



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

September 30, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Dakota National Bank  
Charter Number: 2068

225 Cedar Street  
Yankton, SD 57078

Office of the Comptroller of the Currency

Sioux Falls Field Office  
4900 South Minnesota Ave. 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.

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

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

- The bank's quarterly average net loan-to-deposit ratio of 98.93 percent is reasonable and reflective of the bank's willingness to lend.
- A majority of the bank's loans by number (85 percent) are located within its assessment area (AA).
- First Dakota actively lends to borrowers of different income levels and businesses of different sizes.
- Geographic distribution is reasonable for loans to small businesses, small farms, and consumers.
- Community development loan and investment volumes are excellent at 11.15 percent and 10.54 percent of Tier 1 Capital, respectively. Community development loans and investments are responsive to identified AA needs.
- First Dakota opened a branch in a distressed and underserved Middle-Income Nonmetropolitan Income Tract during the evaluation period.
- Community development services volume is satisfactory. Bank employees provided expertise to 29 community development organizations during the evaluation period. Community development services are responsive to identified AA needs.

## **Scope of Examination**

First Dakota National Bank (First Dakota) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AAs through CD lending, qualified investments, and community development services.

The lending test for First Dakota covers its performance from January 1, 2008 through August 31, 2010. The evaluation period for the CD test is from July 1, 2007 through October 13, 2010.

First Dakota's primary loan products are business, farm, and consumer loans. To evaluate the bank's lending performance, examiners selected a sample of business, farm, and consumer loans originated and purchased from January 1, 2008 through August 31, 2010.

## **Description of Institution**

First Dakota is an intrastate bank headquartered in Yankton, South Dakota. As of June 30, 2010 First Dakota had total assets of \$757 million and tier one capital of \$69.4 million. First Dakota is wholly owned by First Dakota Financial Corporation, a one-bank holding company headquartered in Yankton, South Dakota with consolidated assets of \$767 million. Including the main office, First Dakota operates 13 full-service branches in South Dakota, all with cash-dispensing automated teller machines (ATMs) in the following locations: Yankton (2), Vermillion, Salem, Parkston, Wagner, Mitchell (2), Chamberlain, Oacoma, Kimball, and Sioux Falls (2). Wagner, SD and Sioux Falls, SD also have deposit-taking ATMs in addition to the cash-dispensing ATMs. Four branches are located in a middle-income nonmetropolitan underserved geography, of which two branches are also located in a middle-income nonmetropolitan distressed geography. First Dakota opened a branch in Oacoma, SD, one of the distressed and underserved middle-income nonmetropolitan geographies, in December 2007. No branches were closed since the last CRA examination. There have not been any significant changes to First Dakota's corporate structure, including merger or acquisition activities since the last CRA examination.

First Dakota's business focus is traditional community banking products. According to the June 30, 2010 Uniform Bank Performance Report, the bank had the following outstanding loans by dollar volume: residential (11 percent), commercial (46 percent), agricultural (38 percent), consumer (3 percent), and other (2 percent). Net loans totaled 79 percent of total assets as of June 30, 2010.

There are no financial, legal, or other impediments to First Dakota's ability to meet the credit needs of its AAs. First Dakota was rated satisfactory at its last CRA examination dated August 7, 2007.

## **Description of Assessment Area(S)**

First Dakota has two designated AAs, both in South Dakota. Both of First Dakota's AAs comply with regulatory requirements. They include all First Dakota branch offices and deposit-taking ATMs, as well as a majority of the bank's loans. The AAs do not arbitrarily exclude any low- or moderate-income census tracts.

The Sioux Falls Metropolitan Statistical Area AA (Sioux Falls MSA) includes the following South Dakota counties: McCook, Minnehaha, Turner, and Lincoln. First Dakota branches in Salem and Sioux Falls serve this MSA. The population of this AA is 238,122 persons according to 2009 U.S. Census data. Competition in the Sioux Falls MSA is high with numerous banks in the area, several of which operate throughout the nation. The 2000 U.S. Census and the 2010 Department of Housing and Urban Development (HUD) estimated median family incomes (MFI) for the Sioux Falls MSA

are \$51,458 and \$69,100, respectively.

The bank's rural AA (Rural SD AA) includes the following South Dakota counties: Lyman, Buffalo, Brule, Aurora, Douglas, Charles Mix, Davison, Hanson, Hutchinson, Bon Homme, Yankton, and Clay as well as small portions of Knox and Cedar counties in Nebraska. This AA is served by the following bank branches: Yankton, Vermillion, Mitchell, Parkston, Wagner, Chamberlain, Oacoma, and Kimball. The population of this AA is 114,835 persons according to 2009 U.S. Census data. Competition in the Rural SD AA is moderate. The 2000 U.S. Census and the 2010 HUD estimated MFI for the Rural SD AA are \$39,582 and \$53,827, respectively.

The following table summarizes the income levels of census tracts and families located within the bank's two AAs:

<b>INCOME DISTRIBUTION OF CENSUS TRACTS AND FAMILIES</b>								
Assessment Area	Number of Geographies				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Sioux Falls MSA	0 (0%)	7 (19%)	25 (68%)	5 (13%)	15%	20%	29%	36%
Rural SD AA	1 (3%)	3 (10%)	24 (80%)	2 (7%)	19%	19%	24%	38%
<b>Total</b>	<b>1 (2%)</b>	<b>10 (15%)</b>	<b>49 (73%)</b>	<b>7 (10%)</b>	<b>1%</b>	<b>14%</b>	<b>73%</b>	<b>12%</b>

*Source: U.S. Census (2000)*

Economic conditions in the AAs are satisfactory. Major employers in the Sioux Falls MSA are centered in health care, credit card processing, meat processing, and education. Major employers in the Rural SD AA include agriculture, healthcare, and manufacturing. According to the U.S. Bureau of Labor Statistics, unemployment levels in the AAs are well below the national average of 9.6 percent for September 2010. The Sioux Falls MSA unemployment rate was 4.1 percent (not seasonally adjusted) as of September 2010. The Rural SD AA unemployment rate (county average) was 3.8 percent (not seasonally adjusted), and the South Dakota unemployment rate was 4.4 percent (seasonally adjusted).

Competition from other financial institutions is high overall, with high competition in the Sioux Falls MSA and moderate competition in the Rural SD AA. Including First Dakota, there are 65 financial institutions serving the bank's AAs. In the Sioux Falls MSA, Citibank South Dakota, N.A. dominates deposit market share with 64 percent. By comparison, First Dakota has deposit market share of less than 1 percent, ranking 13th. The bank's primary deposit strength is in the Rural SD AA, ranking number one out of 30 with 32 percent deposit market share.

Examiners did not identify any unmet credit needs in any of First Dakota's AAs. Examiners contacted individuals from federal rural development and small business administration agencies. AA credit needs are typical of those in most small cities and rural communities and include small business, small farm, and affordable housing.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

First Dakota's performance under the lending test is satisfactory. The borrower distribution portion of the test received the majority of the weight. First Dakota has reasonable penetration among borrowers of different income levels and businesses of different sizes. First Dakota's geographical distribution of loans is reasonable because the bank's AAs did not contain many census tracts that are low- or moderate-income.

All criteria of the lending test are documented below.

#### **Loan-to-Deposit Ratio**

First Dakota's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly net loan-to-deposit ratio averaged 98.93 percent for the 12 quarters from September 30, 2007 through June 30, 2010.

The bank's net loan-to-deposit ratio is reasonable when compared with other community banks of similar size (total assets over \$250 million and less than \$1 billion) in the AA. First Dakota ranks second among a total of eight similarly situated financial institutions serving the AAs. The other eight banks had quarterly average net loan-to-deposit ratios averaging 90.89 percent and ranging from 57.16 percent to 100.83 percent over the 12 quarters from September 30, 2007 through June 30, 2010.

#### **Lending in Assessment Area**

First Dakota originates a majority of its loans to borrowers located within its defined AA. Examiners reviewed 60 agricultural, 46 commercial, and 45 consumer loans originated or purchased from January 1, 2008 to August 31, 2010. First Dakota originated 85 percent of its loans by number and 42 percent of its loans by dollar volume within the bank's AA. First Dakota has three loan production offices (LPOs) that generate 21 percent of the agricultural lending production. First Dakota appropriately excludes the LPOs from the assessment area, which causes the dollar volume percentage to be lower.

The following table shows primary loan products originated inside and outside the AAs by number and dollar volume:

<b>TOTAL LOANS REVIEWED</b>								
Loan Type	In. Assessment Area				Out of Assessment Area			
	Number	% of Number	Dollars	% of Amount	Number	% of Number	Dollars	% of Amount
Farm	41	68%	\$6,102,599	29%	19	32%	\$14,958,894	71%
Business	44	96%	\$4,708,776	99%	2	4%	\$70,000	1%
Consumer	43	96%	\$675,593	99%	2	4%	\$8,435	1%
<b>Total</b>	<b>128</b>	<b>85%</b>	<b>\$11,486,968</b>	<b>43%</b>	<b>23</b>	<b>15%</b>	<b>\$15,036,329</b>	<b>57%</b>

*Source: Farm, Business, and Consumer loan data sampled from 2008-2010*

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

Overall, borrower distribution is reasonable for loans to small businesses, small farms, and consumers.

#### **Business Loans**

The bank has a significant volume of business loans in the Rural SD AA with no revenue information. Examiners concluded a \$200 thousand loan is comparable to a business with annual gross revenues of less than \$1 million, or a small business per CRA definition. Using \$200 thousand as a proxy for a small business, a majority of the businesses in the Rural SD AA have gross annual revenues of less than \$1 million.

Distribution of loans to small businesses is reasonable. The bank's penetration to small businesses by both number and dollar volume is reasonable and meets community demographics for the Sioux Falls MSA and Rural SD AAs.

The following table shows the distribution of business loans among different sized businesses in the AAs.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES</b>						
Gross Annual Revenue	Sioux Falls MSA			Rural SD		
	% of Number	% of Amount	Business Data	% of Number	% of Amount	Business Data
<b>&lt;= \$1 million</b>	<b>85%</b>	<b>59%</b>	<b>95%</b>	<b>70%</b>	<b>27%</b>	<b>87%</b>
<b>&gt;= \$1 million</b>	15%	49%	4%	10%	31%	12%
Revenue unavailable	0%	0%	1%	20%	42%	1%
Total	100%	100%	100%	100%	100%	100%

*Source: Business loan data sampled from 2008-2010 and 2010 U.S. Census Business Demographic Data*

#### Farm Loans

Distribution of loans to small farms is reasonable. The bank's penetration to small farms by both number and dollar volume is reasonable and is comparable to community demographics for the Rural SD AA.

The following table shows the distribution of farm loans among different sized farms in the AA.

<b>BORROWER DISTRIBUTION OF LOANS TO FARMS</b>			
Gross Annual Revenue	Rural SD		
	% of Number	% of Amount	Farm Data
<b>&lt;= \$1 million</b>	<b>75%</b>	<b>88%</b>	<b>95%</b>
<b>&gt;= \$1 million</b>	5%	10%	4%
Revenue unavailable	20%	2%	1%
Total	100%	100%	100%

*Source: Farm loan data sampled from 2008-2010 and 2010 U.S. Census Farm Demographic Data*

## Consumer Loans

Distribution of consumer loans to households (HH) of low- and moderate-income levels is excellent as the bank's penetration exceeds community demographics. Lending is excellent overall as borrowing to low-income HHs in the Sioux Falls MSA, low-income HHs in the Rural SD AA, and moderate-income HHs in the Rural SD AA exceeds community demographics. Lending by number to consumers in moderate-income HHs in the Sioux Falls MSA is poor as it is below community demographics.

The following table shows the distribution of consumer loans among borrowers of different income levels in the AAs.

<b>BORROWER DISTRIBUTION OF CONSUMER LOANS</b>						
Borrower Income Level	Sioux Falls MSA			Rural SD		
	% of Number	% of Dollar Volume	% of Households	% of Number	% of Dollar Volume	% of Households
<b>Low</b>	<b>33%</b>	<b>29%</b>	<b>20%</b>	<b>27%</b>	<b>25%</b>	<b>24%</b>
<b>Moderate</b>	<b>14%</b>	<b>11%</b>	<b>18%</b>	<b>23%</b>	<b>23%</b>	<b>17%</b>
Middle	24%	23%	22%	36%	41%	19%
Upper	29%	38%	40%	14%	11%	40%
Total	100%	100%	100%	100%	100%	100%

*Source: Consumer loan data sampled from 2008-2010 and 2000 U.S. Census Data*

## Geographic Distribution of Loans

Overall, geographic distribution is reasonable for loans to small businesses, small farms, and consumers.

### Business Loans

Geographic distribution of business loans is reasonable and comparable to community demographics. The bank's dispersion by number of business loans to moderate-income tracts is poor in the Sioux Falls MSA and does not meet community demographics. Given the percent of business loans in the low-income tract is zero, the dispersion to small businesses in low-income tracts is reasonable at zero percent in the Sioux Falls MSA. The bank's dispersion by number of business loans in moderate-income tracts is excellent in the Rural SD AA as it exceeds community demographics. Lending in the low-income tract is reasonable as it is comparable to community demographics in the Rural SD AA.



Following is a table that details the bank's performance as compared to the percentage of businesses in each census tract income level.

<b>GEOGRAPHIC DISTRIBUTION OF BUSINESS LOANS</b>						
Tract Income Level	Sioux Falls MSA			Rural SD		
	% of Number	% of Amount	% of Businesses	% of Number	% of Amount	% of Businesses
<b>Low</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>
<b>Moderate</b>	<b>5%</b>	<b>16%</b>	<b>20%</b>	<b>20%</b>	<b>3%</b>	<b>5%</b>
Middle	75%	78%	71%	70%	94%	87%
Upper	20%	6%	9%	10%	2%	7%
Total	100%	100%	100%	100%	100%	100%

Source: Business loan data sampled from 2008-2010 and 2010 U.S. Census Data

#### Farm Loans

Geographic distribution of farm loans is excellent. The bank's dispersion in low- and moderate-income tracts by both number and dollar volume of farm loans exceed community demographics in the Rural SD AA.

Following is a table that details the bank's performance as compared to the percentage of farms in each census tract income level.

<b>GEOGRAPHIC DISTRIBUTION OF FARM LOANS</b>			
Tract Income Level	Rural SD AA		
	% of Number	% of Amount	% of Farms
<b>Low</b>	<b>5%</b>	<b>5%</b>	<b>0%</b>
<b>Moderate</b>	<b>20%</b>	<b>8%</b>	<b>7%</b>
Middle	75%	87%	91%
Upper	0%	0%	2%
Total	100%	100%	100%

Source: Farm loan data sampled from 2008-2010 and 2010 U.S. Census Data

## Consumer Loans

Geographic distribution of consumer loans is poor and does not meet community demographics. The bank's dispersion by both number and dollar volume of consumer loans in moderate-income tracts in the Sioux Falls MSA and Rural SD AA is below community demographics. The dispersion by number and dollar volume for consumer loans in low-income tracts in the Rural SD AA is also poor as it is below community demographics. However, the number of low-income tracts is low at 1 percent of HH in the Rural SD AA; therefore, the opportunities to lend in low-income tracts is low in the Rural SD AA. The nearest branch to the low-income tract is approximately 25 miles away; therefore, lending in low-income geographies is limited for First Dakota.

Following is a table that details the bank's performance as compared to the percentage of households in each census tract income level.

<b>GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS</b>						
Tract Income Level	Sioux Falls MSA			Rural SD		
	% of Number	% of Dollar Volume	% of Households	% of Number	% of Dollar Volume	% of Households
<b>Low</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>1%</b>
<b>Moderate</b>	<b>10%</b>	<b>6%</b>	<b>19%</b>	<b>5%</b>	<b>4%</b>	<b>7%</b>
Middle	65%	68%	67%	80%	84%	82%
Upper	25%	26%	14%	15%	12%	10%
Total	100%	100%	100%	100%	100%	100%

*Source: Consumer loan data sampled from 2008-2010 and 2000 U.S. Census Data*

Examiners found no significant gaps in the bank's lending patterns in the sample. Lending to borrowers of different incomes and to businesses and farms of different sizes is reasonable. However, due to high levels of competition, examiners noted the bank's lending fell below community demographics in the AAs, primarily for business and consumer loans. For example, in our sample, First Dakota did not originate business loans in six of the seven moderate-income tracts in the Sioux Falls MSA. In addition, in our sample, First Dakota did not originate consumer loans in five of the seven moderate-income tracts in the Sioux Falls MSA. In the Rural SD AA, our sample concluded First Dakota did not originate consumer, farm, or business loans in two of the three moderate-income tracts in the Rural SD AA. However, a majority of the lending in our sample did occur in the underserved and/or distressed middle-income nonmetropolitan tracts in the Rural SD AA.

## **Responses to Complaints**

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

## **COMMUNITY DEVELOPMENT TEST**

The Community Development Test is rated outstanding. During the evaluation period, First Dakota provided over \$15 million in community development loans and CRA qualified investments to help meet the CD needs of its AAs. In addition, bank personnel provided financial expertise to 29 community development organizations serving the AAs. The bank's level of CD activities is excellent given its size and capacity, considering the CD needs and opportunities of its AAs.

### **Number and Amount of Community Development Loans**

First Dakota provided an excellent level of community development lending. The bank originated 29 community development loans totaling \$7,736M or 11.15 percent of the bank's June 30, 2010 Tier 1 Capital. The qualifying loans covered all four areas of community development with the majority primarily from economic development (16), followed by affordable housing (7), Community Service (4), and Revitalization/Stabilization (2).

Retail services are accessible to individuals of different income levels. The percentage of low- and moderate-income census tracts within the bank's AAs (32 percent) is slightly higher than the percentage of low- and moderate-income families residing in those census tracts (23 percent). There is one branch located in a moderate-income tract and no branches located in a low-income tract. However, six of the 13 bank branches are located in a designated underserved middle-income nonmetropolitan tract with two of those branches also in a designated distressed middle-income nonmetropolitan tract. In the Rural SD AA, 16 out of the 24 (67 percent) middle-income tracts are designated underserved with four of those also designated as distressed. During the evaluation period, First Dakota opened a branch in Oacoma, SD, which is one of the two branches located in both a distressed and underserved middle-income nonmetropolitan tract. First Dakota did not close or acquire any branches during the evaluation period.

### **Number and Amount of Qualified Investments**

First Dakota generated an excellent level of qualified investments and donations. The bank made the following 79 investments and donations totaling \$7,311 thousand, or 10.54 percent of tier 1 capital:

- Fourteen investments totaling \$7,023 thousand to provide funding for the following:
  - Economic Development for start-up and expansion financing to new and very small businesses throughout the state of South Dakota;
  - Revitalization and Stabilization in areas designated as Recovery Zones in South Dakota, schools located in an Empowerment Zone or an Enterprise Community, and underserved and distressed middle-income nonmetropolitan tracts; and
  - Affordable Housing and Community Services to low- and moderate-income individuals within the state and surrounding regional area.
- Sixty-five donations totaling \$289 thousand to organizations supporting social services and job skills training for low- and moderate income individuals, small business development, affordable housing, and revitalization and stabilization for distressed and underserved middle-income nonmetropolitan tracts.

### **Extent to Which the Bank Provides Community Development Services**

First Dakota provided a satisfactory level of community development services, sometimes in a leadership role. In total, 17 bank officers and employees provided qualified services to 29 community development organizations serving the AAs. These organizations address AA needs for economic development and social services to low- and moderate-income individuals. The bank also provided technical assistance to areas designated as distressed or underserved middle-income census tracts. Below are a few examples of the bank's CD services:

- One bank officer serves on eight different committees in various capacities for organizations targeting stabilization, affordable housing, economic development, and community service in a distressed/underserved middle-income tract;
- One bank officer and one bank employee serve on the committee of an organization that promotes small business development which provide jobs to low- and moderate-income individuals; and
- First Dakota opened a branch in a distressed and underserved nonmetropolitan tract during the evaluation period which provides revitalization and stabilization by providing permanent infrastructure.

### **Responsiveness to Community Development Needs**

First Dakota has demonstrated adequate responsiveness to the community development needs of the Sioux Falls MSA and Rural SD AA, considering its performance context and the needs and opportunities with both AAs.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.