



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**August 17, 2009**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Volga  
Charter Number 6099

303 Kasan Avenue  
Volga, SD 57071

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 distribution of borrowers reflects reasonable penetration to small farms and low- and moderate-income individuals.
- A substantial majority of the bank’s loans are originated to borrowers located in its assessment area.
- The bank’s average net loan-to-deposit ratio of 79 percent is reasonable and compares favorably with those of other similarly situated banks.

**SCOPE OF EXAMINATION**

First National Bank of Volga, Volga, South Dakota (FNB Volga) was evaluated under the Small Bank examination procedures, which consisted of a lending test. The lending test evaluates the bank’s record of meeting the credit needs of its assessment areas (AAs) through its lending activities.

The lending test for FNB Volga covers its performance from March 11, 2003 through June 30, 2009, as this is representative of its lending strategy since the last CRA examination.

FNB Volga’s primary loan products are agricultural and consumer loans. To evaluate the bank’s agricultural and consumer lending performance, examiners selected a sample of 20 agricultural and 20 consumer loans made during the evaluation period.

**DESCRIPTION OF INSTITUTION**

FNB Volga is a \$36 million commercial bank. The bank operates two full-service branches located in Volga, SD and Brookings, SD. In addition, the bank operates two cash-dispensing automated teller machines.

FNB Volga’s business focus is agricultural and consumer lending. According to loan information supplied by the bank for the evaluation period, agriculture lending comprised 35 percent of dollar volume and consumer lending comprised 42 percent of loan type by number.

Loan Type	\$	% of \$	#	% of #
Residential	8,173,208	24%	149	15%
Agriculture	11,696,457	35%	222	22%
Commercial	7,496,586	22%	115	11%
Consumer	5,006,130	15%	425	42%
Other	1,189,863	4%	97	10%
Totals	33,562,244		1008	

Source: Bank records (verified by examiners)

The bank is wholly-owned by North Central Financial Services, Inc., a \$37 million one-bank holding company headquartered in Volga, South Dakota.

FNB Volga received an “Outstanding” rating at its March 11, 2003 CRA examination. This Performance Evaluation assesses the bank’s CRA activities from March 11, 2003 through June 30, 2009. 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 AREA(S)**

FNB Volga’s assessment area contains the following census tracts: Brookings County (#9596, 9587, 9588, 9589, and 9590). The total population of the assessment area is 28,220 persons, according to 2000 U.S. Census data.

The assessment area complies with regulatory requirements. The assessment area includes all bank branches and deposit taking ATMs. The area does not arbitrarily exclude any low- or moderate-income census tracts.

The 2000 Census estimated median family income (MFI) for non-metropolitan areas in South Dakota was \$39,438 and the 2009 Department of Housing and Urban Development (HUD) estimated MFI is \$52,500. The following table summarizes the income levels of individual census tracts and families located within the bank’s assessment area:

INCOME DISTRIBUTION OF CENSUS TRACTS AND FAMILIES								
Assessment Area	Block Numbering Areas (# and %)				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Brookings County	0	0	2	3	13%	13%	23%	51%
	0%	0%	40%	60%				

Source: U.S. Census Data (2000)

Economic conditions in the assessment area are good. The 2008 unemployment rate for Brookings County was 2.97 percent, which compares favorably to the state of South Dakota (3.00 percent) and the nation (5.78 percent). Many local residents work in the Brookings area, which offers employment in the fields of education, manufacturing, and health care. Agricultural production continues to provide the economic base for the rural portions of the assessment area.

Competition from other financial institutions is strong. Including FNB Volga, there are ten financial institutions serving the bank’s assessment area including branches of large regional and national institutions. First National Bank and Trust in Brookings dominates the assessment area deposit market share with 63.8 percent. FNB Volga has deposit market share of 3.72 percent, ranking seventh among the ten financial institutions.

In conducting the assessment of the bank’s performance, we contacted a local community organization. This contact indicated that the credit needs in the area continue to be centered in

affordable housing and lending to small industrial and agricultural businesses.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB Volga's lending test performance is satisfactory. The distribution of loans reflects a reasonable penetration among individuals of different income levels and small farms, given the bank's product offerings, and local economic conditions. FNB Volga originates a substantial majority of its loans to borrowers located within its defined assessment area. In addition, the bank's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

### Loan-to-Deposit Ratio

FNB Volga'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 79 percent over the 26 quarters from March 31, 2003 to June 30, 2009 with a low of 68 percent and a high of 91 percent.

The bank's net loan-to-deposit ratio is comparable to other community banks of similar size (total assets less than \$100 million) in the assessment area. FNB Volga ranks fourth among a total of five similarly situated banks serving the assessment area. The other 5 banks had quarterly average net loan-to-deposit ratios averaging 79 percent ranging from 49 percent to 91 percent over the 26 quarters from March 11, 2003 to June 30, 2009. In addition, FNB Volga originates and sells residential loans on the secondary market. As of August 19, 2009 FNB had originated and sold around \$4 million in residential loans to the secondary which would improve their loan-to-deposit ratio if maintained on their books.

### Lending in Assessment Area

FNB Volga originates a substantial majority of its loans to borrowers located within its defined assessment area. The bank's primary loan products are agricultural and consumer related. To evaluate the bank's lending performance, we sampled 20 agricultural and 20 consumer loans originated during the evaluation period. Of the 20 agricultural loans sampled, 85 percent by number and 69 percent by dollar were made within the assessment area. Of the 20 consumer loans sampled, 80 percent by number and 71 percent by dollar were made within the assessment area.

<b>LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT (000s)</b>				
Type of Loan	Number	Percent of Number	Dollars (000s)	Percent of Dollars
Agricultural	17 of 20	85%	\$824 of \$1,199	69%

Consumer	16 of 20	80%	\$110 of \$155	71%
<b>Total</b>	<b>33 of 40</b>	<b>83%</b>	<b>\$935 of \$1,354</b>	<b>69%</b>

Source: Bank records (verified by examiners)

Since the last examination, the bank adjusted their assessment area. If the old assessment area were used, 100 percent of the agricultural loans would have been within the assessment area increasing the total dollar amount within the assessment area from 69 percent to 97 percent and the percent by number from 83 percent to 90 percent.

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

The distribution of loans by the income or annual revenues of the borrowers meets the standard. The bank exceeds the demographics for consumer lending and meets the demographics for small farm agricultural lending.

FNB Volga’s distribution of consumer loans exceeds the demographics for low and moderate income households. This is strong performance as 15 percent of families are below the poverty level. Examiners sampled 20 consumer loans from the evaluation period with 16 of the loans originating within the assessment area. The following table shows the summary of results from that sample:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number	Percent of Number	Percent of Households
<b>Low</b>	<b>4</b>	<b>25%</b>	<b>21%</b>
<b>Moderate</b>	<b>4</b>	<b>25%</b>	<b>14%</b>
Middle	4	25%	18%
Upper	3	19%	47%
Unknown	1	6%	-
Totals	16	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

The bank’s distribution of agricultural loans meets the demographics for assessment area farming operations. The majority (88 percent) of the bank’s loans were originated to small agricultural borrowers with gross annual revenues of less than \$1,000,000. Examiners sampled 20 loans from the evaluation period with 17 of the loans originated in the assessment area. The following table shows the summary of results from that sample:

BORROWER DISTRIBUTION OF LOANS TO SMALL FARMS			
Gross Annual Revenue	% of Number	% of Amount	Farm Data
<= \$1 million	88%	61%	99%
>= \$1 million	12%	39%	1%
Total	100%	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (2000)

Gross revenue data used to evaluate the bank's performance was pulled from 2008 which is skewed higher due to record commodities prices during the year. When comparing the 2008 gross revenue numbers to the 2000 census data, theoretically, there would be more farms considered large in 2008 than the 2000 census skewing the bank's performance towards larger farms.

**Geographic Distribution of Loans**

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle- and upper-income census tracts.

**Responses to Complaints**

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

**Fair Lending Review**

We found no evidence of illegal discrimination or other illegal credit practices..