

Public Disclosure

November 19, 1997

Community Reinvestment Act Performance Evaluation

**The First National Bank of McClusky
Charter Number 8881**

**217 Main Street
McClusky, North Dakota 58463**

**Office of the Comptroller of the Currency
 Fargo Field Office
 3211 Fiechtner Drive Southwest
 Fargo, North Dakota 58103-2358**

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.

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 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 **The First National Bank of McClusky** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 19, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

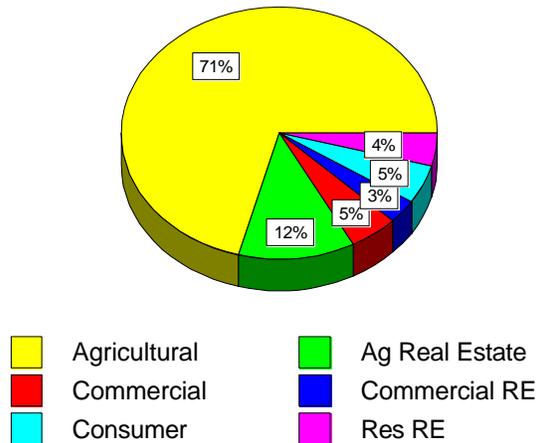
The bank's loan-to-deposit ratio is reasonable, with a substantial majority of loans being made within its assessment area. The bank's geographic distribution of loans reflects excellent dispersion throughout the assessment area. The bank lends to borrowers of different income levels, displaying a reasonable penetration among individuals of different income levels and businesses of different sizes.

Description of Institution

The First National Bank of McClusky, a \$25 million financial institution, is one of four banks located in the bank's assessment area. The main office is located in McClusky, ND. The bank

Loan Portfolio Composition

As of June 30, 1997



also has a paying and receiving station located in Mercer, ND. The bank does not have an automated teller machine. Davis Bancshares owns 100% of the bank's outstanding stock. The First National Bank of McClusky is a full service bank offering loan products with a heavy emphasis in agricultural loans. Agricultural loans comprise 71% of the \$14 million loan portfolio. Agricultural real estate represents 12% of the loan portfolio, with commercial and consumer loans each equaling 5%.

The bank does not have any barriers that prohibit it from meeting the credit needs of its assessment area. The local economic

conditions are poor because the area has experienced poor growing conditions the past four years. The bank has not opened or closed any branches since the last CRA examination. The bank received a Satisfactory Rating in the last CRA examination dated September 20, 1994.

Description of Assessment Area: Block Numbering Areas 9602, 9603 and 9608.

The bank's assessment area includes Sheridan County and the eastern part of McLean County. The assessment area includes block numbering area (BNA) 9602 in Sheridan County and BNA's 9603 and 9608 in McLean County. The assessment area contains one moderate income area, BNA 9602, and two middle income areas, BNA's 9603 and 9608. The 1990 census population is about 7,000 for the bank's assessment area. The updated 1997 weighted average of Non-metropolitan state-wide median family income is \$34,000. The primary housing facilities are 1-4 family units with a median value of \$32,400. The economy in the bank's assessment area is dependent on agriculture. The bank's assessment area does not arbitrarily exclude any low- and moderate-income areas. The following table illustrates the population breakdown within the bank's assessment area by family income.

Population	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
	#	%	#	%	#	%	#	%	#	%
	462	22.68%	371	18.21%	455	22.34%	749	36.77%	2037	100%

The community contact included a representative from a regional economic development corporation. The community contact stated that single family and multi-family housing were the primary credit needs in the community. Overall, the community contact stated the bank is generally active and participates in economic development projects in the community.

Conclusions with Respect to Performance Criteria

Loan-to-Deposit Analysis

The First National Bank of McClusky's loan-to-deposit (L/D) is reasonable. We calculated the L/D for each quarter-end since September 30, 1994. The L/D over the past twelve quarters averaged 57%. Average loan to deposit ratios for other banks in and adjacent to the bank's assessment area range from 41% to 76% over the same 12 quarter period. The First National Bank of McClusky's L/D ranks fourth of the eight banks in and adjacent to the assessment area.

Credit Extended Inside and Outside of the Assessment Area

A substantial majority of The First National Bank of McClusky's loans are within its defined assessment area. We used internal reports generated by the bank to analyze the extent of lending inside and outside of the assessment area. We reviewed and sampled some loans on the internal reports and determined the reports were accurate. Using the September 30, 1997 internal reports, over 86% of the number of loans outstanding and 87% of the dollar volume of loans outstanding were within the assessment area.

Loans outstanding as of September 30, 1997	Total # of loans	Total \$ amount
		885
% in Assessment Area	86%	87%
% out of Assessment Area	14%	13%

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

The bank makes loans to borrowers of different incomes and businesses of different sizes. Examiners focussed on the bank's primary line of business - agriculture. Examiners reviewed 41 agricultural loans to determine the income levels of the bank's customers. Based on the sample, the bank lends to borrowers of various income levels.

Gross Income for Agricultural and Commercial Businesses						
	<100,000	\$100,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	> \$1,000,000	Total
# of loans	18	13	7	2	1	41
% of loans	44%	32%	17%	5%	2%	100%

The distribution of outstanding agricultural loans reflected good representation of businesses of different income levels in the assessment area. The revised CRA regulation assumes gross revenues also generally correlate to the size of the business. Gross annual revenues of \$1,000,000 or less are equated with small businesses. The bank makes a substantial majority, 98%, of its loans to small businesses. The above table supports this conclusion.

Bank management's lending efforts are meeting the small-dollar consumer, commercial and agricultural needs of the bank's assessment area. The bank has approximately 273 lending relationships. 82% of the lending relationships are below \$100,000. Refer to the table below.

Size of Loans by Borrower Relationship						
	< \$50,000	\$50,000 to \$100,000	\$100,000 to \$200,000	\$200,000 to \$300,000	> \$300,000	Total
# of Loans	192	32	28	13	8	273
% of Loans	70%	12%	10%	5%	3%	100%

Geographic Distribution of Loans

The bank's distribution of loans reflects an excellent dispersion throughout the assessment area. We determined this by reviewing all outstanding loans within the bank's assessment area as of September 30, 1997. There are three BNA's in the bank's assessment area, (0% low-income, 33% moderate-income, 66% middle-income, and 0% upper-income). An analysis of the bank's lending patterns reflects penetration as follows:

- o 68% of the bank's outstanding loan volume were made to individuals in Sheridan County which is a moderate-income BNA; and
- o 68% of the number of loans outstanding were made to individuals in Sheridan County.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous CRA examination.

Compliance with antidiscrimination laws and regulations

Our review did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations.