



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

August 07, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Dakota National Bank
Charter Number 2068**

**225 Cedar Street
Yankton, SD 57078**

**Office of the Comptroller of the Currency
Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, SD 57108**

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.

INSTITUTION'S CRA RATING:

This institution is rated Satisfactory.

The Lending Test is rated "Satisfactory."

- The bank's quarterly average net loan-to-deposit ratio of 101.48% is reasonable and reflective of the bank's willingness to lend.
- A majority of the bank's loans by number (89%) and by dollar volume (84%) are located within its assessment area.
- Borrower distribution is reasonable for loans to small businesses, loans to small farms, and home purchase loans.
- Geographic distribution is reasonable for loans to small businesses, loans to small farms, and home purchase loans.

The Community Development Test is rated "Satisfactory."

- Community development loan and investment volumes are adequate at 4% and 2% of Tier 1 Capital, respectively. Community development loans and investments are responsive to identified assessment area needs.
- Retail services are accessible to individuals of various income levels throughout the assessment areas.
- Community development services volume is good. Bank employees provided expertise to 21 community development organizations during the evaluation period. Community development services are responsive to identified assessment area needs.

SCOPE OF EXAMINATION

This CRA examination includes commercial, agricultural, and residential home purchase loans originated or purchased from January 1, 2005 through June 30, 2007. We also considered community development loans, investments, and services from May 21, 2003 through June 30, 2007.

The volume of home improvement and home refinance was too low to result in a meaningful analysis. The bank does not collect or report information on consumer loan originations, and they are not a primary loan product.

DESCRIPTION OF INSTITUTION

First Dakota National Bank (First Dakota) is a \$641 million commercial bank headquartered in Yankton, SD. The bank has twelve branches in South Dakota which include: Yankton (2), Vermillion, Salem, Parkston, Wagner, Mitchell (2), Chamberlain, Kimball, and Sioux Falls (2). The bank also operates seven loan production offices (LPO's) which are located in South Dakota (Corsica, Mitchell, and Platte) and Nebraska (Elgin, Elk Creek, Hastings, and Ogallala). In addition, First Dakota owns and operates thirteen automated teller machines (ATM's). One ATM located in Wagner, SD and another in Mitchell, SD are "deposit-taking" while the rest are cash dispensing only.

First Dakota's business focus is traditional community banking products. According to the June 30, 2007 Uniform Bank Performance Report, the bank had the following outstanding loans by dollar volume: real estate loans (68%), commercial (14%), agricultural (14%), consumer (3%), and other (less than 1%). Net loans totaled 85% of total assets as of June 30, 2007.

First Dakota is wholly owned by First Dakota Financial Corporation, a \$648 million, one-bank holding company headquartered in Yankton, South Dakota.

First Dakota received a "satisfactory" rating at its May 20, 2003 CRA examination. There are no financial, legal, or other factors that impede the bank's ability to meet the credit needs of its assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

First Dakota has designated two assessment areas, both in South Dakota. The Sioux Falls MSA assessment area includes the following South Dakota counties: McCook, Minnehaha, Turner, and Lincoln. First Dakota branches in Salem and Sioux Falls serve this MSA. The population of this assessment area is 187,093 persons according to 2000 U.S. Census data. Competition in the Sioux Falls MSA is high with numerous banks in the area, several of which operate throughout the nation.

The bank's rural assessment area (SD Rural) includes the following South Dakota counties: Lyman, Buffalo, Brule, Aurora, Douglas, Charles Mix, Davidson, Hanson, Hutchinson, Bon Homme, Yankton, and Clay as well as small portions of Knox and Cedar counties in Nebraska. This assessment area is being served by the following bank branches: Yankton, Vermillion, Mitchell, Parkston, Wagner, Chamberlain, and Kimball. The population of this assessment area is 106,501 persons according to 2000 U.S. Census data.

Both of the bank's assessment areas comply with regulatory requirements. They include all First Dakota branch offices and "deposit-taking" ATMs, as well as a majority of the bank's loans. The areas do not arbitrarily exclude any low or moderate income census tracts.

The 2004 U.S. Census and the 2007 Department of Housing and Urban Development (HUD) estimated median family incomes (MFI) for the Sioux Falls, SD MSA are \$51,458 and \$61,700, respectively. The 2004 U.S. Census and the 2007 HUD estimated MFI for the SD rural assessment area are \$39,438 and \$48,700, respectively. The following table summarizes the income levels of census tracts and families located within the bank's two assessment areas:

| INCOME DISTRIBUTION OF CENSUS TRACTS AND FAMILIES | | | | | | | | |
|--|-----------------------|-----------------|-----------------|----------------|------------------------|------------|------------|------------|
| Assessment Area | Number of Geographies | | | | Percentage of Families | | | |
| | Low | Moderate | Middle | Upper | Low | Moderate | Middle | Upper |
| Sioux Falls MSA | 0 (0%) | 7 (19%) | 25 (68%) | 5 (14%) | 15% | 20% | 29% | 36% |
| SD Rural | 1 (3%) | 3 (10%) | 24 (80%) | 2 (7%) | 19% | 19% | 24% | 38% |
| Total | 1 (1%) | 10 (15%) | 49 (73%) | 7 (10%) | 17% | 19% | 27% | 37% |

Source: U.S. Census (2004)

Economic conditions in the assessment areas are generally good. Major employers in the Sioux Falls MSA are centered in health care, credit card processing, meat processing, and education. Major employers in the SD Rural assessment area include agriculture, healthcare, and manufacturing. According to the U.S. Bureau of Labor Statistics, unemployment levels in the assessment areas are well below the national average of 4.6% for July 2007. The Sioux Falls MSA unemployment rate was 2.2% as of July 2007. The SD Rural assessment area unemployment rate (county average) was 2.9%, and the South Dakota unemployment rate was 2.8%.

Competition from other financial institutions is strong. Including First Dakota, there are 49 financial institutions serving the bank's assessment areas. Wells Fargo Bank, N.A. dominates deposit market share with 88%. By comparison, First Dakota has deposit market share of less than 1%, ranking sixth. The bank's primary deposit strength is in the SD Rural assessment area with 21% deposit market share (ranking 1st out of 29).

We did not identify any unmet credit needs in any of First Dakota's assessment areas. We contacted individuals from federal rural development and city low-income housing agencies. Assessment area credit needs are typical of those in most small cities and rural communities and include small business, small farm, and affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The Lending Test is rated "Satisfactory."

Loan-to-Deposit Ratio

First Dakota's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 101.48% for the 18 quarters from March 31, 2003 through June 30, 2007.

The bank's net loan-to-deposit ratio is reasonable when compared with other community banks of similar size (total assets over \$250 million and less than \$1 billion) in the assessment areas. First Dakota ranks second among a total of five similarly situated banks serving the assessment areas. The other four banks had quarterly average net loan-to-deposit ratios averaging 96.42 % and ranging from 89.15% to 106.82% over the 18 quarters from March 31, 2003 through June 30, 2007.

Lending in Assessment Areas

First Dakota originates a majority of its loans to borrowers located within its defined assessment areas. We reviewed 2,270 agricultural, 1,629 commercial, and 1,291 home purchase loans originated from January 1, 2005 to June 30, 2007; these are the bank's primary products in order of importance. Approximately 89% by number and 84% by dollar volume were made to borrowers within the bank's assessment areas. The following table shows primary product loans originated inside and outside the assessment areas by number and dollar volume:

| TOTAL LOANS REVIEWED | | | | | | | | |
|----------------------|---------------------|-------------|------------------|-------------|-------------------------|-------------|-----------------|-------------|
| Loan Type | In Assessment Areas | | | | Out of Assessment Areas | | | |
| | Number | % of Number | Dollars (000s) | % of Amount | Number | % of Number | Dollars (000s) | % of Amount |
| Agricultural | 1,916 | 84% | \$153,437 | 79% | 354 | 16% | \$39,841 | 21% |
| Commercial | 1,530 | 94% | \$115,653 | 86% | 99 | 6% | \$19,154 | 14% |
| Home Purchase | 1,195 | 93% | \$138,586 | 89% | 96 | 7% | \$16,613 | 11% |
| Total | 4,641 | 89% | \$407,676 | 84% | 549 | 11% | \$75,608 | 16% |

Source: Bank records (verified by examiners)

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

Overall borrower distribution is reasonable for loans to small businesses, loans to small farms, and home purchase loans.

Distribution of loans to small farms is reasonable. The bank's lending by both number and dollar volume is reasonable and is comparable to community demographics for the SD Rural assessment area.

| BORROWER DISTRIBUTION OF LOANS TO SMALL FARMS | | | |
|--|-------------|-------------|------------|
| Gross Annual Revenue | SD Rural | | |
| | % of Number | % of Amount | Farm Data |
| <= \$1 million | 95% | 90% | 97% |
| >= \$1 million | 4% | 9% | 3% |
| Revenue unavailable | 1% | 1% | 0% |
| Total | 100% | 100% | 100% |

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (2004)

Distribution of loans to businesses of various revenue sizes is reasonable. The bank's lending by both number and dollar volume is reasonable and meets community demographics for the Sioux Falls MSA assessment areas. The bank's lending by both number and dollar volume substantially exceeds community demographics of the SD Rural assessment area.

| BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES | | | | | | |
|---|-----------------|-------------|---------------|-------------|-------------|---------------|
| Gross Annual Revenue | Sioux Falls MSA | | | SD Rural | | |
| | % of Number | % of Amount | Business Data | % of Number | % of Amount | Business Data |
| <= \$1 million | 93% | 85% | 90% | 88% | 70% | 52% |
| >= \$1 million | 7% | 15% | 10% | 11% | 29% | 4% |
| Revenue unavailable | 0% | 0% | 0% | 1% | 1% | 44% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (2004)

Revenue information for a significant number of businesses was not available through demographic data. Based on demographic and economic data for the SD Rural assessment area we estimate that most of the "revenue unavailable" businesses in the SD Rural assessment area would have gross annual revenues of less than \$1 million.

Distribution of home purchase loans to borrowers of various income levels is good. The bank's lending by both number and dollar volume of loans to low- and moderate-income borrowers is good and is slightly above community demographics for the Sioux Falls MSA assessment area.

| BORROWER DISTRIBUTION OF HOME PURCHASE LOANS | | | |
|---|-----------------|--------------------|---------------|
| Borrower Income Level | Sioux Falls MSA | | |
| | % of Number | % of Dollar Volume | % of Families |
| Low | 16% | 12% | 15% |
| Moderate | 26% | 24% | 20% |
| Middle | 25% | 25% | 29% |
| Upper | 26% | 31% | 36% |
| N/A | 6% | 9% | 0% |
| Total | 100% | 100% | 100% |

Source: Bank records (verified by examiners) and U.S. Census Data (2004)

Geographic Distribution of Loans

Geographic distribution of commercial, agricultural, and home purchase loans in both assessment areas is reasonable.

Geographic distribution of agricultural loans is reasonable. The bank's lending by both number and dollar volume of agricultural loans meets community demographics of the SD Rural assessment area.

| GEOGRAPHIC DISTRIBUTION OF AGRICULTURAL LOANS | | | |
|--|-------------|-------------|------------|
| Tract Income Level | SD Rural | | |
| | % of Number | % of Amount | % of Farms |
| Low | 0% | 0% | 0% |
| Moderate | 5% | 3% | 7% |
| Middle | 92% | 94% | 92% |
| Upper | 3% | 3% | 1% |
| Total | 100% | 100% | 100% |

Source: Bank records (verified by examiners) and U.S. Census Data (2004)

Geographic distribution of commercial loans is reasonable. The bank's lending by both number and dollar volume of commercial loans in the Sioux Falls MSA assessment area is adequate, but somewhat below community demographics. The bank's lending by both number and dollar volume of commercial loans in the SD Rural assessment area is reasonable and meets community demographics.

| GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS | | | | | | |
|--|-----------------|-------------|-----------------|-------------|-------------|-----------------|
| Tract Income Level | Sioux Falls MSA | | | SD Rural | | |
| | % of Number | % of Amount | % of Businesses | % of Number | % of Amount | % of Businesses |
| Low | 0% | 0% | 0% | 0% | 0% | 1% |
| Moderate | 13% | 19% | 23% | 2% | 1% | 5% |
| Middle | 75% | 67% | 69% | 84% | 80% | 87% |
| Upper | 12% | 14% | 8% | 14% | 19% | 7% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Bank records (verified by examiners) and U.S. Census Data (2004)

Geographic distribution of home purchase loans is reasonable. The bank's lending by both number and dollar volume of home purchase loans is reasonable and meets community demographics for the Sioux Falls MSA assessment area.

| GEOGRAPHIC DISTRIBUTION OF HOME PURCHASE LOANS | | | |
|---|-----------------|-------------|-----------------------------|
| Tract Income Level | Sioux Falls MSA | | |
| | % of Number | % of Amount | % of Owner Occupied Housing |
| Low | 0% | 0% | 0% |
| Moderate | 12% | 9% | 13% |
| Middle | 75% | 79% | 70% |
| Upper | 13% | 13% | 17% |
| Total | 100% | 100% | 100% |

Source: Bank records (verified by examiners) and U.S. Census Data (2004)

Examiners found no significant gaps in the bank's lending patterns. First Dakota originated agricultural loans in all 30 census tracts in the SD Rural assessment area. First Dakota originated business loans in most of the SD Rural assessment area census tracts. First Dakota did not originate business loans in one low-income and one middle-income tract. First Dakota does not have a branch in either census tract and business opportunities are limited as less than one percent of SD Rural assessment areas are located in these two census tracts. The bank originated business loans in most of the 37 census tracts in the Sioux Falls MSA assessment area. The bank did not originate business loans in three middle-income tracts in the Sioux Falls MSA assessment area. Business opportunities are limited in each of the census tract areas. First Dakota originated home purchase loans in all 37 census tracts in the Sioux Falls MSA assessment area.

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

Community Development Test

The Community Development Test is rated "Satisfactory."

First Dakota provides a good level of community development services, sometimes in a leadership role. In total, 18 bank officers and employees provided qualified services to 21 community development organizations serving the assessment area. These organizations address assessment area needs for economic development and social services to low- and moderate-income individuals. The following examples illustrate some of the services provided:

- A bank officer serves as a director and vice chairperson of a community development organization.
- Two bank employees and one bank officer serve on the board of an organization that provides services to rural residents who are victims of domestic violence or sexual assault.
- Three bank officers serve in various capacities for a nonprofit organization that raises funds for organizations providing community services to low- and moderate-income individuals.

First Dakota provided a reasonable level of community development lending. The bank originated six community development loans totaling \$2 million, or 4% of Tier 1 Capital. All of the bank's community development loans were for affordable housing.

Retail services are accessible to individuals of different income levels. The percentage of branch offices (17%) located in moderate-income census tracts is in line with the percentage of families residing in those census tracts (19%). In addition, three bank branches are located in agency-designated underserved middle-income nonmetropolitan tracts. During the evaluation period, First Dakota did not open, acquire, or close any branches.

First Dakota generated an adequate level of qualified investments and grants. The bank made the following 127 investments and donations totaling \$992 thousand, or 1.8% of Tier 1 Capital:

- Two investments totaling \$750 thousand that fund loan pools to provide start-up and expansion financing to new and very small businesses throughout the state of South Dakota.
- One hundred twenty five donations totaling \$242 thousand to organizations supporting social services and job skills training for low- and moderate-income individuals, small business development, and affordable housing.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.