



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 17, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Roberts County National Bank of Sisseton
Charter Number 6185

5 East Maple Street
Sisseton, South Dakota 57262

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, South Dakota 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 "Needs to Improve."

- Lending levels do not meet the standard for satisfactory performance, as evidenced by the bank's average net loan-to-deposit ratio of 34.36 percent. This element adversely impacts the overall CRA rating and negates overall reasonable performance in other elements.
- The bank originates a majority of loans by number (83 percent) and dollar volume (89 percent) within its assessment area.
- Geographic distribution of loans is reasonable overall. Agricultural loan distribution is excellent and consumer loan distribution is not satisfactory.
- Borrower distribution of loans is excellent for both agricultural and consumer loans.

SCOPE OF EXAMINATION

The evaluation period for this examination is November 1, 2005 to October 31, 2008. Agricultural loans represented 35 percent by number and 60 percent by dollar volume of originations, and consumer loans represented 57 percent by number and 9 percent by dollar volume of originations during the evaluation period. These are the bank's primary products, in order of importance. Our sample included 39 agricultural and 45 consumer loans originated during the evaluation period.

DESCRIPTION OF INSTITUTION

Roberts County National Bank (RCNB) is a \$44 million financial institution located in Sisseton, South Dakota. The bank is a wholly-owned subsidiary of RCN Holding Company, a one-bank holding company, also headquartered in Sisseton. RCNB operates one banking location and a cash-dispensing ATM, both in downtown Sisseton. The bank offers traditional loan and deposit products and services to its customers.

Net loans represent 30 percent of total assets at September 30, 2008. By outstanding dollar volume, the loan portfolio is comprised of agricultural loans (56 percent), commercial loans (14 percent), residential loans (14 percent), consumer loans (5 percent), and municipal leases (11 percent). Tier 1 capital totaled \$8.7 million.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its assessment area. RCNB received a "Needs to Improve" rating at its prior CRA examination dated November 14, 2005.

DESCRIPTION OF ASSESSMENT AREA

RCNB's assessment area is Roberts County in South Dakota. The assessment area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The assessment area is comprised of six census tracts, of which two are moderate-income and four are middle-income. The total population of the assessment area is 10,016.

The 2000 U.S. Census and 2008 Department of Housing and Urban Development (HUD) estimated median family incomes (MFI) for the non-metropolitan areas of South Dakota are \$39,438 and \$51,600, respectively. The distribution of families by income level is 26 percent low-income, 20 percent moderate-income, 24 percent middle-income, and 30 percent upper-income. About 20 percent of households have income below the poverty level.

Economic conditions in the assessment area are satisfactory. Major industries in the assessment area include educational, health, and social services, farming, and retail trade. As of September 2008, the unemployment rate for Roberts County (3.4 percent) approximated that of the state of South Dakota (2.9 percent), with both significantly below the national unemployment rate of 6.0 percent.

Competition from other financial institutions is strong. Including RCNB, there are six financial institutions serving the bank's assessment area. Dacotah Bank leads deposit market share with 38 percent, while RCNB ranks second with 18 percent.

Assessment area credit needs are typical of those in most small cities and rural communities and include small business, small farm, residential, and consumer credit. We contacted two community organizations in the assessment area. Both indicated that area banks, including RCNB, are willing to assist with community development projects and services. However, they stated that RCNB's credit standards are more conservative than those of other local financial institutions so many potential borrowers avoid RCNB based on that reputation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

RCNB's net loan-to-deposit ratio is not satisfactory given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratios averaged 34.36 percent over 12 quarters from December 31, 2004 through September 30, 2008. During the evaluation period, RCNB originated and sold three residential loans totaling \$185 thousand and 125 student loans totaling \$262 thousand; the impact of these sales on the bank's net loan-to-deposit ratio is negligible.

The bank's net loan-to-deposit ratio compares unfavorably with other community banks of similar size (total assets <\$75 million) in and around the assessment area. RCNB ranks last among these 11 similarly-situated banks. The other 10 banks had quarterly average net loan-to-deposit ratios averaging 76.59 percent and ranging from 52.40 percent to 114.95 percent during the same 12-quarter period.

The cause of the bank's low net loan-to-deposit ratio is largely internal. RCNB consistently maintains higher underwriting standards that lead to a conservative credit culture. Community contacts noted that qualifying for credit is difficult, and the bank's reputation for restrictive lending practices deters many potential borrowers from applying for credit.

Lending in Assessment Area

RCNB originates a majority of its loans to borrowers located within its assessment area. Approximately 83 percent by number and 89 percent by dollar volume of loans were made to farms and individuals located within the bank’s assessment area.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Agricultural	34	87%	5	13%	39	\$1,132	90%	\$127	10%	\$1,259
Consumer	36	80%	9	20%	45	\$110	80%	\$27	20%	\$137
Totals	70	83%	14	17%	84	\$1,242	89%	\$154	11%	\$1,396

Source: Sample of loans.

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

The distribution of borrowers reflects excellent penetration among farms of various sizes and individuals of different income levels. Agricultural lending distribution is excellent, based on the 23 sampled loans with revenue information. RCNB’s agricultural lending is consistent with community demographics. Further analysis shows the largest number of agricultural loans are originated to the smallest assessment area farms.

Borrower Distribution of Loans to Farms			
Gross Annual Revenues	% of Loans by Number	% of Loans by Dollars	% of Area Farms
<\$100,000	39%	31%	100%
\$100,000-\$250,000	26%	20%	
\$250,000-\$500,000	26%	39%	
\$500,000-\$1,000,000	9%	10%	
>\$1,000,000	0%	0%	0%

Source: Sample of loans; Dunn and Bradstreet.

Consumer lending to low- and moderate-income borrowers is excellent, based on the 23 sampled loans with income information. RCNB’s consumer lending to low-income borrowers significantly exceeds community demographics and constitutes nearly three-quarters of the bank’s overall consumer lending. Remaining loans are evenly split between moderate-income and middle-income borrowers.

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Loans by Number	% of Area Households	% of Loans by Number	% of Area Households	% of Loans by Number	% of Area Households	% of Loans by Number	% of Area Households
Consumer	74%	27%	13%	18%	13%	20%	0%	35%

Source: Loan sample; 2000 U.S. Census data.

Geographic Distribution of Loans

Overall, geographic distribution of loans is reasonable. Geographic distribution of agricultural loans is excellent and substantially exceeds community demographics for both number and dollar amount of loans.

Geographic Distribution of Loans to Farms						
Census Tract Income Level	Moderate			Middle		
	% of Loans by Number	% of Loans by Dollar	% of Area Farms	% of Loans by Number	% of Loans by Dollar	% of Area Farms
Agricultural	50%	58%	18%	50%	42%	82%

Source: Loan sample; 2000 U.S. Census data.

Geographic distribution of consumer loans is not satisfactory and significantly below community demographics for both number and dollar amount of loans. There is a credit union in Agency Village, South Dakota that serves a large portion of the moderate-income census tracts, somewhat mitigating RCNB’s poor performance.

Geographic Distribution of Loans to Consumers						
Census Tract Income Level	Moderate			Middle		
	% of Loans by Number	% of Loans by Dollar	% of Area Households	% of Loans by Number	% of Loans by Dollar	% of Area Households
Consumer	11%	6%	23%	89%	94%	77%

Source: Loan sample; 2000 U.S. Census data.

We did not identify any gaps in the bank’s lending patterns. RCNB originated agricultural loans in all census tracts and consumer loans in five of six census tracts. Geographic distribution analysis considers only moderate- and middle-income census tracts as there are no low- or upper-income census tracts in the assessment area.

Responses to Complaints

The bank has not received any CRA-related complaints during the evaluation period.

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.