



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Deuel County National Bank
Charter Number 12877**

**305 Fourth Street West
Clear Lake, SD 57226**

**Comptroller of the Currency
Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, SD 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.

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INSTITUTION'S CRA RATING

This institution is rated “Satisfactory.”

- The bank’s quarterly average loan to deposit ratio of 55 percent, although below the average for similarly situated banks, is reasonable. It has been steadily rising for the past four quarters and exceeded the ratio for four of eleven similarly situated banks at March 31, 2002.
- The sample of three primary loan products found that a substantial majority of the bank’s loans by both number (92 percent) and by dollar volume (88 percent) are to borrowers within its defined assessment area.
- The bank actively lends to individuals of different income levels (low- and moderate-income borrowers represented 65 percent of the consumer loan sample), and reasonably compares to community demographics for lending to farms and businesses of different sizes.

DESCRIPTION OF INSTITUTION

Deuel County National Bank (DCNB) is a \$35 million community bank headquartered in Clear Lake, South Dakota. Clear Lake, located in extreme eastern South Dakota, is the county seat of Deuel County and its largest community with population 1,335 (2000 U.S. Census data). The 2000 U.S. Census listed the population of Deuel County at 4,498. Majority ownership of the bank is vested in a small group of community members.

In addition to the main branch in Clear Lake, DCNB operates one branch located in nearby Gary, South Dakota (2000 U.S. Census data population of 231) and has not opened or closed any branch locations since the previous CRA examination. It continues to operate an ATM in the Cenex convenience store in Clear Lake; and, since the last CRA examination, has added an ATM in the Cowboy Country convenience store in Clear Lake. Both ATMs are cash-dispensing only.

DCNB is a community bank, offering all basic loan products. As of its March 31, 2002 Report of Condition and Income, DCNB has the following volume of outstanding loans: commercial (58 percent), agricultural (26 percent), consumer (9 percent), and residential real estate (7 percent). Purchased participations represented about 58 percent of the commercial total. Net loans totaled 55 percent of total assets.

DCNB received a “Satisfactory” rating at its June 26, 1997, CRA examination. This Performance Evaluation will assess the bank’s CRA activities from July 1, 1997 through March 31, 2002. There are no financial, legal, or other factors that impede the bank’s ability to meet the credit needs of its assessment area.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area (AA) includes all of Deuel County in South Dakota, and parts of three bordering, contiguous counties in Minnesota. The bank's AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income block numbering areas (BNAs). Deuel County includes BNAs 9536 and 9537. The Minnesota portion of the AA includes BNA 9802 in Lac Qui Parle County, BNA 9501 in Lincoln County, and BNAs 9702 and 9703 in Yellow Medicine County. The bank's Gary, South Dakota branch, which is located on the South Dakota – Minnesota border, serves the Minnesota areas of the AA. All six BNAs are middle income. The 1990 U.S. Census indicated the combined population of the bank's AA was 16,298.

The U.S. Department of Housing and Urban Development's 2002 updated statewide non-metropolitan area median family income for South Dakota and Minnesota was \$44,800 and \$48,500, respectively. The family income level breakdown for the bank's AA was 22.3 percent low-income, 22.9 percent moderate-income, 26.6 percent middle-income, and 28.3 percent upper-income. Twelve percent of families in the bank's AA were below the poverty level (less than 30 percent of median family income).

Economic conditions in the AA are generally good, although cycles in the agricultural economy heavily impact the area. All counties in the assessment area are experiencing a low level of unemployment as of May 2002. Unemployment for Deuel County of 3.4 percent was similar to that for the state of South Dakota at 3.0 percent. Unemployment for Lac Qui Parle County (2.1 percent), Lincoln County (2.4 percent), and Yellow Medicine County (3.9 percent) are all below that for the state of Minnesota at 4.3 percent.

Agriculture is the predominant industry throughout the rural portions of the AA. Major employers in the city of Clear Lake include EMPI, Inc. (medical products - 150 employees), Good Samaritan Center (a nursing home - 135 employees), Deuel School District (95 employees), Deuel County (51 employees), Interstate Telecommunications (47 employees), and Energy Maintenance Service (a wind generator servicing company - 45 employees).

Competition arises from a number of other banks in the area. Although DCNB is the only bank chartered in Deuel County, there are five other banks chartered in the Minnesota portions of the bank's AA. DCNB is the second largest of those banks, whose total assets range from \$6.3 million to \$67.6 million. There are a total of 19 banks doing business in the AA. At six percent of total deposits, DCNB ranks sixth in deposit share among those banks.

We performed one community contact with an agricultural-related Federal government agency serving the assessment area. Our contact indicated there was no shortage of agricultural credit in the area and that lending for agricultural purposes was quite competitive.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

DCNB's net loan-to-deposit ratio is reasonable given its size, financial condition, and assessment area credit needs. Its average quarterly net loan-to-deposit ratio was 55.5 percent over the 20 quarters from June 30, 1997 through March 31, 2002.

DCNB's ratio ranks tenth among 11 similarly situated banks. The similarly situated banks include all active community banks chartered in the counties containing the bank's AA with total assets of \$70 million or less. The average net loan-to-deposit ratio for the similarly situated banks over the 20 quarters from June 30, 1997 through March 31, 2002 averaged 70.1 percent and ranged from 42.0 percent to 90.6 percent.

At June 30, 1997, the DCNB's loan-to-deposit ratio was 67.1 percent, which approximates the average loan-to-deposit ratios of 65.3 percent for the 11 similarly situated banks on June 30, 1997. From late 1997 to mid-2000, DCNB operated under strict lending guidelines imposed by its regulator that deterred loan originations and caused the bank's loan portfolio to shrink. DCNB's loan-to-deposit ratio has been steadily increasing since December 31, 2000 and totaled 65.7 percent at March 31, 2002. This approximates the average loan-to-deposit ratios of 69.2 percent for the 11 similarly situated banks on March 31, 2002.

Lending in the Assessment Area

The bank originates a substantial majority of its loans to borrowers located within its defined AA. Examiners sampled 20 loans originated from January 1, 2000 through March 31, 2002 from each of the bank's three primary products (commercial, agricultural, and consumer loans) and found 92 percent by number and 88 percent by volume were to borrowers located within the AA. The following table reflects the breakdown of sample loans originated inside the AA by number and volume for each loan type:

LENDING IN AA BY NUMBER AND DOLLAR AMOUNTS (000)				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Commercial	16 of 20	80.0%	\$864	80.2%
Agricultural	19 of 20	95.0%	\$611	99.8%
Consumer	20 of 20	100.0%	\$120	100.0%
Total	55 of 60	91.7%	\$1,595	88.1%

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

The bank's overall lending to borrowers of various incomes and to businesses and farms of different sizes is reasonable.

DCNB's loans to commercial borrowers compare favorably with community demographics. Commercial loans to borrowers with gross annual revenues of \$1 million or less represented 90 percent of our sample of 20 loans originated between January 1, 2000 and March 31, 2002. This approximates business demographic data for the AA that indicates about 94 percent of businesses in the area are in this revenue category. The following table compares the sample of bank commercial lending activity by revenue size to community demographic data:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number	Percent of Number	Business Demographic Data *
<\$50,000	5 of 20	25%	94.1%
\$50,000 - \$100,000	2 of 20	10%	
\$100,000 - \$250,000	6 of 20	30%	
\$250,000 - \$500,000	3 of 20	15%	
\$500,000 - 1,000,000	2 of 20	10%	
>\$1,000,000	2 of 20	10%	5.9%
Total	20 of 20	100%	100.0%

* Source: 2001 U.S. Census Business Demographic Data.

Similarly, the bank's loans to agricultural borrowers compare favorably with community demographics. Agricultural loans to farm operations with gross annual revenues of \$100,000 or less represented 45 percent of our sample of 20 loans originated between January 1, 2000 and March 31, 2002. Although community demographic data indicates that about 49 percent of farms in the area fit this income category, many of these farms are very small or part-time and do not rely on credit. In addition, fully 100 percent of the loans in the sample had gross annual revenues of under \$250,000. The following table compares the sample of bank agricultural lending activity to area demographics:

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE			
Annual Gross Revenue	Number	Percent of Number	Agricultural Census Demographics *
<\$50,000	4 of 20	20%	49.3%
\$50,000 - \$100,000	5 of 20	25%	16.3%
\$100,000 - \$250,000	11 of 20	55%	23.5%
\$250,000 - \$500,000	0 of 20	0%	8.3%
>\$500,000	0 of 20	0%	2.6%
Total	20 of 20	100%	100.0%

* Source: 1997 Census of Agriculture, U.S. Department of Agriculture, National Agricultural Statistics Service.

Consumer lending notably exceeds the community demographics. Consumer loans to low- and moderate-income borrowers represented 40 percent and 25 percent, respectively, of our sample of 20 loans originated between January 1, 2000 and March 31, 2002. This exceeds the community demographic data that shows 28 percent and 19 percent, respectively, for these categories. The following table compares the sample of the bank's consumer lending activity by borrower income level to community demographic data:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number	Percent of Number	Percent of Households *
Low	8 of 20	40%	28.5%
Moderate	5 of 20	25%	18.6%
Middle	4 of 20	20%	21.4%
Upper	3 of 20	15%	31.4%
Total	20 of 20	100%	100.0%

* Source: 1990 U.S. Census Data

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The AA contains only middle-income BNAs.

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

OTHER INFORMATION

Fair Lending Review

An analysis of 1998, 1999, 2000, and 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.