



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

March 08, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of McClusky
Charter Number 8881**

**217 Main Street
McClusky, ND 58463**

**Comptroller of the Currency
North Dakota & NW Minnesota
3211 Fiechtner Drive, SW
Fargo, ND 58103**

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: OUTSTANDING

First National Bank of McClusky's lending performance reflects an Outstanding response to community needs. This conclusion is based on the following results of the review.

- The loan to deposit ratio exceeds the guidelines for satisfactory performance.
- Lending to borrowers of different income levels and businesses of different sizes is outstanding and exceeds the demographic data.
- The geographic distribution of loans reflects an outstanding dispersion, especially in moderate-income geographies, throughout the assessment areas.
- The majority of loans originated are located inside the assessment areas.

DESCRIPTION OF INSTITUTION

First National Bank of McClusky (FNB) is located in the city of McClusky, North Dakota. FNB is an intrastate bank. The bank operates two branches, which are located in Goodrich and Mercer, North Dakota, and one ATM. Davis Bancshares, a one-bank holding company, owns 100% of FNB.

FNB has two separate Assessment Areas (AA). The first AA consists of the northern portion of Burleigh County, which is included in the Bismarck Metropolitan Statistical Area (MSA). The second AA includes the eastern and central portion of McLean County and the entire county of Sheridan. For purposes of this report, our analysis uses two separate AAs; the Rural North Dakota AA and the Bismarck MSA AA.

FNB's assets as of 12/31/04 total \$24 million. Tier 1 Capital amounts to \$2.9 million, or 12.5% of total assets.

The bank offers a variety of loan and deposit products. Given the rural location of the bank, FNB's competition is limited to neighboring banks. Total loans represent 68% of total assets. Given the location of the bank, agriculture dominates lending opportunities in the area. The following table depicts the bank's loan portfolio using outstanding loan balances as of 12/31/04.

Table 1 - Loan Portfolio Composition as of 12/31/04	\$ (000)	%
Commercial (including real estate)	1,666	10.3
Agriculture (including real estate)	12,742	78.8
Residential Real Estate	666	4.1
Consumer Loans	1,102	6.8
Total	\$16,176	100%

The last CRA examination, dated November 29, 1999, assigned a “Satisfactory” rating. There are no legal impediments that would restrict the bank’s ability to meet the credit needs of the community.

DESCRIPTION OF RURAL NORTH DAKOTA ASSESSMENT AREA

FNB’s home office and two branches are located in the Rural North Dakota AA. The AA includes the eastern and central portion of McLean County and the entire county of Sheridan. The 2000 census population of the AA is 10,237. Cities in the AA include McClusky, Garrison, Turtle Lake, Underwood, and Goodrich.

Based on the 2000 census, there are 4 census tracts (CT) in the AA. One census tract is designated as moderate-income while 2 census tracts are designated as middle-income. The remaining income tract is designated as an upper-income tract. The 2004 HUD estimated median family income for the non-MSA portion of the State of North Dakota is \$47,700.

The AA consists of small communities that are predominantly involved in agriculture and small business. Garrison and Washburn are the largest communities in the AA with populations of less than 2,000. Major employers in the McClusky area include Holen Construction, Polar Ware, and the local public school district. Unemployment rates in 2004 amount to 6.1% in Sheridan County and 7.6% in McLean County. According to local community contacts, the local economy is currently in good condition given farm prices. Credit needs are primarily related to small business, business expansion, and farming. The table on the following page illustrates the demographic data of the AA.

TABLE 2 - DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE RURAL NORTH DAKOTA AA	
<i>Population</i>	
Number of Families	3,060
Number of Households	4,330
Number of Low-Income Families	586
% of Low-Income Families	19.15
Number of Moderate-Income Families	589
% of Moderate-Income Families	19.25
Number of Middle-Income Families	716
% of Middle-Income Families	23.4
Number of Upper-Income Families	1,169
% of Upper-Income Families	38.2
<i>Geographies</i>	
Number of Census Tracts/BNA	4
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	1
% Middle-Income Census Tracts/BNA	2
% Upper-Income Census Tracts/BNA	1
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	40,682
2004 HUD-Adjusted MFI	47,700
<i>Economic Indicators</i>	
2003 Median Housing Value	47,144
% of Households Below Poverty Level	15.00

Table is based on 2000 census information with updated information when available.

DESCRIPTION OF BISMARCK MSA ASSESSMENT AREA

FNB's Bismarck MSA AA consists only of the northern portion of the MSA. The AA includes one CT, which is designated as a moderate-income tract. The CT is located in the northern portion of Burleigh County and is south of McClusky. According to the 2000 census, the population of the AA is 1,480. Cities in the AA area include Wilton, Regan, and Wing.

The AA consists of small communities that are predominantly involved in agriculture and small business. The AA is within close proximity to the cities of Bismarck and Mandan, North Dakota. These two cities are more populated and offer various employment opportunities. Many residents of the AA commute to the Bismarck area for employment. Top employers in the Bismarck area include state and local government, Medcenter One Health Systems, St Alexius Medical Center, and Bobcat/Ingersoll Rand. The 2004 unemployment rate for the Bismarck MSA amounts to 3.1%. The following table illustrates the demographic data of the AA.

TABLE 3 - DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE BISMARCK MSA AA	
<i>Population</i>	
Number of Families	444
Number of Households	611
Number of Low-Income Families	145
% of Low-Income Families	32.66
Number of Moderate-Income Families	83
% of Moderate-Income Families	18.69
Number of Middle-Income Families	111
% of Middle-Income Families	25.0
Number of Upper-Income Families	105
% of Upper-Income Families	23.65
<i>Geographies</i>	
Number of Census Tracts/BNA	1
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	1
% Middle-Income Census Tracts/BNA	0
% Upper-Income Census Tracts/BNA	0
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	38,846
2004 HUD-Adjusted MFI	60,100
<i>Economic Indicators</i>	
2004 Bismarck MSA Unemployment Rate	3.1
2003 Median Housing Value	53,300
% of Households Below Poverty Level	16.00

Table is based on 2000 census information with updated information when available.

LOAN SAMPLING

The bank's primary loan products were determined by considering the number and dollar volume of loans originated from January 1, 2003 through December 31, 2004. The following table illustrates the number and dollar volume of loan originations during the evaluation period.

Table 4 - Loan Products	#	%	\$ (000)	%
Farm Loans	383	67.5	14,156.8	80.5
Business Loans	38	6.7	1,999.7	11.4
Consumer Loans	133	23.5	1,087.6	6.2
Residential Real Estate Loans	13	2.3	331.1	1.9
Total	567	100%	17,575.2	100%

Loans originated 1/1/03 through 12/31/04

The table on the preceding page concludes that FNB’s primary loan types are farm and consumer loans. Farm loans comprise a large portion of the total loan portfolio. Over 67% of the number of loans and 80.5% of the dollar volume of loans are farm loans. Consumer loans also comprise a large portion of the number of loans originated at 23.5% of total originations. During the analysis, we placed more weight on farm loans as they make up a substantial portion of lending.

Our sample included a review of 20 loans for each primary product loan type for the evaluation period for each AA. As mentioned earlier, the bank has two AAs; the Rural ND AA and the Bismarck MSA AA. Due to limited loan volume of consumer loans in the Bismarck MSA AA, we were unable to reach our minimum sample size and did not include this loan type in our analysis of the Bismarck MSA AA.

The majority of the bank’s lending and services are completed in the Rural North Dakota AA given the location of the branches. Only 10% of loans are originated in the Bismarck MSA AA. As a result, our review placed greater reliance on results from the Rural North Dakota AA.

After initial sampling to determine the bank’s lending within the AA, we selected additional files so that all loans used in the Borrower and Geographic Distribution analyses were located in the AAs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank’s loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance given the size, financial condition, and local economic conditions in the bank’s AA. Since the last CRA evaluation, the bank’s average LTD ratio amounts to 68.9%. From 12/31/99 to 12/31/04, FNB’s LTD ratio ranged from 55% to 84%.

The LTD ratio is high given the lending opportunities in the AA. FNB’s LTD ratio is higher than five similarly situated banks within or near the AA. All of these financial institutions are in close proximity to one another and offer similar loan products. The table on the following page depicts the bank’s average LTD ratio compared to area banks.

TABLE 5 - LOAN TO DEPOSIT RATIO	Assets in thousands (as of 12/31/04)	Average LTD Ratio
Institution		
FNB of McClusky	23,961	68.9
Farmers Security Bank	29,854	68.7
Garrison State Bank and Trust	54,771	66.9
Bank of Turtle Lake	22,422	61.72
First State Bank of Wilton	23,600	59.4
First Security Bank, Underwood	26,499	47.7

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

FNB’s lending to farms of different sizes and individuals of different income levels exceeds the standards for satisfactory performance.

Rural North Dakota AA

Lending to farms of different sizes and individuals of different income levels exceeds the standards for satisfactory performance in the Rural North Dakota AA.

Farm Loans

The bank’s lending to farms of different sizes is more than reasonable. Nearly all farming operations located in the AA have revenues less than \$1 million, which limits the bank’s opportunity to surpass the demographic data. However, meeting demographic data for borrower distribution warrants an “exceeded” rating. The following table displays FNB’s lending to small farms.

Table 7 - Borrower Distribution of Loans to Farms in Rural ND AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.07	.31	.62	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans

FNB’s lending to individuals of different income levels is more than reasonable. FNB’s lending to low- and moderate-income individuals surpasses the AA demographic data. Consumer loans to low-income individuals amount to 25% while the demographic is slightly below this. FNB’s lending to moderate-income individuals significantly exceeds the demographic data of the AA. The following table depicts FNB’s commitment to lending to low-and moderate-income individuals.

Table 8 - Borrower Distribution of Consumer Loans in Rural ND AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans *	24.16	25	15.4	25	19.68	20	40.76	20

Source: Loan sample; U.S. Census data. * 10% of loans reviewed did not document income information.

Bismarck MSA AA

FNB's lending to farms of different sizes exceeds the standards for satisfactory performance. Loans to farms with revenues less than \$1 million exceed demographic data.

Farm Loans

Lending patterns to small farms within the Bismarck MSA AA is more than reasonable. Lending to small farms surpasses the demographic data of the AA. The following page documents farm loans in the AA.

Table 9 - Borrower Distribution of Loans to Farms in Bismarck MSA AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farm	96.15	3.85	0	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans

Given the bank's low amount of consumer lending in the Bismarck MSA AA, we were unable to obtain the minimum sample size for Consumer Loans. As a result, the Borrower Distribution analysis of the Bismarck MSA AA focuses entirely on Farm Loans.

Geographic Distribution of Loans

FNB's lending to farms and individuals located in different income geographies exceeds the standards for satisfactory performance.

Rural ND AA

FNB's lending to farms of different sizes and individuals of different income levels exceeds the standards for satisfactory performance.

Farm Loans

Lending to farms located in different income geographies is more than reasonable. According to demographic data, 27.7% of farms in the AA are located in moderate-income tracts. FNB's farm lending patterns exceed this with 75% of loans made to farms located in moderate-income tracts. The following table depicts FNB's farm lending in different geographies.

Table 10 - Geographic Distribution of Loans to Farms in Rural ND AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Farm loans	0	0	27.7	75	43.6	5	28.7	20

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans

Consumer lending to individuals in different geographies is more than reasonable. Consumer lending to individuals located in moderate-income geographies substantially surpasses the demographic data of the AA. Sixty-five percent of consumer loans are made to individuals that reside in moderate-income tracts. The AA demographics indicate that only 16.7% of individuals in the AA are located in moderate-income tracts. The following table illustrates FNB's consumer lending.

Table 11 - Geographic Distribution of Consumer Loans in Rural ND AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0	0	16.8	65	43.9	5	39.3	30

Source: Loan sample; U.S. Census data.

Bismarck MSA AA

The Bismarck MSA AA has 1 CT, which is designated as a moderate-income tract. Since there is only one geography in the AA, a review of geographic distribution is not applicable.

Lending in Assessment Area

The bank's lending in the AAs meets the standard for satisfactory performance. The majority of loans originated are located within the AAs. Ninety-two percent of the number and 83% of the dollar volume of loans originated are in the AA. The following table portrays the bank's commitment to lending in its AA.

Table 6 - Lending in FNB's AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm Loans	37	92.5	3	7.5	40	1,674	82.6	352	17.4	2,026
Consumer Loans	18	90	2	10	20	169	85.4	29	14.6	198
Totals	55	91.7%	5	8.3%	60	\$1843	82.9%	\$381	17.1%	\$2,224

Source: Farm and Consumer loan sample

Responses to Complaints

FNB has not received any CRA related complaints since our last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.