

## 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 The Dakota Western Bank, Bowman, North Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of September 29, 1997. 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 “Satisfactory.”

The evaluation revealed several factors that support rating the bank’s CRA performance as satisfactory. First, the bank’s lending to small farms and to borrowers of different income levels is reasonable. Second, the bank has increased its overall lending activity and engaged in community development lending.

## **DESCRIPTION OF INSTITUTION**

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area effectively. The bank was rated outstanding in helping to meet the credit needs of its community at its previous CRA evaluation, dated March 11, 1996. The bank operates two full-service offices in Bowman and Scranton, North Dakota. The bank also operates a paying-and-receiving office in Rhame, North Dakota. Since the last evaluation, the bank opened one office and acquired two automated teller machines ("ATM"); it opened the Scranton office in November 1996 and has operated two ATMs in Bowman and Scranton since March 1997. At these ATMs, users can withdraw funds, make transfers between accounts, and obtain account balances; the bank does not accept deposits through these machines. The bank has not closed any branches since the last evaluation.

According to the June 30, 1997, Report of Condition ("ROC"), the bank's assets totaled approximately \$52.1 million. Its June 30, 1997, ROC shows the bank's major loan category is agricultural loans, which constituted approximately 68% of its loan portfolio. The balance of the bank's portfolio is composed of 18% commercial, 8% consumer, and 6% residential real estate loans. The composition of the bank's loan portfolio appears to reflect the level of demand for the specific types of loans in the assessment area.

The bank offers a variety of loan products to fulfill the needs of residents, businesses, and farms within its assessment area. Its products include conventional agricultural, business, and consumer loans. It offers residential real estate loans for one- to four-family dwellings, housing rehabilitation, and home improvement. It also originates loans for community development purposes and to political subdivisions. In addition, the bank participates in Farm Service Agency, Small Business Administration ("SBA"), and Rural Development Agency Rural Housing Service loan programs. The bank offers loans through the Bank of North Dakota, the North Dakota Department of Economic Development and Finance, and the Roosevelt-Custer Regional Council loan programs. The bank refers loan applicants interested in Federal Housing Administration real estate loans to another financial institution. It does not participate in any government-guaranteed student loan programs. The bank's loan products appear appropriate for the credit needs of the communities in its assessment area.

## **DESCRIPTION OF THE DAKOTA WESTERN BANK'S ASSESSMENT AREA**

The bank's assessment area includes Adams, Bowman, and Slope counties in extreme southwestern North Dakota; Harding and Perkins counties in extreme northwestern South Dakota; and Fallon County in extreme southeastern Montana. The region is sparsely populated prairie land with vast areas for grazing livestock and growing crops.

The following table shows the assessment area's block numbering areas ("BNA") and each BNA's income classification and population based on 1990 U.S. Census data.

<b>STATE</b>	<b>COUNTY</b>	<b>BNA NUMBER</b>	<b>BNA INCOME CLASSIFICATION</b>	<b>1990 CENSUS POPULATION</b>
North Dakota	Adams	9655	middle	1,447
	Adams	9656	middle	1,727
	Bowman	9652	middle	1,972
	Bowman	9653	middle	1,624
	Slope	9650	moderate	907
South Dakota	Harding	9987	middle	1,669
	Perkins	9983	middle	3,932
Montana	Fallon	9594	middle	3,103

As the table above indicates, the bank's assessment area has only one moderate-income BNA; the remaining BNAs are classified as middle-income areas. There are no low- or upper-income BNAs in the assessment area. According to the 1990 census, the total population for the assessment area is approximately 16,381. As shown in the table, 12.5% of the BNAs are moderate income and 5.5% of the population resides in this BNA.

All the bank's offices are located in Bowman County. The bank's main office is in Bowman, located in BNA 9652. The branch office is in BNA 9653 and is approximately 13 miles east of Bowman. The Rhome paying and receiving office is also located in BNA 9653, approximately 12 miles west of Bowman.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan 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 person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs are classified using similar categories based on the level of the median family income in the geography. According to the 1997 updated data, the statewide nonmetropolitan median family incomes for the bank's assessment area are \$34,000 for North Dakota; \$34,500 for South Dakota; and \$36,000 for Montana; these figures are used to classify income levels of borrowers. BNAs are classified using similar categories based on the median family income in the geography compared with the 1990 statewide nonmetropolitan median family incomes of \$26,197 for North Dakota; \$25,547 for South Dakota; and \$27,352 for Montana.

According to 1990 census data, the assessment area's median family income is \$25,410, while its median household income is \$20,985. There are 4,556 families and 6,373 households in the assessment area.

The following table shows the percentages of households and families that have incomes below the poverty level in the assessment area and the rural areas of each state represented in the assessment area.

<b>INCOMES BELOW THE POVERTY LEVEL</b>		
	Households	Families
Assessment Area	15.4%	11.7%
State of North Dakota (nonmetropolitan)	16.6%	12.8%
State of South Dakota (nonmetropolitan)	17.9%	13.7%
State of Montana (nonmetropolitan)	16.5%	12.8%

The number of assessment area households and families with incomes below the poverty level is slightly lower than the number of such households and families residing in the rural areas of the three states represented in the assessment area. According to the 1990 census, the rate of unemployment in the assessment area was 2.5%. This rate is much lower than the comparable figures for the rural areas of North Dakota, South Dakota, and Montana. The unemployment rates for these areas were 5.7%, 4.3%, and 7.3%, respectively. The data suggest more assessment area residents have the opportunity to enjoy a better living standard than people residing in other parts of rural North Dakota, South Dakota, and Montana.

The following table summarizes the distribution of household and family income for the assessment area.

<b>ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL</b>				
<i>Unit of Measure</i>	<i>Low Income</i>	<i>Moderate Income</i>	<i>Middle Income</i>	<i>Upper Income</i>
Households Compared to Median Household Income	21%	18%	21%	40%
Families Compared to Median Family Income	18%	21%	25%	36%

The percentage of low-income families and households in the assessment area is lower than that of the rural areas of the three states represented in the assessment area. Conversely, the percentage of moderate-income families and households is higher than that of the rural areas of North Dakota, South Dakota, and Montana.

The bank's assessment area has a slightly higher percentage of elderly people than the rural areas of the three states in the assessment areas. According to the 1990 U.S. Census data, people age 65 and older represent 18.2% of the assessment area's population. People age 17 years and younger represent 28.3% of the assessment area's population. These groups tend to have fewer credit needs.

Agriculture is the area's main industry. Major farm commodities include spring wheat, durum wheat, winter wheat, hay, barley, and oats. Generally, farmers also grow any crop that can be used as livestock feed. In addition, some farmers grow alternative crops, such as carrots, sugar beets, and sunflowers.

The second major type of farm product is livestock, mostly beef cattle. The community contact mentioned there are several registered herds in the county. Some operators raise sheep, but sheep numbers have

decreased in the last few years. In addition, some farmers raise “exotic” livestock such as buffalo, elk, ostrich, and emu.

The contact also stated there are many farm cooperatives (“co-op”) in North Dakota because they are relatively easy to form and organize. These co-ops are formed by groups of farms or related business interests or by owners of different types of operations that complement one another. Their purpose is to gain economies of scale that are usually achieved only by larger operations.

The assessment area has coal deposits which were mined until two years ago when the mine closed because of the low quality of the coal. Since then, oil drilling has become the area’s primary mineral extraction industry. In fact, Bowman County has the most new oil drilling activity in the country. According to the community contact, the oil business is good and has compensated for the loss of the coal mine. Another benefit of the growing oil industry is the good environment it has created for many main street businesses; however, the strength of the oil industry has not yet produced any signs of business expansion.

The contact stated the oil industry is attracting many temporary residents. This influx of new residents has created a housing shortage. Housing for rent and for sale is in very short supply, yet there has been very little new construction. The reason for the lack of new housing construction is the number of other construction projects that have taken the time and resources of local builders and construction firms. The housing costs have increased to the point that younger families cannot afford to buy a house. Also, there is no rental housing, such as apartments, being built. According to 1990 census data, only 8% of the assessment area’s housing is composed of two or more unit dwellings, approximately 76% one-unit single-family homes, and 16% mobile homes. In addition, 1990 census data shows that roughly 44% of the assessment area’s housing was built before 1950. Therefore, more remodeling and upgrading would be the likely course of action for a homeowner; the contact confirmed that there has been a lot of home remodeling activity.

The bank operates in a competitive market environment. Five banks have main offices in the assessment area. Two larger regional financial institutions with main offices in Fargo, North Dakota, have branches in the assessment area. Finally, the bank competes with a credit union for deposits and loans. It also competes with farm credit services of Mandan.

Examiners contacted a local representative of a state government agency as part of the bank’s CRA evaluation. The community contact provided information regarding the local business and agricultural economies. Examiners used information from this contact as well as information from bank management to evaluate the bank’s CRA performance.

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

The bank’s performance in meeting the credit needs in its assessment area is satisfactory. Much of the analysis on the following pages is based on a statistical sample of 93 consumer and 119 small farm loans originated by the bank in the six months preceding the evaluation. In assigning the overall rating, greatest weight was placed on the bank’s lending to borrowers of different income levels and businesses of different sizes. Significant weight was also given to the bank’s community development loans. These factors most closely measure the bank’s efforts to meet the credit needs of all segments of its community.

### **LOAN-TO-DEPOSIT RATIO ANALYSIS**

The bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance. Based on quarterly

ROC data, the bank's average net loan-to-deposit ratio since the previous evaluation is 72%. According to the June 30, 1997, Uniform Bank Performance Report ("UBPR"), the bank's net loan-to-deposit ratio was 79.68%, which places the institution in the 71st percentile of its national peer group.

The following chart, based on quarterly ROC data, shows that the bank's net loan-to-deposit ratio has ranged from 65% to 80% since the last evaluation.

<b>DATE</b>	<b>NET LOANS (IN THOUSANDS)</b>	<b>DEPOSITS (IN THOUSANDS)</b>	<b>NET LOAN-TO-DEPOSIT RATIO</b>
March 31, 1996	\$23,530	\$36,166	65%
June 30, 1996	\$26,360	\$37,644	70%
September 30, 1996	\$27,506	\$39,499	70%
December 31, 1996	\$29,387	\$40,854	72%
March 31, 1997	\$31,536	\$42,372	74%
June 30, 1997	\$35,367	\$44,388	80%

The bank has sold portions of some commercial and agricultural loans. These loans are not included in the net loan data presented above but would increase the net loan figures if factored into the analysis.

Since March 31, 1996, the bank's volume of net loans and deposits has increased. As shown in the table above, from March 31, 1996, to June 30, 1997, net loans have increased roughly 50%, and deposits have increased 23%. Bank management attributes these increases to several factors. First, according to management, the bank is perceived as the "leading" bank in terms of service, banking knowledge, technology, and loan products in its community. Second, there has been an increase in demand for agricultural loans because of the elimination of some government subsidies. Also, some ranchers and farmers have carryover debt because of low beef and wheat prices. Third, there was some migration of accounts from a local competitor bank that changed ownership. Fourth, new people and mineral extraction businesses have been moving to the area as a result of the oil exploration and drilling activity in the western part of Bowman County. Finally, as mentioned previously, the bank opened a branch office in the town of Scranton. As a result of these factors, the bank's quarterly average net loan-to-deposit ratio has increased from 60% to 72% since the last evaluation.

The bank's average net loan-to-deposit ratio compares favorably with the quarterly average ratios of many of its assessment area competitors. Based on the quarterly ROC data from March 31, 1996, to June 30, 1997, the following table identifies the asset size and quarterly average net loan-to-deposit ratio for the bank and its assessment area competitors.

<b>BANK AND LOCATION</b>	<b>TOTAL ASSETS (AS OF JUNE 30, 1997) (IN THOUSANDS)</b>	<b>QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO</b>
The Dakota Western Bank Bowman, ND	\$ 52,117	72%
The Bank of Baker Baker, MT	\$ 31,614	74%

<b>BANK AND LOCATION</b>	<b>TOTAL ASSETS</b> (AS OF JUNE 30, 1997) (IN THOUSANDS)	<b>QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO</b>
West River State Bank Hettinger, ND	\$ 25,006	73%
First National Bank of Hettinger Hettinger, ND	\$ 24,666	28%

As reflected by the quarterly average net loan-to-deposit data, it appears assessment area residents, businesses, and farms have credit needs. It is also apparent that most local banks are willing to extend credit to fulfill the needs of borrowers.

The number of financial institutions operating within or near the bank's assessment area creates a very competitive credit market for the types of loans offered by the bank. Nonetheless, the table shows that only two banks have average quarterly net loan-to-deposit ratios slightly higher than the subject bank. The other bank has a ratio that is significantly lower than the subject bank. Finally, the June 30, 1997, UBPR indicates the bank's net loan-to-asset ratio was 68.37%. The average for banks in North Dakota with assets between \$25 million and \$100 million is 57.56%. This indicates the bank devotes slightly more of its assets to loans than similarly sized institutions in North Dakota.

The bank has provided funds for one community development loan since the last evaluation. The bank financed an eight-unit housing complex renovation project in the Scranton area. The development will provide housing for low- and moderate-income people. The loan is especially commendable given the limited opportunity for community development lending in the assessment area.

The bank's quarterly average net loan-to-deposit ratio has increased significantly since the last evaluation and compares favorably with national peers. Additionally, the net loan-to-deposit ratio is consistent with most of its competitors. Finally, the bank has engaged in community development lending since the last evaluation. For these reasons, the bank's lending activity exceeds this category's standards for satisfactory performance.

#### DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA

A review of the statistical sample of loans originated by the bank during the six months preceding the evaluation reveals that a substantial majority of its loans were made inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and dollar amount in each major loan category.

<b>LOANS IN THE ASSESMENT AREA</b>		
<b>Major Loan Product Line</b>	<b>Total Number Of Loans</b>	<b>Total Amount of Loans</b>
Consumer Loans	86%	89%
Small Farm Loans	96%	92%

As noted in the table, a substantial percentage of the bank's loans are within the assessment area. Since 68% of the bank's loan portfolio is agricultural loans, examiners give the most weight to the level of small

farm lending in the assessment area. Based on the high concentration of loans, particularly small farm, within the assessment area, the bank's lending performance for this category exceeds the standards for satisfactory performance.

**LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES**

The bank's lending to borrowers of different income levels and to farms of different sizes meets the standards for satisfactory performance. As previously discussed, the CRA classifies income levels into four categories: low, moderate, middle, and upper. For purposes of classifying the bank's consumer borrowers, the 1997 nonmetropolitan median family incomes for North Dakota, South Dakota, and Montana are compared to borrower incomes. The 1997 nonmetropolitan median income for North Dakota is \$34,000, South Dakota is \$34,500, and Montana is \$36,100.

The following table shows the percentage of consumer loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS BY BORROWER INCOME LEVEL IN THE ASSESSMENT AREA*</b>				
<b>Loan Type</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
<b>CONSUMER</b>				
Percentage of Total Loans	26%	24%	22%	28%
Percentage of Total Loan Amounts	8%	12%	13%	67%
*Income level is determined based on the 1997 statewide nonmetropolitan median family incomes of \$34,000 for North Dakota, \$34,500 for South Dakota, and \$36,100 for Montana.				

The consumer loan data, based on a statistical sampling of loans originated during the six months preceding the evaluation, reveal the bank extends consumer loans to low- and moderate-income borrowers. However, it should be noted that income information was available for only 68% of the consumer loans sampled; nonetheless, the data appear to be a reasonable indicator of the bank's overall performance.

According to the 1990 census data, low- and moderate-income families comprise 39% of the bank's assessment area population. More specifically, low-income families represent 18% and moderate-income families represent 21% of the assessment area's population. Based on the data available, the bank's consumer lending to low- and moderate-income borrowers appears to exceed these peoples' representation in the assessment area.

This lending performance is noteworthy in light of the competition in the area. However, lending to low- and moderate-income borrowers is well below levels noted at the last evaluation. The decline is particularly strong in the dollar amount of loans to low- and moderate-income borrowers, which declined from 57% of loans at the last evaluation to 20% at this evaluation. To service the credit needs of low- and moderate-income borrowers, the bank offers small consumer loans. Many of the loans to low- and moderate-income borrowers are for small dollar amounts, partially explaining the limited dollar amount of lending to them.

Because of the nature of the local agricultural market, all the small farm loans sampled were to entities grossing less than \$1 million in annual revenues. Of these loans, 95% were for amounts less than or equal to \$100,000; 4% were for amounts of more than \$100,000 but less than or equal to \$250,000; and 1% were for amounts more than \$250,000 but less than or equal to \$1,000,000. This distribution of small farm loans appears to be consistent with the bank's asset size, legal lending limit, and overall assessment area economic conditions. It also reflects the structure of the assessment area's farm market.

The bank is willing to extend loans to borrowers of different incomes and farms of various sizes. Its lending activity to low- and moderate-income people meets expectations given the area's demographics and the large number of very small loans extended. Further, most of the bank's small farm loans are to entities that have gross annual revenues of less than \$1 million; however, this is expected given the market in which the bank operates. Given the bank's level of lending to low- and moderate-income consumers and to small farms, its distribution of loans by income level meets the standards for satisfactory performance.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The distribution of the bank's loans among geographies of different income levels is reasonable and meets the standards for satisfactory performance. The following table indicates the bank's penetration in the assessment area's moderate- and middle-income BNAs.

<b>DISTRIBUTION OF LOANS IN ASSESSMENT AREA BY BNA INCOME LEVEL*</b>		
<b>Type of Loan</b>	<b>Moderate Income</b>	<b>Middle Income</b>
<b>Consumer Loans</b>		
Total Number of Loans	4%	96%
Total Amount of Loans	2%	98%
<b>Small Farm Loans</b>		
Total Number of Loans	3%	97%
Total Amount of Loans	3%	97%
*The bank's assessment area does not have any low- or upper-income BNAs.		

According to 1990 census data, the total population of the moderate-income BNA is 907 persons, which comprises roughly 5% of the total assessment area's population. Within the moderate-income BNA, 50.4% of the families have low or moderate incomes. The moderate-income BNA is in Slope County, north of the bank's offices. The distribution of the sampled consumer and small farm loans among the moderate- and middle-income geographies in the assessment area is reasonable in light of the income demographics of the moderate-income BNA.

The following table compares the median family incomes by BNA and the nonmetropolitan median family incomes for North Dakota, South Dakota, and Montana.

<b>COMPARISON OF MEDIAN INCOMES BY GEOGRAPHY (BNA)</b>		
<b>BNA</b>	<b>Median Family Income</b>	<b>Percentage of Statewide Median Family Income*</b>

<b>COMPARISON OF MEDIAN INCOMES BY GEOGRAPHY (BNA)</b>		
<b>BNA</b>	<b>Median Family Income</b>	<b>Percentage of Statewide Median Family Income*</b>
9650	\$20,682	79
9594	\$26,977	99
9655	\$27,724	106
9656	\$26,364	101
9652	\$27,792	106
9653	\$23,708	91
9987	\$23,333	91
9983	\$24,651	97

\*Based on the 1990 census statewide nonmetropolitan median family income of \$26,195 for North Dakota; \$25,547 for South Dakota; and \$27,352 for Montana.

The median family income in the only moderate-income BNA in the assessment area is at the high end of the range for the moderate-income classification. The median family incomes for the middle-income BNAs vary within the middle range for that income classification.

The data show that the largest percentages of loans are in Bowman County (BNAs 9652 and 9653), which is where the bank's offices are located. Of the sampled loans originated in the bank's assessment area, 84% of consumer and 77% of small farm loans were in Bowman County, a middle-income area; the remaining sampled loans were generally evenly distributed in Fallon, Adams, Slope, and Harding counties, which are located adjacent to Bowman County. There was negligible lending activity in Perkins County, which is located on the eastern boundary of the assessment area. There are competitor financial institutions situated closer to this county that would likely be more convenient for residents.

The dispersion of consumer and small farm loans in moderate- and middle-income areas is reasonable. The loan data show that the bank extends loans in the assessment area's only moderate-income area. Based on these factors, the bank meets the standards for satisfactory performance in this category.

#### GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair housing and fair lending laws and regulations. The bank has not received any CRA complaints since its last evaluation.

## **PUBLIC DISCLOSURE**

September 29, 1997

Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The Dakota Western Bank

Name of Depository Institution

093801350000

Identification Number of Institution

Bowman, North Dakota

Address of Institution

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.