



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

March 4, 2013

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

DNB National Bank  
Charter Number 12877

305 Fourth Street West  
Clear Lake, SD 57226

Office of the Comptroller of the Currency

4900 S. Minnesota Avenue, Suite 300  
Sioux Falls, South Dakota 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.**

- DNB National Bank (DNB) has a less than reasonable loan-to-deposit (LTD) ratio of 44 percent.
- The bank originates a majority of its loans to borrowers inside of its assessment area (AA).
- The bank’s distribution of loans shows excellent penetration for agriculture borrowers of different revenue sizes and individuals of different income levels.

**SCOPE OF EXAMINATION**

We reviewed loans originated between January 1, 2011 and March 4, 2013. Based on the number and dollar volume of loans we determined agricultural and consumer loans to be the bank’s primary products. These products are representative of the bank’s business strategy.

For our analysis, we sampled a total of 80 loans: 20 loans for each primary product in 2012-2013, and 20 loans for each primary product in 2011. The 2012-2013 loans were compared with the 2010 United States (U.S.) Census data and the 2011 loans were compared to the 2000 U.S. Census data. The following table shows the level of lending for each product type.

<b>Loan Portfolio Originations</b>		
<b>Loan Type</b>	<b>Originated Loans by Dollar</b>	<b>Originated Loans by Number</b>
Residential Loans	27%	9%
Consumer Loans	8%	54%
Agricultural Loans	51%	28%
Commercial Loans	14%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>

*Source: Bank reports.*

**DESCRIPTION OF INSTITUTION**

DNB is a community bank headquartered in Clear Lake, SD. As of December 31, 2012, DNB has \$60 million in total assets. The bank is 100 percent owned by a one-bank holding company, DCNB Holding Company, which is also headquartered in Clear Lake. The bank is located in Deuel County and has two branches: a main office in Clear Lake and one branch in Gary, SD. The bank has two automated teller machines, both located in Clear Lake, which do not accept deposits.

DNB offers traditional deposit and loan products. As of December 31, 2012, the loan portfolio represents 34 percent of total assets. The loan portfolio is comprised of 35 percent agricultural, 32 percent commercial, 19 percent residential real estate, and 14 percent individual loans when using dollar volume. The bank's primary business strategy is agricultural lending as the AA is a rural county.

DNB has no legal or financial impediments preventing it from meeting the credit needs of its community. The bank was rated "Satisfactory" at the last CRA examination dated October 1, 2007.

## **DESCRIPTION OF ASSESSMENT AREA**

DNB has one AA, which consists of a whole county, Deuel County. The AA contains two census tracts (CTs): 9536 and 9537. All CTs are middle income; there are no low- or moderate-income tracts. The AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

According to the 2010 U.S. Census data, total population of the AA is 4,364 with total households of 1,802. The median housing value within the AA is \$87,561. The primary type of housing is owner-occupied units, which represent 66 percent of total housing units. Rental units compose 15 percent of total housing and 19 percent are vacant. The 2012 Housing and Urban Development (HUD) median family income is \$56,400 for the non-metropolitan statistical areas of South Dakota. The distribution of household income within the AA is 17 percent low, 17 percent moderate, 22 percent middle, and 44 percent upper; eight percent of family households are below the poverty level.

Competition within the AA is low. DNB ranks first for deposit market share with the AA at 55 percent. The bank does face competitive pressure with financial institutions from the surrounding counties of Brookings, Hamlin, Codington, and Grant. Among the five counties, there are a total of 20 financial institutions. When compared with these institutions, DNB places tenth for deposit market share with two percent.

The local economy is stable; however, there are seasonal fluctuations in relation to the area's agricultural activity. We did not identify any unmet credit needs in DNB's AA. Examiners made one community contact during this CRA examination. The contact confirmed the local institutions are meeting the AA's credit needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

DNB's average net LTD ratio is less than reasonable. As of December 31, 2012, the net LTD ratio was 40 percent. The quarterly average net LTD ratio is 44 percent since the last examination dated October 1, 2007. Over these 21 quarters, the LTD ratio ranged from a quarterly average high of 58 percent to a low of 36 percent.

The agricultural economy has done well the last several years, resulting in lower loan demand. The LTD ratio also fluctuates in relation to the seasonal variations of the agricultural economy. These external factors have affected the LTD ratio.

The LTD ratio is less than reasonable when compared to six similarly-situated banks based on size, location, and product offerings. The comparable institutions are located in the counties of Deuel, Brookings, Codington, Hamlin, and Grant. The banks range in total asset size from \$39 million to \$63 million. These six institutions have a 21-quarterly average of 75 percent, ranging from 91 percent to 48 percent.

### Lending in Assessment Area

DNB originates a majority of its loans inside of the AA. Our analysis included a sample of 40 agricultural loans and 40 consumer loans originated from January 1, 2011 to March 4, 2013. From the analysis, we identified 78 percent of the number of loans and 46 percent of the dollar volume of loans were originated to borrowers inside of the AA. The volume of agricultural loans located out of the AA is lower due to a large out-of-area participation purchased. The table below illustrates the level of lending inside and outside of the AA for each primary product.

Lending in Deuel County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural Loans	30	75%	10	25%	40	1,852,656	44%	2,312,951	56%	4,165,607
Consumer Loans	32	80%	8	20%	40	205,296	77%	62,777	23%	268,073
Totals	62	78%	18	22%	80	2,057,952	46%	2,375,728	54%	4,433,680

Source :loan samples.

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

DNB has an overall excellent penetration of lending to individuals of different income levels and to farms of different sizes.

DNB has excellent penetration for lending to small farms. We sampled a total of 40 agricultural loans: 20 loans from 2012-2013 and 20 loans from 2011. The 2012-2013 loans are compared to the 2010 U.S. Census data and the 2011 loans are compared to the 2000 U.S. Census data. The data from the loan sample is compared to the AA’s percentage of farms with gross annual revenues at the respective levels provided by the U.S. Census data.

In 2012-2013, 100 percent of the dollar volume and number of loans were made to farms with gross revenues of less than or equal to \$1 million. This is excellent penetration compared to 2010 U.S. Census data, which shows 99 percent of farms within the AA have gross revenues less than or equal to \$1 million. The following table shows the distribution of loans to farms compared with the AA demographics.

<b>Borrower Distribution of Loans to Farms in Deuel County – 2012-2013</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

*Source: loan sample; 2010 U.S. Census data.*

In 2011, 100 percent of the dollar volume and number of loans were originated to farms with gross revenues less than or equal to \$1 million. This is excellent penetration compared to 2000 U.S. Census data, shows 99 percent of the farms within the AA have revenues less than or equal to \$1 million. The following table shows the distribution of loans to farms compared with the AA demographics.

<b>Borrower Distribution of Loans to Farms in Deuel County - 2011</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

*Source: loan sample; 2000 U.S. Census data.*

The bank has excellent penetration of lending to individuals of low- and moderate-income levels. We sampled a total of 40 consumer loans: 20 loans from 2012-2013 and 20 loans from 2011. The 2012-2013 loans are compared to the percentage of households within each income level in the 2010 U.S. Census. The 2011 loans are compared to the percentage of households within each income level in the 2000 U.S. Census.

In 2012-2013, DNB originated 35 percent of consumer loans to low-income borrowers. This exceeds the AA demographic of 17 percent of the AA households. In addition, 45 percent of consumer loans were originated to moderate-income borrowers. This exceeds the AA demographic of 17 percent of households. The following table displays the distribution of lending to consumers within each income level compared with the respective percentage of AA households.

<b>Borrower Distribution of Consumer Loans in Deuel County – 2012-2013</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	17%	35%	17%	45%	22%	5%	44%	15%

*Source: loan sample; 2010 U.S. Census data.*

In 2011, DNB originated 30 percent of consumer loans to low-income borrowers. This exceeds the AA demographic of 22 percent of its households. The bank originated 20 percent of consumer loans to moderate-income borrowers. This exceeds the AA demographic of 18 percent of AA households. The following table displays the level of lending to consumers within each income level compared with the respective percentage of AA households.

<b>Borrower Distribution of Consumer Loans in Deuel County - 2011</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22%	30%	18%	20%	20%	15%	40%	35%

*Source: loan sample; 2000 U.S. Census data.*

**Geographic Distribution of Loans**

We did not perform an analysis of the geographic distribution of loans as both CTs within the AA are middle-income and the analysis would not be meaningful.

### **Responses to Complaints**

The OCC and DNB have not received any complaints regarding the bank's CRA performance since the last CRA examination dated October 1, 2007.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA area by an affiliate whose loans have been considered as part of the bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.