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Comptroller of the Currency  
Administrator of National Banks

SMALL BANK

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## **Public Disclosure**

**July 20, 1998**

### **Community Reinvestment Act Performance Evaluation**

**First Dakota National Bank  
Charter Number 2068**

**225 Cedar  
Yankton, South Dakota 57078**

**Office of the Comptroller of the Currency  
Sioux Falls Field Office  
300 North Dakota Avenue  
Sioux Falls, South Dakota 57101**

**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 **First Dakota National Bank**, Yankton, South Dakota prepared by The Office of the Comptroller of the Currency, as of July 20, 1998. 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 lending level is more than reasonable, given the institution's size, financial condition, and assessment area credit needs. A majority of the bank's loans are within the bank's assessment area. Lending to individual borrowers with different income levels is reasonable. The bank does a very effective job of lending to farms of different sizes. The bank satisfactorily meets the credit needs of businesses of different sizes. The bank's lending by geographies is reasonable. Examiners did not detect illegal discrimination or disparate treatment of applicants. The bank has had no written complaints related to their CRA performance.

## Description of Institution

First Dakota National Bank, Yankton, South Dakota (FDNB) is a \$285 million bank in Yankton County in southeastern South Dakota. The main office with a drive-up facility, a branch office, and two automated teller machines (ATM) are readily accessible to all Yankton residents. Also, the bank has branches in Parkston, Salem, Vermillion, and Wagner, South Dakota. Each branch except Parkston has an ATM. FDNB is 100% owned by First Dakota Financial, Inc. First Dakota Financial is a single-bank holding company. There are no legal or financial impediments limiting the bank's ability to help meet the credit needs of the assessment area.

On June 30, 1998, FDNB's loan portfolio was 80% of total assets. The bank originated 11,426 loans for \$296 million since the last evaluation dated August 12, 1996. The bank's primary credit products are agricultural, business, and instalment loans. These three products total 89% of loans originated by volume. Also, the bank originates numerous residential loans which represent 11% of loan volume. The table below details the percentages of the portfolio by dollar volume and number of loans originated since August 12, 1996.

	<b>% of Originated Loans By Dollars</b>	<b>% of Originated Loans By Number</b>
Agricultural Loans	37%	15%
Commercial Loans	35%	33%
Consumer Loans	17%	48%
Residential Real Estate Loans	11%	04%

FDNB was rated "Outstanding Record of Meeting Community Credit Needs" at the last CRA examination dated August 12, 1996.

## Description of First Dakota National Bank's Assessment Area

FDNB's Assessment Area (AA) meets all the requirements of the Community Reinvestment Act (CRA). The AA is contiguous and includes only two moderate-income tracts. The bank's AA is Bon Homme, Charles Mix, Clay, Hutchinson, McCook, Turner, and Yankton Counties in South Dakota. The AA also includes block numbering areas (BNA) 9771 in Ceder and 9761 in Knox Counties in northeastern, Nebraska. You may refer to the CRA Public File for a map of the AA.

The population of the AA is 79,640. The communities of Yankton and Vermillion, populations of 12,703 and 10,034, respectively, are about 29% of the population in the AA. The University of South Dakota is located in Vermillion and has an enrollment of 6,248 college students. Mount Marty College in Yankton has 945 students. The remaining AA population lives in smaller communities around Yankton and in rural areas.

(Continuation: Description of Assessment Area)

The AA's median family income is \$25,046 which is 68% of the 1998 South Dakota state-wide median family income of \$36,800. The AA contains two moderate income tracts, eighteen middle income tracts, and one upper income tract. Family incomes in the AA are 20% low-income, 19% moderate-income, 25% middle-income, and 36% upper-income. The local economy is growing. The main sources of employment are provided by agriculture, agricultural related businesses, and several larger businesses in the Yankton and Vermillion communities.

The banking environment in the AA is competitive. Nineteen banks, branches of three non-local banks, one savings and loan, and Farm Credit Services provide competition for loans and deposits in the AA. The primary credit needs of the AA are agricultural, small business, and consumer loans. We determined the credit needs of the AA by contacting the Directors of the Yankton Office of Economic Development and the Wagner Area Growth Committee.

### **Conclusions with Respect to Performance Criteria**

The bank's lending levels are more than reasonable.

FDNB's net loan-to-deposit ratio is more than reasonable, given the institution's size, financial condition, and assessment area credit needs. FDNB's loan-to-deposit ratio averaged 87.06% over the past seven quarters and was 92.11% on March 31, 1998. Two similarly situated banks had loan-to-deposit ratios of 73.99% and 72.10%, respectively. Seventeen smaller community banks had loan-to-deposit ratios which ranged from 40.75% to 85.30%. The bank's average of 87.06% is 21% above the average ratio for all the banks we reviewed. The bank sells residential real estate and Farmer Mac loans into the secondary market.

The bank is lending in the Assessment Area.

FDNB originates a majority of its loans within the assessment area. The table below summarizes the bank's primary loan products originated in since August 12, 1996.

#### **ASSESSMENT AREA CONCENTRATION**

(Agricultural, commercial, and instalment loans sampled)

	<b># of Loans</b>	<b>% of total #</b>	<b>\$ of Loans</b>	<b>% of total \$</b>
Inside AA	172	73%	\$7,120M	73%
Outside AA	64	27%	\$2,586M	27%
<b>Totals</b>	236	100%	\$9,706M	100%

(Continuation: The bank is lending in the Assessment Area)

FDNB originates a significant majority of its agriculture and consumer loans inside the assessment area. Of the agricultural and consumer loans we sampled, 83% of the number of loans, and 86% of the dollar volume were inside of the assessment area. The commercial loan sample had 54% by number and 55% by the dollar volume of loans inside of the assessment area. The commercial loan sample ratios were lower due to originations related to a Sioux Falls based computer repair business and automobile floor plan loans made outside the assessment area.

Lending to individual borrowers of different income levels and to farms and businesses of different sizes is reasonable.

FDNB has a satisfactory record of lending to individual borrowers of different income levels. The bank makes consumer loans to all income levels.

The table below demonstrates the bank's breakdown of consumer loans to individuals compared to the income demographics of the AA. The AA's income data is from the 1990 census.

**LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS**

(A sample of 66 consumer loans originated between August 12, 1996 and June 30, 1998)

<b>Income Level</b>	<b># of loans</b>	<b>% of total #</b>	<b>\$ of loans</b>	<b>% of total \$</b>	<b>% Per AA</b>
Low	18	27%	\$ 134,232	25%	20%
Moderate	6	9%	\$ 62,312	12%	19%
Middle	27	41%	\$ 156,926	29%	25%
Upper	10	15%	\$ 145,123	27%	36%
<b>Totals</b>	<b>*66</b>	<b>*100%</b>	<b>\$ 536,600</b>	<b>*100%</b>	<b>100%</b>

\*There were five files in the sample that did not contain income information.

The bank's lending to low and moderate-income individuals is very comparable to the demographic make-up of the assessment area. Our loan sample showed 36% by number of loans and 37% by dollar volume were originated to low and moderate-income individuals. These ratios nearly match the population in the assessment area which is 39% low and moderate-income individuals.

The bank does a very effective job of lending to farms of different sizes.

The table below demonstrates the bank's willingness to make loans to farms of all sizes. The bank's lending performance was compared to the 1992 Agricultural Census data prepared by the U.S. Bureau of the Census. The census data showed 93% of farms in the assessment area had sales less than \$250,000.

### **LOANS TO FARMS OF DIFFERENT SIZES**

(A sample of 89 agricultural notes originated between August 12, 1996 and June 30, 1998)

<b>Gross Revenue of Farms</b>	<b># of customers</b>	<b>% of customers</b>	<b>\$ of loans</b>	<b>% of total \$</b>
\$0 - \$100,000	25	28%	\$ 762,894	15%
\$100,001 - \$250,000	23	26%	\$ 972,075	19%
\$250,001-\$1,000,000	18	21%	\$2,608,847	50%
over \$1,000,000	14	16%	\$ 496,300	9%
<b>Totals</b>	*89	*100%	\$5,248,135	*100%

\*Nine files did not contain current revenue information. Revenue information was obtained from farm records or tax returns in each credit file.

Although, the bank's ratio for lending to small and moderate-sized farms is below the agricultural census data, a majority of the bank's loans are to small and moderate-sized farms. Also, several of the loans without documented income data were to youth for club calf projects. Of the 18 middle-sized farms we sampled two-thirds had sales less than \$375,000.

In addition to the loans sampled above, the bank originated twenty-six farm-related government-sponsored loans totaling \$2,767,000 during the assessment period.

The bank does a satisfactory job lending to businesses of different sizes.

The tables below demonstrate the bank's satisfactory performance in making business loans to businesses of all sizes, including small and moderate-sized businesses. The first table includes a large number of loans which did not have income and sales information. The bank originates some loans based on a scoring model versus income information. Based on this table and assuming all these businesses were not small or moderate-sized, we still can conclude the bank is making small and moderate-sized business loans. The table shows at least 26% by number were small and moderate-sized business.

The second table does not include the business loans that did not contain sales data. This revised table shows 58% of bank business loans were to small and moderate-sized businesses. The vast majority of loans with documented income and sales data were within the assessment area which is the bank's primary lending focus. This table gives a clearer picture of the fact the bank is lending to small and moderate-sized business in the assessment area. Thus, the bank's lending to small and moderate-sized businesses is satisfactory.

(Continued: The bank does a satisfactory job lending to businesses of different sizes).

**LOANS TO BUSINESSES OF DIFFERENT SIZES**

(Table #1: Sample of 81 business notes originated between August 12, 1996 and June 30, 1998)

<b>Gross Revenue of Businesses</b>	<b># of customers</b>	<b>% of customers</b>	<b>\$ of loans</b>	<b>% of total \$</b>
\$0 - \$100,000	12	15%	\$ 274,936	7%
\$100,001 - \$250,000	9	11%	\$ 459,377	12%
\$250,001-\$1,000,000	4	5%	\$ 419,338	11%
over \$1,000,000	11	14%	\$2,247,254	57%
<b>Totals</b>	<b>*81</b>	<b>*100%</b>	<b>*\$3,920,376</b>	<b>*100%</b>

\*There was no revenue information available on forty-five loans sampled. Revenue information was obtained from business records or tax returns in each credit file.

**LOANS TO BUSINESSES OF DIFFERENT SIZES**

(Table #2: Sample of 36 business notes originated between August 12, 1996 and June 30, 1998)

<b>Gross Revenue of Businesses</b>	<b># of customers</b>	<b>% of customers</b>	<b>\$ of loans</b>	<b>% of total \$</b>
\$0 - \$100,000	12	33%	\$ 274,936	8%
\$100,001 - \$250,000	9	25%	\$ 459,377	14%
\$250,001-\$1,000,000	4	11%	\$ 419,338	12%
over \$1,000,000	11	31%	\$ 2,247,254	66%
<b>Totals</b>	<b>*36</b>	<b>*100%</b>	<b>*\$3,400,905</b>	<b>*100%</b>

\*This table only includes the thirty-six files with revenue information available and does not include the forty-five files sampled without revenue data.

FDNB uses Small Business Administration (SBA)-sponsored loan programs to help meet the credit needs of new and expanding small businesses within the assessment area. The bank originated ten SBA loans totaling \$1,540,000 during the evaluation period.

**Geographic Distribution of Loans**

The bank does a reasonable job of lending in all Block Numbering Areas (BNA) in the assessment area regardless if the BNA is a low or moderate-income area. Only two of the BNA within the AA are moderate-income tracts or 10% of the BNA are moderate-income tracts. We found sixteen of the 236 loans sampled, or 7%, were in the moderate-income tracts.

In our sample, we noted numerous loans from the Wagner area. However, the loans sampled indicated a lower penetration in the moderate-income tracts west of the Wagner office. We deemed the bank's activity in this tract as adequate because:

- The bank just acquired the Wagner branch office on July 15, 1995.
- The bank has increased the volume of loans at the Wagner branch by 150% during the evaluation period, including an increase of 343% in the consumer loan area.
- The community contact indicated the bank's officers are active in promoting small business lending and consumer lending in Wagner and the surrounding area.

#### Response to Complaints

The bank received no written complaints related to its CRA performance during the evaluation period.

#### Compliance with Antidiscrimination Laws

We did not detect any evidence of discrimination or disparate treatment in our fair lending review. The bank has satisfactory fair lending policies, procedures, and training programs in place.