

PUBLIC DISCLOSURE

November 29, 1999

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 Fiechnter Drive SW
Fargo, North Dakota 58103**

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 Community Reinvestment Act (CRA) performance of **The First National Bank of McClusky; McClusky, North Dakota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 29, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

- The bank has good loan penetration to small farms and individuals of various income levels.
- The loan-to-deposit ratio is reasonable and comparable to similar situated banks in and around the bank's assessment area.
- The bank originates the majority of its loans within its assessment area.

DESCRIPTION OF INSTITUTION

The First National Bank of McClusky (FNB) is a \$24 million financial institution located in central North Dakota. The bank's main office is located in McClusky, ND with a paying and receiving station located in Mercer, ND. FNB is 100% owned by a one bank holding company, Davis Bancshares. The bank does not have an automated teller machine.

FNB is a full service institution offering traditional loan and deposit products and services. FNB has total loans of \$13,929,000, which represents 58% of total assets as of September 30, 1999. FNB's primary business focus is agriculture lending. The following table illustrates the bank's loan mix:

Loan Type	Dollar Volume (000's)	% of Total
Agriculture	\$11,397	82%
Small Business	\$967	7%
Residential Real Estate	\$610	4%
Consumer Installment and Other Loans	\$955	7%
Total Portfolio Volume	\$13,929	100%

* Source: Bank balance sheet as of September 30, 1999.

There are no legal, financial, or other factors that impede FNB's ability to help meet the credit needs of the community. The evaluation period for the Performance Evaluation is from September 30, 1997 through November 29, 1999. FNB received a satisfactory rating at the last CRA examination dated November 19, 1997.

DESCRIPTION OF FNB's ASSESSMENT AREA : Block Numbering Areas 9602, 9603, and 9608

FNB's assessment area (AA) consists of three Block Numbering Areas (BNAs) in Sheridan and McLean Counties of North Dakota. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The population of the AA is 6,992 persons and approximately 2,037 families. The median family income of the AA is \$25,490 or 69% of the 1999 updated Housing and Urban Development estimated statewide median Family income of \$36,900. The AA consists of two middle-income BNAs and one moderate-income BNA. There are no low- or upper-income BNAs in the AA. Family incomes within the AA are 23% low-income, 18% moderate-income, 22% middle-income, and 37% upper-income. Approximately 19% of the households are below the poverty level. The median average home in the AA was built in 1960 with a current average

value of \$32,423. Owner occupied units account for 58% of all occupied housing within the AA.

The local economy is largely dependent on the agriculture sector. Small farms and agriculture related businesses are the area's primary employers. In the past several years, this industry has experienced a downturn due to low commodity prices and fluctuating livestock prices.

Competition for banking products and services in and around the AA is strong. FNB's primary competition includes seven area banks, and several other financial institutions. Asset sizes for the competing banks range from \$18 million to \$54 million.

Our evaluation included contacting local community organizations to determine the primary credit needs of the community and which financial institutions were helping to meet the identified credit needs. We conducted or reviewed two community contacts within the bank's AA. The contacts included regional economic development corporations. The contacts stated that single and multi-family housing and agricultural credit were the primary credit needs in the community. Overall, the contacts stated the bank is striving to meet the credit needs of the AA.

DESCRIPTION OF SAMPLES:

We conducted a review of FNB's lending activities since the last CRA examination by reviewing bank reports and sampling various loan products. The bank has two main product lines based on the number and volume of loans made. The following table depicts the loan samples and the population of the samples by product type.

	Agricultural	Consumer
Number of Total Originations	798	264
Sample Size	30	30
% of Total Number Sampled	4%	11%
Dollar Amount of Total Originations (000s)	\$20,273	\$1,283
Dollar Amount of Sample (000s)	\$1,076	\$121
% of Dollar Amount Sampled	5%	9%

Source: *Loan originations from January 1, 1998 to November 29, 1999. Due to data processing limitations, the bank could not run origination reports prior to this time period.*

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and lending opportunities within its AA. The quarterly LTD ratio has averaged 62% since the last CRA examination. FNB's LTD ratio as of September 30, 1999 is 66%. FNB's LTD ratio is reasonable compared to seven similar situated banks in and around the bank's AA. These banks are similar in size and are FNB's primary competitors. Their average quarterly LTD ratio ranged from 48% to 71% for the same time period.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes in the Assessment Area

Overall, lending to borrowers of different incomes and to farms of different sizes is good and approaches the demographics of the AA.

Consumer Loans

Consumer lending to low-income and moderate-income families is good and exceeds the demographics of the AA. Lending to middle-income families approaches the AA income demographics while lending to upper-income families is below the AA income demographics. Our conclusions are based on a sample of 25 consumer loan originations totaling \$107,000.

The following table illustrates consumer installment lending activities.

Income Level	% Families in the AA (1990 Census Data)	% Number of Loans Sampled	% Dollar Volume Loans Sampled
Low-Income < 50% Median Family income*	23%	52%	35%
Moderate-Income at least 50% <80% Median Family Income*	18%	24%	21%
Middle-Income at least 80% <120% Median Family Income*	22%	16%	32%
Upper-Income 120% and > Median Family Income*	37%	8%	12%

* 1999 Outstate Median Family Income of \$36,900

Business and Small Farm Loans

FNB's record of lending to small farms of all revenue sizes is very good. All of the farm loans sampled were farms with revenues of less than \$1 million and matched the demographics of the market place.

The next table illustrates loans to various farmers within the bank's AA.

Agriculture Loans - 28 loans totaling \$1,047,000			
Annual Gross Sales (000's)	% of Farms in Assessment Area	% Number of Loans Sampled	% Dollar Volume Sampled
\$1 million or less	100%	100%	100%
Over \$1 million	0%	0%	0%

Lending in the Assessment Area

Lending practices within the AA are good. Our sample of loans from each of the bank's primary product lines indicates a substantial majority of loans are originated within the AA. The following table illustrates lending activity within the AA during the evaluation period.

Penetration of Lending Inside the Assessment Area Loans Originated from January 1, 1998 to November 29, 1999

Loan Type	Number of Loans Sampled	% of Number In AA	Dollar Amount of Loans Sampled (000's)	% of Total Dollar Amount in AA
Our Sample	60	88%	\$1,197	96%

Geographic Distribution of Loans

The geographic distribution of loans within FNB's AA is good. The geographic distribution analysis reflects lending in all tracts with a majority of the loans by number and volume made in the moderate-income tract. The low penetration in the middle-income tracts is primarily due to the location of those tracts. The middle-income tracts are farther away from the main bank than the moderate-income tract. We analyzed the geographic distribution of loan products sampled to evaluate the lending patterns by tract type.

The following tables illustrate FNB's lending distribution in the two income tracts by product type.

Agricultural Loans

Block Numbering Area	% of Population in Each Income Category (1990 Census Data)	% Number of Loans Made in Each Income Category	% \$ Volume of Loans Made in Each Income Category
Moderate-Income at least 50% <80% Median Family Income*	31%	82%	84%
Middle-Income at least 80% <120% Median Family Income*	69%	18%	16%

* 1999 Updated Outstate income of \$36,900

Consumer Loans

Block Numbering Area	% of Population in Each Income Category (1990 Census Data)	% Number of Loans Made in Each Income Category	% \$ Volume of Loans Made in Each Income Category
Moderate-Income at least 50% <80% Median Family Income*	31%	76%	77%
Middle-Income at least 80% <120% Median Family Income*	69%	24%	23%

* 1999 Updated Outstate income of \$36,900

Record of Response to Complaints

FNB has not received any CRA related complaints during this evaluation period.

Record of Compliance with Anti-discriminatory laws

Based on our review, the bank is complying with anti-discrimination laws. We found no violations of substantive provisions of the anti-discrimination laws and regulations.

Our review of fair lending laws included reviewing policies and applications to determine compliance with the substantive provisions of the anti-discrimination laws and regulations.