

PUBLIC DISCLOSURE

September 27, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Roberts County National Bank of Sisseton
Charter Number: 6185**

**5 East Maple Street
Sisseton, South Dakota**

**Office of the Comptroller of the Currency
Fargo Field Office
3211 Fiechtner 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 Roberts County National Bank of Sisseton, Sisseton, South Dakota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 27, 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 **Needs to Improve**.

- C The bank's loan-to-deposit ratio (LTD) is low and less than reasonable given the bank's size, financial condition, and lending opportunities within in its assessment area (AA). The LTD is very low in comparison to competitor banks operating in the same marketplace and indicates the bank does not lend sufficiently to meet the legitimate banking needs of the community. The low level of lending overshadows otherwise good performance in the other performance criteria.
- C The bank's record of lending to individuals of different income levels and business and agriculture borrowers of different revenue sizes is good.
- C A substantial majority of the bank's loans are originated within the bank's assessment area.

DESCRIPTION OF INSTITUTION

The Roberts County National Bank of Sisseton (RCNB) is a \$37 million financial institution located in Roberts County in Northeastern South Dakota. The bank is located in the city of Sisseton, South Dakota. RCNB is a subsidiary of a one bank holding company, RCN Holding Company, Incorporated, with total assets of \$40 million as of December 31, 1998. The bank has one affiliate, the Powell, Kouba, & Torness Insurance Agency, Incorporated.

RCNB has net loans of \$9,398,000 which represents 25% of total assets as of August 31, 1999. RCNB's primary business focus is agriculture lending. The loan portfolio mix is illustrated in the following table:

| Loan Type | Dollar Volume (000's) | % of Total |
|--|------------------------------|-------------------|
| Agriculture | \$4,790 | 51% |
| Small Business | \$1,885 | 20% |
| Residential Real Estate | \$1,522 | 16% |
| Consumer Instalment and Other Loans | \$1,201 | 13% |
| Total Portfolio Volume | \$9,398 | 100% |

* Source: Bank balance sheet as of August 31, 1999

RCNB's sole banking office is located in downtown Sisseton. The bank also has one ATM located in downtown Sisseton. There are no legal, financial, or other factors which impede RCNB's ability to help meet the credit needs of the community. The evaluation period for the Performance Evaluation is from April 11, 1996 through September 27, 1999. The most recent CRA rating was "Needs to Improve" dated April 10, 1996.

DESCRIPTION OF RCNB's ASSESSMENT AREA

RCNB's assessment area (AA) encompasses all of Roberts County in Northeastern South 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 9,900. The local economy is largely dependent on the agriculture sector. Small farms and agriculture related businesses are the area's primary employers. Small manufacturing, the school district, and local health care providers are also major employers in the AA.

The AA has four block numbering areas (BNAs), three of the BNAs are middle-income and one is moderate-income. There are no low- or upper-income BNA's in the AA. The median family income of the AA is \$21,558. The 1999 updated Housing and Urban Development estimated statewide median family income is \$37,800. Within the AA, there are 2,616 families and the family income level characteristics include low- income 26%; moderate-income 18%; middle-income 28%; and upper-income 28%.

The number of households living below the poverty level is high, at 24% of total households. 38% of the households receive social security income and another 10% of all households receive public assistance. 19% of the total population is over 65.

Competition for banking products and services in the AA is strong. RCNB's primary competition includes two bank branches and two credit unions located in Sisseton. Other competition includes seven similarly sized commercial banks operating in or bordering RCNB's AA. Asset sizes for the competing banks range from \$11 million to \$58 million with RCNB being the second largest.

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 reviewed five prior contacts conducted by this agency and other governmental agencies and we also conducted interviews with four local development officials.

The primary credit needs of the community are business loans and consumer loans. Business credit needs include start up and expansion loans to help attract and retain employers in the AA. The community contacts indicated the need to curb the younger generation's departure to metropolitan areas for employment opportunities. Consumer loans needed were for all types of consumer credit including auto, recreational, and personal loans.

The majority of the community contacts indicated the local banks were striving to meet the credit needs of the AA. However, three of the contacts indicated RCNB was very restrictive in its lending practices and too conservative in its lending policies. The contacts indicated the perception in the community is that RCNB is unwilling to underwrite new business credit unless the risk is substantially mitigated by some form of governmental agency guaranty. These contacts indicated that RCNB's current efforts to expand its lending practices, attract new customers, and improve its CRA rating are overshadowed by a long standing perception within the community of being overly conservative. The contacts indicated RCNB's local reputation as a conservative lender discourages new credit customers from even applying for credit at RCNB.

DESCRIPTION OF SAMPLES:

Our review of RCNB's lending activities was conducted by reviewing bank produced reports and sampling various bank loan products. The following table illustrates the loans samples and population of the samples by product type:

| | Commercial | Farm | Residential | Consumer |
|---|-------------------|-------------|--------------------|-----------------|
| Number of Total Originations* | 53 | 389 | 57 | 603 |
| Sample Size | 20 | 20 | 20 | 20 |
| % of Total Number Sampled | 38% | 5% | 35% | 3% |
| Dollar Amount of Total Originations (000s) | \$1,776 | \$6,532 | \$1,500 | \$2,001 |
| Dollar Amount of Sample (000s) | \$1,180 | \$793 | \$669 | \$186 |
| % of Dollar Amount Sampled | 66% | 12% | 45% | 9% |

* Source: Loan originations from April 1, 1996 through September 30, 1999. Due to data processing system limitations, loans which were originated during the current evaluation time period but paid off prior to 1999 are omitted from the loan origination population.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is low given the bank's size, financial condition, and lending opportunities within in its AA. The quarterly LTD ratio has averaged 25%

since the last CRA examination. During these thirteen quarters, the bank's LTD ratio has increased slightly from 20% on June 30, 1996 to 30% on June 30, 1999.

While the LTD ratio trend is increasing, comparisons to peer banks indicate the LTD ratio is very low. The peer banks have similar asset sizes, from \$11 to \$58 million, are locally and independently owned, and are located in close proximity or within Roberts County. These seven peer banks had average LTD ratios ranging from 43% to 73% for the same time period. We also analyzed all banks in the three state area and found that RCNB had the fourth lowest LTD ratio within the three state area and the second lowest in South Dakota.

The low LTD ratio is the result of years of conservative lending philosophy which has discouraged previously denied applicants from seeking credit at RCNB. The reputation gained as an overly conservative lender has led credit worthy applicants to seek credit at RCNB's competitors. RCNB's policies and practices of extending credit based on prior credit experience with RCNB does not promote loan growth.

One external factor contributing to the low LTD is the fact that during the 1980's, several area banks and thrifts were failing and deposit customers of these troubled financial institutions moved their deposit accounts to RCNB. The increase in deposits occurred without any corresponding loan growth. A large core of these deposit relationships are still with RCNB today.

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 businesses of different sizes is reasonable and approaches the demographics of the assessment area.

Consumer and Residential Real Estate Loans

Consumer lending to low-income families is good and exceeds the demographics of the AA. Lending to moderate-income individuals does not approach the income demographics and is low. Lending to middle- and upper-income families approach the AA income demographics.

The following table illustrates consumer 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* | 26% | 52% | 44% |
| Moderate-Income at least 50% < 80% Median Family Income* | 18% | 6% | 1% |
| Middle-Income at least 80% < 120% Median Family Income* | 28% | 16% | 12% |
| Upper-Income 120% and > Median Family Income* | 28% | 26% | 43% |

* 1999 Outstate Median Family Income of \$37,800

Residential real estate lending activities are reasonable. Lending to low-income families is low compared to the income demographics. However, given the large amount of the population living below the poverty level, it is unlikely low-income families would qualify for single family housing loans. Real estate lending to moderate-income families is good and exceeds the demographics of the marketplace.

The following table illustrates residential real estate lending activities. Our sample included loans made within the bank's AA.

| Income Level | % Families in the AA (1990 Census Data) | % Number of Loans Sampled | % Dollar Volume Loans Sampled |
|--|--|----------------------------------|--------------------------------------|
| Low-Income < 50% Median Family income* | 26% | 11% | 5% |
| Moderate-Income at least 50% < 80% Median Family Income* | 18% | 26% | 19% |
| Middle-Income at least 80% < 120% Median Family Income* | 28% | 37% | 37% |
| Upper-Income 120% and > Median Family Income* | 28% | 26% | 39% |

* 1999 Outstate Median Family Income of \$37,800

Business and Small Farm Loans

Lending to businesses and small farms of all revenue sizes is very good. Lending to businesses and farms with revenues less than \$1 million exceeds the revenue

demographics of the marketplace. All of the farm loans sampled were to farms with revenues of less than \$1 million.

The next two tables illustrate loans to various businesses and farmers within the bank's AA.

| Agriculture Loans - 18 loans totaling \$700,000 | | | |
|--|--------------------------------------|----------------------------------|--------------------------------|
| Annual Gross Sales (000's) | % of Farms in Assessment Area | % Number of Loans Sampled | % Dollar Volume Sampled |
| \$1 million or less | 93% | 100% | 100% |
| Over \$1 million | 7% | 0% | 0% |

| Commercial Loans - 18 loans totaling \$1,030,000 | | | |
|---|------------------------|----------------------------------|--------------------------------|
| Annual Gross Sales (000's) | % of Businesses | % Number of Loans Sampled | % Dollar Volume Sampled |
| \$1 million or less | 74% | 89% | 95% |
| Over \$1 million | 26% | 11% | 5% |

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 April 1, 1996 to September 30, 1999 | | | | |
|--|--------------------------------|--------------------------|---|---------------------------------------|
| Loan Type | Number of Loans Sampled | % of Number In AA | Dollar Amount of Loans Sampled (000's) | % of Total Dollar Amount in AA |
| Sample | 80 | 93% | 2,829 | 93% |

Geographic Distribution of Loans

The geographic distribution of loans within RCNB's AA is good. The geographic distribution analysis reflects lending in all tracts. We analyzed the geographic distribution of loan products sampled to evaluate the lending patterns by tract type.

The low level of business loan penetration in the moderate-income tract is due to the tract being very rural with very little or no commercial enterprises located in the tract. Lending within the moderate-income tract for agriculture, residential real estate, and consumer loans all meet or exceed the demographics of the tract.

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

Agriculture 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* | 28% | 39% | 35% |
| Middle-Income at least 80% < 120% Median Family Income* | 72% | 61% | 65% |

* 1999 Updated Outstate income of \$37,800

Business 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* | 28% | 0% | 0% |
| Middle-Income at least 80% < 120% Median Family Income* | 72% | 100% | 100% |

* 1999 Updated Outstate income of \$37,800

Residential Real Estate Loans

| Block Numbering Area | % of Owner Occupied Units 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* | 22% | 21% | 28% |
| Middle-Income at least 80% < 120% Median Family Income* | 78% | 79% | 72% |

* 1999 Updated Outstate income of \$37,800

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* | 28% | 37% | 42% |
| Middle-Income at least 80% < 120% Median Family Income* | 72% | 63% | 58% |

* 1999 Updated Outstate income of \$37,800

Record of Response to Complaints

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

Record of Compliance with Anti-discriminatory laws

Our review of fair lending laws included conducting a comparative file analysis to determine if all applicants for consumer credit received comparable rates and terms. We selected a sample of consumer instalment loans originated within the last three months to complete the comparative review.

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.