

**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 the 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 Dacotah Bank, Aberdeen, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of April 22, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated "Outstanding."

Several factors support the bank's outstanding rating. First, the bank has consistently maintained a high loan-to-deposit ratio since the last evaluation. Second, the bank has made a substantial portion of its loans within its assessment areas. Third, based on an analysis of the bank's loans, the bank lends to borrowers of many different income levels and to small businesses and farms. Finally, the bank's investments and services significantly enhance credit availability in its assessment area.

The following table indicates the performance level of Dacotah Bank, Aberdeen, South Dakota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Dacotah Bank, Aberdeen, South Dakota PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior evaluation.		

## **DESCRIPTION OF INSTITUTION**

The bank is able to meet area credit needs effectively. In addition to its main office in Aberdeen, the bank operates full-service branches in Aberdeen, Sisseton, Sioux Falls, and Cresbard, South Dakota. The bank also operates a paying and receiving branch in New Effington, South Dakota. The bank's full-service branch in Sisseton, South Dakota, serves the Lake Traverse Indian Reservation ("Reservation") and the Sisseton-Wahpeton Sioux Tribe. The bank also operates five automated teller machines ("ATM"): two in Aberdeen, one in Sisseton, and two in Sioux Falls. The bank received a satisfactory rating at its last CRA evaluation.

The bank's size supports its ability to meet credit needs in each of its assessment areas. Based on March 31, 1996, Report of Condition ("ROC") information, the bank's assets totaled approximately \$162.9 million. Since December 31, 1994, the bank's total assets have increased approximately \$16 million. The bank's volume of loans and deposits have remained stable since the previous evaluation. According to the March 31, 1996, ROC, a majority of the bank's loans are real estate. Real estate loans comprise 38% of its portfolio and the remainder of the portfolio includes 30% agricultural, 23% commercial, 8% consumer, and 1% other loans. The bank's lending patterns represent the types of loans in demand in the community.

The bank offers a variety of loan products that help serve the credit needs of area residents. Its products include consumer, real estate, commercial, and agricultural loans. In addition to conventional loan products, the bank provides loans guaranteed by a number of federal and state agencies, including the South Dakota Housing Development Authority, Small Business Administration, Farm Service Agency, and Department of Veterans Affairs. The bank also offers government-guaranteed student loans.

## **DESCRIPTION OF DACOTAH BANK'S ASSESSMENT AREAS**

### Assessment Area 1

The bank has three assessment areas. Assessment area 1 includes the two branch offices located in Sioux Falls, South Dakota. These two offices are located in the Sioux Falls metropolitan statistical area ("MSA"). The Sioux Falls MSA includes Minnehaha County, South Dakota. The city of Sioux Falls spans southern Minnehaha and northern Lincoln counties. Except for Sioux Falls, the MSA is rural. Lincoln County, which is just to the south of Minnehaha County and contains a small part of Sioux Falls, has been divided into census tracts, and as of 1994, it is part of the Sioux Falls MSA. Most of the census tracts in the MSA are located in or near Sioux Falls. According to 1990 census data, the population of Sioux Falls is 100,814. The MSA's population is 123,809.

This assessment area includes 25 census tracts in the Sioux Falls MSA. The tracts are as follows: 1, 2, 3, 4.01, 4.03, 4.04, 5, 6, 7, 8, 9, 10, 11.01, 11.03, 11.04, 12, 13, 14, 15, 16, 17, 18.01, 18.02, 19.01, and 19.02.

CRA divides income levels into four categories: low income, moderate income, middle income, and upper income. The categorization of a borrower's or geography's income is determined relative to the MSA's median family income. Low-income individuals have incomes of less than 50% of the MSA's median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the MSA's median family income. An individual with an income that is 120% or more of the MSA's median family income is considered an upper-income person. Block numbering areas and census tracts are classified using similar categories based on the level of the median family income in the geography. The median family income in the MSA was \$34,101 as of the 1990 census, compared with

\$34,188 median family income in the assessment area.

The assessment area includes no low-income census tracts, 7 moderate-income, 11 middle-income, and 7 upper-income census tracts. The following chart shows the percentage of assessment area population by tract income level.

POPULATION DISTRIBUTION BY CENSUS TRACT INCOME LEVEL		
	Population	Percentage
Low income	0	0
Moderate income	24,678	24.7
Middle income	48,977	49.0
Upper income	26,288	26.3
Total	99,943	100.0

Based on the 1990 census, the median household income for the assessment area is \$27,186, compared to the MSA's median household income of \$27,843. Of the 39,658 households in the assessment area, approximately 22% are low income, 18% are moderate income, 22% are middle income, and 38% are upper income. About 10% of the households have incomes below the poverty level.

The business climate in Sioux Falls has become diversified. Including agribusiness, the expansion of financial, manufacturing, retail, and health care industries has fostered a more balanced economy. In addition, tourism is an important local industry. Unemployment is 2.7%, and the largest employers in Sioux Falls are a large national bank, two hospitals, a meat-packing company, and the local school district.

#### Assessment Area 2

This assessment area is outside an MSA and includes the bank's main office in Aberdeen and its Cresbard office. The income level for borrowers and geographies in this area is determined relative to the statewide nonmetropolitan median family income. The assessment area includes 11 BNAs (9511, 9512, 9513, 9514, 9515, 9516, 9517, 9518, and 9519 in Brown County, 9811 in Faulk County, and 9821 in Edmunds County), eight of which are designated as middle income. The remaining three BNAs are designated as upper income. The following chart shows the percentage of assessment area population by BNA income level.

POPULATION DISTRIBUTION BY BNA INCOME LEVEL		
	Population	Percentage
Low income	0	0
Moderate income	0	0
Middle income	23,996	59.0
Upper income	16,670	41.0
Total	40,666	100.0

According to 1990 census data, this assessment area's median family income is \$28,651, while the median family income for nonmetropolitan areas in South Dakota is \$25,547. The assessment area's median household income is \$22,492 as of the 1990 census. Of the 15,789 total households in the assessment area, approximately 21% are low income, 15% are moderate income, 18% are middle income, and 46% are upper income. Approximately 15% of the households have incomes below the poverty level.

Aberdeen, located in northeast South Dakota, has a population of about 25,000;

about 36,000 people live in Brown County. Agriculture is the primary industry, and the city is a trade center, serving about 100,000 residents of North Dakota and South Dakota. The economy is static, and attracting new industry is difficult because the city is not on an interstate highway. Major employers are educational institutions, including two colleges, medical facilities, state and federal government offices, and retail and industrial concerns.

### Assessment Area 3

This assessment area includes the bank's Sisseton and New Effington, South Dakota, branch offices and is located outside an MSA. This area also includes a large portion of the Lake Traverse Indian Reservation ("Reservation") and has many residents who are members of the Sisseton-Wahpeton Sioux Tribe.

There are four BNAs in the assessment area (9501, 9502, 9503, and 9504), one of which is designated as moderate income. The remaining three BNAs are designated as middle income. All four BNAs are in Roberts County, South Dakota. The following chart shows the percentage of assessment area population by BNA income level.

POPULATION DISTRIBUTION BY BNA INCOME LEVEL		
	Population	Percentage
Low income	0	0
Moderate income	2,785	28.1
Middle income	7,129	71.9
Upper income	0	0
Total	9,914	100.0

According to 1990 census data, the assessment area's median family income is \$22,189, while the median family income for nonmetropolitan areas in South Dakota is \$25,547. The median household income for the assessment area is \$17,487 as of the 1990 census. Of the 3,651 total households in the assessment area, approximately 28% are low income, 20% are moderate income, 19% are middle income, and 33% are upper income. Approximately 24% of the households have incomes below the poverty level.

Sisseton has about 2,200 residents, and New Effington's population is about 200; approximately 9,900 people reside in Roberts County. Agriculture is the primary factor in this assessment area's economy.

Examiners contacted several members of each assessment area as part of the bank's CRA evaluation. These contacts included an employment service representative, local business leaders, local government officials, and individuals with knowledge about tribal credit needs. Information from these contacts was used in evaluating the bank's CRA performance.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank has done an outstanding job of meeting the credit needs of its three assessment areas. The following criteria were reviewed in determining this rating.

##### Loan-to-Deposit Ratio Analysis

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance based on its consistently high loan-to-deposit ratio, its secondary market real estate lending, and its community development loans. The net quarterly average of the bank's loan-to-deposit ratio is 75% since the previous evaluation. The following chart, based on quarterly ROC data, shows that the bank's ratio has been consistently high since the last evaluation.

Date	Net Loans (In thousands)	Deposits (In thousands)	Loan-to-Deposit Ratio
March 31, 1996	\$106,970	\$145,764	73%
December 31, 1995	\$104,918	\$143,366	73%
September 30, 1995	\$103,721	\$134,836	77%
June 30, 1995	\$102,182	\$131,266	78%
March 31, 1995	\$ 96,925	\$134,523	72%
December 31, 1994	\$ 96,578	\$129,263	75%

Not included in the bank's loan-to-deposit ratio is a significant number of real estate loans that were sold to the secondary market in 1995 and 1996.

As listed in the March 31, 1996, Uniform Bank Performance Report, the bank's loan-to-deposit ratio was 73%, which places the bank in the 60th percentile in relation to its peer group. Because this is the only bank in Aberdeen that is not a branch of another institution, no comparisons could be made with other banks in Aberdeen. The loan-to-deposit ratios of the bank's branches vary. However, the Sioux Falls branches are still relatively new in the Sioux Falls market, and the bank faces stiff competition for loans from other Sioux Falls financial institutions.

The bank has made two significant community development loans since the last evaluation. One community development loan helped an Aberdeen business expand and add about 100 new jobs. Another large community development loan for construction on the Reservation helped add a large number of new jobs.

Lending in the Assessment Areas

A statistical review of loan originations within at least the last six months shows that the bank made a substantial majority of its loans within its assessment areas. This high concentration of lending within its assessment areas exceeds standards for satisfactory performance. The following table shows the percentages for the number and dollar volume of major loan product lines that were inside the assessment areas.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREAS		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans
Consumer Real Estate	91%	95%
Consumer	88%	94%
Small Business	97%	100%
Small Farm	76%	82%

In 1994, the bank reported 155 Home Mortgage Disclosure Act ("HMDA") loans. Similarly, in 1995, the bank reported 166 HMDA loans.<sup>1</sup> However, there is no 1995 aggregate data available for comparisons. In 1994, the bank originated loans to 89% of its HMDA applicants who were residents of assessment area 1. This origination rate is higher than the rate of the aggregate of lenders in the community, which was 82% in 1994.

Information obtained from a community contact reveals that the Department of Housing and Urban Development ("HUD") offers many real estate loan programs that are much more attractive to tribal members than the loan programs offered by the local financial institutions. The bank has two branch offices on the Reservation: the New Effington location is a paying and receiving branch only, and the bank's Sisseton branch is a full-service office. The community contact revealed that there are no unmet real estate credit needs on the Reservation. Because almost all of the bank's loans, both in number and dollar amount, are located within its assessment area, the bank's performance exceeds the standards for satisfactory performance.

#### Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

Additional weight for the rating of this category is given to the non-MSA assessment areas. This is appropriate because the MSA assessment area offices are relatively new, small in size, and experience stiff competition from numerous large Sioux Falls financial institutions.

#### Non-MSA

While the bank's record of lending to borrowers of different income levels in its MSA assessment area is satisfactory, its record for its non-MSA assessment areas is very good and exceeds satisfactory performance. As previously discussed, CRA groups income levels into four categories: low, moderate, middle, and upper. The bank's distribution of loans by income level is shown in the following tables.

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<sup>1</sup>Only 22 loans in 1994 and 26 loans in 1995 were to residents of the MSA. Because the bank is not required to report BNA information for borrowers outside the MSA, and the bulk of the bank's loans are made to such borrowers, HMDA data does not indicate the percentage of loans to borrowers in the bank's assessment areas relative to all loans.

**DISTRIBUTION OF LOANS BY INCOME LEVEL IN BANK'S  
 NON-MSA ASSESSMENT AREAS \***

<b>Assessment Area 2:</b>				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
<b>Consumer Real Estate:</b>				
Percentage of Total Loans	26	9	21	44
Percentage of Total Loan Amounts	21	2	16	62
<b>Consumer:</b>				
Percentage of Total Loans	67	15	9	10
Percentage of Total Loan Amounts	78	6	5	10
<b>Assessment Area 3:</b>				
<b>Consumer Real Estate:</b>				
Percentage of Total Loans	33	17	0	50
Percentage of Total Loan Amounts	29	11	0	59
<b>Consumer:</b>				
Percentage of Total Loans	64	7	14	14
Percentage of Total Loan Amounts	45	2	6	47

\*Income level is determined based on South Dakota's 1995 nonmetropolitan median family income of \$30,100.

According to the 1990 census, the median household income and the median family income for the bank's two non-MSA assessment areas are detailed below.

Non-MSA	Median Household Income	Median Family Income
Assessment Area 2	\$22,492	\$28,651
Assessment Area 3	\$17,487	\$22,189
1990 Nonmetropolitan Statewide Average for South Dakota	\$20,736	\$25,547

As shown above for assessment area 2, the bank made 82% of its consumer loans to low- and moderate-income borrowers and 84% of the total dollar amount of consumer loans to these borrowers. This data is impressive given that 36% of residents of assessment area 2 are low and moderate income, including 21% who are low income. The bank also made 35% of its consumer real estate loans to low- and moderate-income borrowers and 23% of the total dollar amount of consumer real estate loans to these borrowers. Real estate lending activity to low-income borrowers is particularly impressive, especially since family income for these borrowers is less than \$14,326. Again, this data corresponds closely to the percentage of low- and moderate-income residents in this assessment area.

In addition, the bank provides almost all of its agricultural and a significant number of commercial loans in assessment area 2 to small farms and businesses. Also, 79% of the agricultural loans and 86% of the commercial loans in this assessment area had loan amounts of \$100,000 or less. Only 6% of agricultural and 5% of commercial loans had amounts of \$250,000 or more.

The story is very similar in assessment area 3. As shown in the table, the bank made 71% of its consumer loans to low- and moderate-income borrowers and 47% of the total dollar amount of consumer loans to these borrowers. This data is impressive since such individuals represent only 48% of the assessment area's population. The bank also made 50% of its consumer real estate loans to low- and moderate-income borrowers and 40% of the total dollar amount of

consumer real estate loans to these borrowers. Again, this data is impressive because it closely approximates the percentage of low- and moderate-income individuals who live in this assessment area. Moreover, community contacts on the Reservation noted that bank real estate products cannot compete with those offered by HUD.

The bank provides almost all of its agricultural and a majority of its commercial loans to small farms and businesses in assessment area 3. In addition, 88% of the agricultural loans and 80% of the commercial loans in this assessment area had loan amounts of \$100,000 or less. There were no loans in either category with amounts of \$250,000 or more.

Based on the very high level of consumer lending to low- and moderate-income borrowers and the substantial volume of consumer real estate and small business and farm loans in these assessment areas, lending to borrowers of different income levels in these areas exceeds standards for satisfactory performance.

#### MSA

As previously mentioned, the two offices located in assessment area 1 are small, relatively new to the community, and faced with stiff competition from other more established financial institutions in Sioux Falls. Three major competitors account for a substantial amount of the HMDA applications received in the bank's Sioux Falls assessment area.

The bank's record of lending to borrowers of different income levels for its MSA assessment area is reasonable. The bank's distribution of loans by income level is shown in the following table.

**DISTRIBUTION OF LOANS BY INCOME LEVEL IN BANK'S  
MSA ASSESSMENT AREA\***

<b>Assessment Area 1 (Sioux Falls):</b>				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
<b>Consumer Real Estate:</b>				
Percentage of Total Loans	0	20	40	40
Percentage of Total Loan Amounts	0	5	37	58
<b>Consumer:</b>				
Percentage of Total Loans	36	27	9	27
Percentage of Total Loan Amounts	14	13	19	55

\*Income level is determined based on the MSA's 1995 median family income of \$40,500.

As shown above, the bank made 63% of its consumer loans to low- and moderate-income borrowers. However, the bank only made 27% of the total dollar amount of consumer loans to these borrowers. The level of consumer lending exceeds the 40% figure that represents the assessment area's low- and moderate-income households. The bank's level of consumer real estate lending is significantly less than its consumer lending. The bank has only made 20% of its consumer real estate loans to low- and moderate-income borrowers with none of these loans being to low-income borrowers. As previously discussed, the two MSA offices are new, small, and face stiff competition from other financial institutions. Many of these competitors are large regional organizations that have developed special loan programs targeted to low-income borrowers. Given the housing market and competitive banking market, it seems reasonable that the bank would have fewer real estate loans to low- and moderate-income individuals.

Based on 1994 HMDA data, the bank made two loans (13% of its market loans) to low- and moderate-income residents of the market. In 1995, the bank made three loans (14%) to low- and moderate-income residents of the market. No comparisons were made to competitors given the limited data available for the bank.

The bank provides a majority (67%) of its commercial loans to small businesses. Only one assessment area borrower in the sample had gross revenues of \$1 million or more. No agricultural loans were sampled in the MSA. This is not surprising given the makeup of the MSA and the census tract locations. Sixty-seven percent of the sampled loans had amounts of \$100,000 or less and 33% had amounts between \$100,000 and \$250,000. This information should be used cautiously, however, because of a limited commercial loan sample at this office.

For all its assessment areas, the bank's emphasis on small business and small farm lending, together with the high percentage of consumer and consumer real estate loans to low- and moderate-income borrowers, demonstrates a strong commitment to meeting the credit needs of all segments of the community and exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

The distribution of the bank's loans to geographies of different income levels in its assessment area is reasonable and, thus, meets the standards for satisfactory performance. As discussed previously, assessment areas 2 and 3 include no low-income tracts and only one moderate-income tract that is in assessment area 3. Assessment area 1 contains no low-income tracts and seven moderate-income tracts. The remaining tracts for all three assessment areas are either middle- or upper-income tracts. Approximately 84% of the entire three-assessment-area's population resides in the middle- and upper-income

tracts. As the following charts indicate, the bank has the majority of its loans in the middle-income tracts.

**DISTRIBUTION OF LOANS IN BANK'S ASSESSMENT AREAS  
 BY INCOME LEVEL OF CENSUS TRACT OR BNA**

<b>Assessment Area 1:</b>				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
<b>Consumer Real Estate:</b>				
Percentage of Total Loans	0	17	17	67
Percentage of Total Loan Amounts	0	11	7	82
<b>Small Business:</b>				
Percentage of Total Loans	0	67	33	0
Percentage of Total Loan Amounts	0	99	1	0
<b>Assessment Area 2:</b>				
<b>Consumer Real Estate:</b>				
Percentage of Total Loans	0	0	62	38
Percentage of Total Loan Amounts	0	0	63	37
<b>Consumer:</b>				
Percentage of Total Loans	0	0	53	47
Percentage of Total Loan Amounts	0	0	62	38
<b>Small Business:</b>				
Percentage of Total Loans	0	0	67	33
Percentage of Total Loan Amounts	0	0	73	27
<b>Small Farm:</b>				
Percentage of Total Loans	0	0	98	2
Percentage of Total Loan Amounts	0	0	99	1

<b>Assessment Area 3:</b>				
<b>Consumer Real Estate:</b>				
Percentage of Total Loans	0	33	33	0
Percentage of Total Loan Amounts	0	29	1	0
<b>Consumer:</b>				
Percentage of Total Loans	0	29	17	0
Percentage of Total Loan Amounts	0	14	7	0
<b>Small Business:</b>				
Percentage of Total Loans	0	0	33	0
Percentage of Total Loan Amounts	0	0	1	0
<b>Small Farm:</b>				
Percentage of Total Loans	0	25	33	0
Percentage of Total Loan Amounts	0	2	1	0

Given the population density information previously discussed, the distribution of the bank's loans in its moderate- and middle-income non-MSA BNAs and MSA tracts appropriately reflects the location of assessment area residents.

Investments and Services

The bank's level of qualified investments and services improves individuals' access to credit in the assessment areas. Since the last evaluation, the bank has made several notable contributions. For example, it invested funds in a private nonprofit development corporation that makes direct loans to individuals and businesses and provides counseling, referral, and mediation services to businesses in need of assistance. In addition, the organization offers four loan programs that were set up to provide assistance to low-income applicants, including women and minority entrepreneurs and businessowners.

During 1995, the bank contributed significant funding to a mortgage pool that assists in the development of low-income housing projects.

The bank also installed two new ATMs since the last evaluation, one in Sisseton and one in Sioux Falls, South Dakota. In addition, the bank now offers Fiserv Voice Response, a 24-hour service that allows bank customers access to all their account information, including balances, interest rates, and loan payment information from either a touch-tone or rotary telephone.

General Comments

No credit practices were discovered during the evaluation that are inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations. Isolated violations of technical aspects of HMDA's Regulation C were noted during the evaluation. Management promised prompt corrective action. In addition, the bank has not received any CRA complaints since the previous evaluation.

## **PUBLIC DISCLOSURE**

April 22, 1996  
Date of Evaluation

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

Dacotah Bank  
Name of Depository Institution

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094600150000  
Identification Number of Institution

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Aberdeen, South Dakota  
Address of Institution

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Federal Reserve Bank of Minneapolis  
250 Marquette Avenue  
Minneapolis, Minnesota 55401-2171

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.