



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 3, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Roberts County National Bank of Sisseton
Charter Number 6185

5 East Maple Street
Sisseton, SD 57262

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, SD 57108-2865

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 Needs to Improve.

- Lending levels do not meet the standard for satisfactory performance as evidenced by the bank's average net loan-to-deposit ratio of 33 percent. This element adversely impacts the overall Community Reinvestment Act (CRA) rating and negates overall reasonable performance in other elements.
- The Roberts County National Bank of Sisseton (RCNB) originates a majority of loans by number (78 percent) and dollar volume (70 percent) within its assessment area (AA).
- Borrower distribution of loans is reasonable. Farm loan penetration is reasonable and consumer loan penetration is excellent.
- Geographic distribution of loans is reasonable. Farm and consumer loan dispersion is reasonable.

SCOPE OF EXAMINATION

RCNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates RCNB's record of meeting the credit needs of its AA through its lending activities.

The evaluation period for this examination was the required three-year period from November 1, 2008 through September 30, 2011. The lending test for RCNB covers its performance from January 1, 2009 through September 30, 2011. Community contacts continue to identify farm loans as the primary credit need of the community.

RCNB's primary loan products were determined by taking all loans originated and purchased from January 1, 2009 to September 30, 2011. For the purposes of this evaluation, the primary loan products are farm and consumer loans. Farm loans represented 41 percent by number and 80 percent by dollar volume of originations. Consumer loans represented 54 percent by number and 10 percent by dollar volume. To evaluate RCNB's lending performance, we selected a sample of 20 farm and 20 consumer loans originated and purchased from January 1, 2009 through September 30, 2011. The following table depicts the number and dollar volume of loans purchased and originated at RCNB from January 1, 2009 through September 30, 2011.

Loan Products	#	%	\$ (000)	%
Farm Loans	324	41	9,231	80
Consumer Loans	434	54	1,206	10
Business Loans	28	4	455	4
Home Improvement	1	0	25	0
Home Purchase	3	0	196	2
Home Refinance	7	1	417	4
Total	797	100	11,530	100

Source: Loans originated and purchased from January 1, 2009 to September 30, 2011.

DESCRIPTION OF INSTITUTION

RCNB is a \$52 million financial institution located in Sisseton, South Dakota. RCNB is a wholly owned subsidiary of RCN Holding Company, a one-bank holding company, also headquartered in Sisseton. RCNB operates one banking location and a cash-dispensing ATM, both in downtown Sisseton.

RCNB offers traditional loan and deposit products and services to its customers. Net loans represent 25 percent of total assets as of September 30, 2011. By outstanding dollar volume, the loan portfolio is comprised of farm loans (56 percent), municipal leases (22 percent), residential loans (10 percent), commercial loans (8 percent), and consumer loans (4 percent). RCNB's tier one leverage capital is \$8.9 million, or 17 percent of average assets as of September 30, 2011. RCNB received a "Needs to Improve" rating at its previous CRA examination dated November 17, 2008.

There are no legal, financial, or other factors impeding RCNB's ability to meet the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREA(S)

RCNB's AA is Roberts County in South Dakota. The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The AA is comprised of six census tracts, of which two are moderate-income and four are middle-income. The four middle-income census tracts are identified as distressed middle-income non-metropolitan census tracts due to a high poverty level at 15 percent. The total population of the AA is 10,016.

The 2000 U.S. Census and 2011 Department of Housing and Urban Development estimated median family incomes for the non-metropolitan areas of South Dakota are \$39,438 and \$55,600, respectively. The distribution of families by income level is 26 percent low-income, 20 percent moderate-income, 24 percent middle-income, and 30 percent upper-income. About 20 percent of households have income below the poverty level.

Economic conditions in the AA are satisfactory. Major industries in the AA include educational, health, social services, farming, and retail trade. As of November 2011, the unemployment rate for Roberts County (5.3 percent) approximated that of the state of South Dakota (4.3 percent), with both significantly below the national unemployment rate of 8.5 percent.

Competition from other financial institutions is strong. Including RCNB, there are six financial institutions serving RCNB's AA. Dacotah Bank leads the deposit market share with 38 percent, while RCNB ranks second with 19 percent.

AA credit needs are typical of those in most small cities and rural communities and include small business, small farm, residential, and consumer credit. We contacted one community organization in the AA. Our contact indicated that area banks, including RCNB, are willing to assist with community development projects and services. However, they stated local banks do not do much lending due to bank regulations. RCNB's credit standards are more conservative than those of other local financial institutions, so many potential borrowers avoid RCNB based on that reputation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

RCNB's loan-to-deposit ratio is less than reasonable given the bank's size, financial condition, and AA credit needs. RCNB's loan-to-deposit ratio has decreased since the last CRA examination. During the past 13 quarters ending September 30, 2011 the average quarterly net loan-to-deposit ratio was 33 percent. The ratio ranged from a quarterly low of 28 percent to a quarterly high of 38 percent. During the evaluation period, RCNB originated and sold two residential loans totaling \$105 thousand; the impact of these sales on RCNB's net loan-to-deposit ratio is negligible.

RCNB's net loan-to-deposit ratio remains unfavorable when compared with other community banks of similar size (total assets between \$40 and \$65 million). RCNB ranks lowest among these 16 similarly situated banks. The other 15 banks had quarterly average net loan-to-deposit ratios averaging 74 percent and ranging from 43 percent to 97 percent over the 13 quarters from September 30, 2008 through September 30, 2011.

The cause of RCNB's low net loan-to-deposit ratio is largely internal. RCNB consistently and deliberately maintains higher underwriting standards that lead to a conservative credit culture. As a result, the bank's loans are typically well below the legal lending limit. The community contact noted qualifying for credit is difficult, and RCNB's reputation for conservative lending practices deters many potential borrowers from applying for credit. In addition, RCNB rarely advertises credit products.

Lending in Assessment Area

RCNB originates a majority of its loans to borrowers located within its AA. Approximately 78 percent by number and 70 percent by dollar volume of loans were made to farms and individuals located within RCNB's AA. The following table illustrates RCNB's lending to farms and individuals inside and outside the AA.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Farm	16	80%	4	20%	20	\$530	70%	\$226	30%	\$756
Consumer	15	75%	5	25%	20	\$39	64%	\$21	36%	\$60
Totals	31	78%	9	22%	40	\$569	70%	\$247	30%	\$816

Source: Farm and Consumer loan data sampled from 2009-2011.

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

The distribution of borrowers reflects reasonable penetration among farms of various sizes and individuals of different income levels.

Farm lending distribution is reasonable based on the 20 sampled loans within the AA. RCNB's farm lending is comparable to community demographics. RCNB originated the largest number of farm loans to operations with gross revenue less than \$1 million. Two farm loans were originated without income information, which represented 10 percent of the number and 4 percent of the dollar volume in our sample. The following table illustrates RCNB's lending to farms in the AA.

Borrower Distribution of Loans to Farms			
Gross Annual Revenue	% of Number	% of Dollar Amount	Farm Data
≤ = \$1 million	85	87	99
> \$1 million	5	9	1
Unknown	10	4	0
Total	100	100	100

Source: Farm loan data sampled from 2009-2011 and 2011 Business Geodemographic data.

Consumer lending to low- and moderate-income borrowers is excellent based on the 20 sampled loans within the AA. RCNB's consumer lending to low-income borrowers significantly exceeds community demographics and constitutes more than 50 percent of RCNB's overall consumer lending. Consumer lending to moderate-income borrowers exceeds community demographics and accounts for 25 percent of RCNB's overall consumer lending. The following table illustrates RCNB's lending to individuals in the AA.

Borrower Distribution of Loans to Consumers								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Loans by Number	% of Area Households	% of Loans by Number	% of Area Households	% of Loans by Number	% of Area Households	% of Loans by Number	% of Area Households
Consumer	55%	27%	25%	18%	5%	20%	15%	35%

Source: Consumer loan data sampled from 2009-2011 and 2000 U.S. Census data.

Geographic Distribution of Loans

Overall, geographic distribution of loans is reasonable. We did not identify any gaps in RCNB’s lending patterns. RCNB originated farm loans in five of six census tracts and consumer loans in all census tracts. Geographic distribution analysis considers only moderate- and middle-income census tracts as there are no low- or upper-income census tracts in the AA. In addition, all middle-income census tracts are identified as non-metropolitan distressed census tracts. Therefore, geographic distribution in these census tracts is considered in the rating.

Geographic distribution of farm loans is reasonable. Dispersion of farm loans in moderate-income tracts is reasonable as it meets the community demographics for number of loans. Geographic distribution of farm loans in the distressed middle-income tracts is excellent as it meets and exceeds community demographics for the number and dollar volume of loans, respectively. The following table illustrates RCNB’s lending to farms in moderate- and distressed middle-income census tracts in the AA.

Geographic Distribution of Loans to Farms						
Census Tract Income Level	Moderate			Middle		
	% of Loans by Number	% of Loans by Dollar	% of Area Farms	% of Loans by Number	% of Loans by Dollar	% of Area Farms
Farm	15%	7%	15%	85%	93%	85%

Source: Farm loan data sampled from 2009-2011 and 2011 Business Geodemographic data.

Geographic distribution of consumer loans is reasonable. Dispersion of consumer loans in moderate-income tracts is poor as it falls below community demographics of 23 percent. The poor performance in the moderate-income tract is supplemented by the excellent dispersion in the distressed middle-income tracts. Lending in the distressed middle-income census tracts is excellent as it exceeds the community demographics. The following table illustrates RCNB’s lending to individuals in moderate- and distressed middle-income census tracts in the AA.

Geographic Distribution of Loans to Consumers						
Census Tract Income Level	Moderate			Middle		
	% of Loans by Number	% of Loans by Dollar	% of Area Households	% of Loans by Number	% of Loans by Dollar	% of Area Households
Consumer	10%	21%	23%	90%	79%	77%

Source: Consumer loan data sampled from 2009-2011 and 2000 U.S. Census data.

Responses to Complaints

RCNB has not received any CRA-related complaints during the evaluation period.

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.