$)
Consumer Real Estate	88%	82%
Consumer	93%	92%
Agricultural	89%	82%

Based on this 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 incomes and to businesses of different sizes exceeds the standards for satisfactory performance. As previously mentioned, CRA classifies income levels into four categories: low, moderate, middle, and upper. Based on 1990 census data, the median household and family incomes for the bank's assessment area are \$21,226 and \$27,038, respectively. These figures exceed the statewide nonmetropolitan household and family incomes for South Dakota.

The following table shows the percentage of consumer real estate and 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
<u>Consumer</u>				

Total Number of Loans	42%	25%	15%	18%
Total Amount of Loans	32%	16%	18%	25%
<u>Consumer Real Estate</u>				
Total Number of Loans	3%	25%	17%	56%
Total Amount of Loans	1%	15%	12%	71%
*Income level based on South Dakota's 1995 median family income of \$30,100.				

As shown above, the bank made over two-thirds of its consumer loans to low- and moderate-income borrowers. In addition, the bank made 28% of its consumer real estate loans to low- and moderate-income borrowers. As previously discussed under the Description of Institution section, real estate loans comprise 9% and consumer loans comprise 11% of the bank's total loan portfolio. Low- and moderate-income households account for 39% of the assessment area's population. Specifically, low-income households represent 21% of the local population and moderate-income households represent the balance. This concentration of consumer and, in particular, consumer real estate loans to members of both income categories is commendable considering the demographic data. The fact that the majority of consumer real estate loans are made to upper-income borrowers appears reasonable, given that both the bank staff and a community contact stated that there has been a shortage of available affordable housing for low- and moderate-income residents in the area. According to community contacts, the banks in the area are committed to provide funding for housing loans to all qualified borrowers.

Most of the bank's agricultural borrowers are small businesses. In fact, all the agricultural loans sampled went to borrowers with gross annual revenues of \$1 million or less. In addition, 94% of the sampled loans had loan amounts of \$100,000 or less. The size and volume of the loans appear reasonable given that agricultural loans represent the majority of the loans in the bank's portfolio. Based on the bank's level of lending to low- and moderate-income borrowers and small businesses, the bank exceeds the standards for satisfactory performance in this category.

Geographic Distribution of Loans

The distribution of the bank's loans throughout its assessment area is reasonable. As previously discussed, the bank's assessment area includes six middle-income and one upper-income BNA. Approximately 72% of the population resides in the assessment area's middle-income BNAs. As the following chart indicates, the bank has the majority of its loans in the middle-income BNAs.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL		
Loan Type	Middle-Income BNA	Upper-Income BNA
AGRICULTURAL		
Total Number of Loans	100%	0%
Total Amount of Loans	100%	0%
CONSUMER		
Total Number of Loans	92%	8%
Total Amount of Loans	87%	13%
CONSUMER REAL ESTATE		
Total Number of Loans	73%	27%

Total Amount of Loans	70%	30%
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The bank's assessment area does not include any low- or moderate-income BNAs.

The distribution of the bank's consumer loans in the middle-income BNAs exceeds the representation of residents in such areas compared with the total assessment area population. The distribution of consumer real estate loans is reasonable and mirrors the distribution of the assessment area's population. The one upper-income BNA is located in the city of Watertown; therefore, it is reasonable that there are not any agricultural loans in this BNA.

#### Investments and Services

The bank's level of qualified investments and services significantly improves individuals' access to credit in the assessment area. Since the last evaluation, the bank invested funds with an area credit union. The credit union was experiencing a high demand for loans and needed funds to accommodate members' requests. The credit union serves primarily low- and moderate-income borrowers.

The bank's officers are also extremely active in helping to provide credit to low- and moderate-income individuals that have difficulty obtaining conventional loan products. One bank officer is on the board and serves as chairman of the revolving loan fund of a nonprofit organization whose primary function is to assist low-income individuals obtain small business loans. Another officer provides technical assistance for a private, nonprofit development corporation and is on its board. This nonprofit corporation's purpose is to make direct loans to individuals and businesses and provide counseling, referral, and mediation services to businesses in need of assistance. In addition, the nonprofit organization offers four loan programs that were set up to provide assistance to low-income applicants, including women and minority entrepreneurs and business owners.

#### General Comments

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

## **PUBLIC DISCLOSURE**

July 15, 1996  
Date of Evaluation

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## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Dacotah Bank  
Name of Depository Institution

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094603100000  
Identification Number of Institution

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Clark, 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.