



PUBLIC DISCLOSURE

January 28, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Roberts County National Bank
Charter Number: 6185

5 East Maple Street
Sisseton, SD 57262

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, SD 57108-2865

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

The major factors that support this rating include:

- Lending levels do not meet the standard for satisfactory performance as evidenced by the bank's less than reasonable loan-to-deposit ratio of 29 percent. This element adversely impacts the overall Community Reinvestment Act rating and negates the overall reasonable performance in other elements.
- The Roberts County National Bank (RCNB) originated a majority of its loans to borrowers located inside its designated assessment area (AA).
- The bank's distribution of loans reflects reasonable penetration among farms of different sizes and individuals of different income levels.
- The bank's geographic distribution of loans reflects excellent dispersion throughout census tracts (CTs) of different income levels.

Scope of Examination

Examiners evaluated RCNB using the small bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test for RCNB covers performance from January 1, 2012 through September 30, 2014. The bank's lending during this evaluation period is representative of the bank's lending strategy since the last CRA examination.

To determine the bank's primary loan products, examiners analyzed both the number and dollar of loans originated and purchased during the evaluation period, broken down by loan product type. Based on the number and dollar volume of loans originated and purchased during the evaluation period, the bank's primary loan products are farm loans and consumer loans. These primary products are consistent with the bank's business strategy. Table 1 below shows the breakdown of loans originated and purchased during the evaluation period.

Table 1 - Loan Originations/Purchased Summary by Loan Product				
Loan Category	By Number	%	By Dollar \$(000's)	%
Farm Loans	301	40%	\$24,545	75%
Business Loans	42	6%	\$5,271	16%
Consumer Loans	394	53%	\$1,208	4%
Home Loans	13	1%	\$1,665	5%
Total	750	100%	\$32,689	100%

Source: Bank reports

To evaluate the bank's lending, examiners selected a sample of loans originated or purchased during the evaluation period for each primary product in the AA. To evaluate whether the bank made loans to borrowers in their AA, examiners selected a sample of 20 loans from each primary product. Examiners selected additional loans as needed to have sufficient information to analyze borrower and geographic distribution within the AA.

Description of Institution

RCNB is located in Sisseton, South Dakota. As of September 30, 2014, RCNB had total assets of \$57.3 million and tier one capital of \$8.6 million. The bank is wholly owned by RCN Holding Company, a one-bank holding company. There have been no significant changes to the bank's corporate structure, including any merger or acquisition activities, since the last CRA examination.

RCNB is located in a middle-income CT that is considered a nonmetropolitan underserved and distressed CT. The bank also operates one automated teller machine. The automated teller machine is a stand-alone cash dispensing machine located in Sisseton.

RCNB offers traditional loan and deposit products. There have been no changes in the bank's business strategy since the last CRA examination. RCNB's business strategy is to serve the needs of the community, primarily through farm, small business, and consumer lending. As of September 30, 2014, RCNB reported net loans of \$15.9 million, which represent 28 percent of total assets. Table 2 below describes the loan portfolio composition.

Table 2 - Loan Portfolio Summary by Loan Product as of September 30, 2014	
Loan Category	Percent of Outstanding Dollars
Farm Loans	76%
Business Loans	12%
Consumer Loans	7%
Home Loans	5%
Total	100%

Source: Bank reports

RCNB was rated Needs to Improve at its last CRA examination dated January 3, 2012. There are no legal or financial impediments limiting the bank's ability to meet the credit needs of its AA.

Description of Assessment Area

RCNB has one AA. The AA includes all of Roberts County in South Dakota. The AA includes four CTs, including three middle-income and one moderate-income CTs. Additionally, all three middle-income CTs are considered nonmetropolitan distressed and underserved CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

Current economic conditions in the AA are stable with agriculture being the primary economic activity. Bank management indicated the farm economy has been strong with record commodity prices until recently. Ag producers have been doing well and building equity with good crop production. Other primary industries in the AA also include health and social services.

According to the Bureau of Labor Statistics, as of December 2014 the unemployment rate for Roberts County ranged from a low of 3.2 percent to a high of 7.1 percent, with an average unemployment rate of 5.1 percent. This is higher than the State of South Dakota unemployment rate of 3.3 percent and lower than the national rate of 6.2 percent.

Table 3 below summarizes key demographic data for the AA.

Table 3 - Demographic Data of the Assessment Area	
Population	10,149
Total Families	2,691
Families Below the Poverty Level	386
1-4 Family Units	4,144
Multi-family Units	200
Owner-occupied Units	2,663
Percent Owner-occupied Units	54%
Median Housing Value	\$75,398
HUD Adjusted Median Family Income (2012)	\$56,400
HUD Adjusted Median Family Income (2013)	\$59,600
HUD Adjusted Median Family Income (2014)	\$59,300
Percent of families in AA that are low-income	25%
Percent of families in AA that are moderate-income	22%
Percent of families in AA that are middle-income	20%
Percent of families in AA that are upper-income	33%

Source: 2010 U.S. Census

Competition from other financial institutions is strong. The bank’s competitors include seven financial institutions, including two local community banks, two regional banks, a large national bank, and credit unions. Among these banks, Dacotah Bank leads the deposit market share with 41 percent of the deposits. RCNB ranks second in deposit market with 19 percent of deposits.

In assessing the bank’s performance, examiners contacted community contacts that represent two local economic development organizations and one housing organization. All contacts indicated all local financial institutions are involved with their organizations including RCNB. The contacts did not identify any unmet credit needs in the community. Two of the contact organizations also provide funding for business and housing loans.

The contacts indicated there are pending business opportunities that will require financial institution participation. The opportunities include a senior community, manufacturing and auto repair shop expansions, a start-up restaurant, and a restaurant

expansion. RCNB offers business loans for start-up and existing businesses.

One contact indicated a need for smaller homes valued at \$80 thousand or less in the community. This contact indicated a housing organization serving the area provides loans to low- and moderate-income and first-time homebuyers. RCNB offers conventional home loans.

Conclusions with Respect to Performance Tests

Loan-to-Deposit Ratio

RCNB's net loan-to-deposit ratio is less than reasonable given the bank's size, financial condition, and AA credit needs. RCNB's net loan-to-deposit ratio averaged 29 percent over the eleven quarters since the last CRA examination, from March 31, 2012 through September 30, 2014. The ratio ranged from a quarterly low of 25 percent to a quarterly high of 33 percent during the time period. During the evaluation period the bank sold one farm loan totaling \$1 million. The impact from this sale on RCNB's loan-to-deposit ratio would have been an increase of 2 percent.

The bank's net loan-to-deposit ratio compares unfavorably with other financial institutions of similar size, location, and product offerings. RCNB was compared to banks with total assets less than \$75 million within a 50-mile radius of Sisseton, SD. RCNB ranks last among seven similarly situated banks. The other seven banks had average net loan-to-deposit ratios averaging 67 percent and ranging from a low of 49 percent to a high of 85 percent over the same 11 quarters.

The cause of RCNB's low net loan-to-deposit ratio is largely internal. RCNB consistently maintains higher underwriting standards that lead to a conservative credit culture. As a result, the bank's loans are typically well below the legal lending limit. In addition, RCNB rarely advertises credit products.

Lending in Assessment Area

RCNB originated a majority of its loans to borrowers located inside its designated AA. Examiners sampled loans from each primary product to assess lending within the AA, including 20 farm loans and 20 consumer loans originated or purchased during the evaluation period. RCNB originated 78 percent of its loans by number and 59 percent of its loans by dollar volume within its AA.

Table 4 below details the bank's lending within its AA by number and dollar volume of loans sampled.

Table 4 - Lending in Roberts County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$ (000)
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Farm	14	70%	6	30%	20	\$1,051	59%	\$738	41%	\$1,789
Consumer	17	85%	3	15%	20	\$37	88%	\$5	12%	\$42
Total	31	78%	9	22%	40	\$1,088	59%	\$743	41%	\$1,831

Source: Loan sample

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

The bank's distribution of loans in the Roberts County AA reflects reasonable penetration among farms of different sizes and individuals of different income levels. Examiners gave more weight to dispersion of farm loans than consumer loans as a majority of the bank's loan portfolio is farm loans.

Farm Loans:

The bank's distribution of loans to farms reflects reasonable penetration among farms of different sizes. The bank originated or purchased 80 percent of farm loans sampled in the AA to small farms. Small farms have gross annual revenues of one million dollars or less. This is considered reasonable as it is comparable to the demographic data that shows 99 percent of farms in the AA are considered small farms.

Table 5A below shows the distribution of farm loans among different sized farms in the AA.

Table 5A - Borrower Distribution of Loans to Farms in Roberts County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	80%	15%	5%	100%
% of Bank Loans in AA by \$	85%	14%	1%	100%

Source: Loan sample, 2014 business demographic data

Consumer Loans:

The bank's distribution of consumer loans reflects excellent penetration among borrowers of different income levels. The bank's level of lending to low-income borrowers significantly exceeds the demographic comparator. The bank originated or purchased 45 percent of consumer loans sampled to low-income borrowers, which significantly exceeds the 26 percent of households in the AA that are low-income. The bank's level of lending to moderate-income borrowers also significantly exceeds the demographic comparator. The bank originated or purchased 35 percent of consumer loans sampled to moderate-income borrowers, which significantly exceeds the 19

percent of households in the AA that are moderate-income.

Table 5B below shows the bank’s distribution of consumer loans in the AA among borrowers of different income levels.

Table 5B - Borrower Distribution of Consumer Loans in Roberts County 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	26	45	19	35	18	15	37	5

Source: Loan sample, 2010 U.S. Census data

Geographic Distribution of Loans

The bank’s geographic distribution of loans in the Roberts County AA reflects excellent dispersion throughout CTs of different income levels. We did not identify any gaps in RCNB’s lending pattern. Examiners gave more weight to dispersion of farm loans than consumer loans as a majority of the bank’s loan portfolio is farm loans.

Farm Loans:

The bank’s geographic distribution of farm loans reflects excellent dispersion throughout CTs of different income levels. The bank’s performance is excellent in the moderate-income CT. The bank originated or purchased 55 percent of farm loans sampled in their AA to farms located in moderate-income CTs. This exceeds the 17 percent of farms in the AA located in moderate-income CTs. There are no low-income CTs in the AA.

Table 6A below shows the bank’s performance compared to the percentage of farms in each CT income level.

Table 6A - Geographic Distribution of Loans to Farms in Roberts County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	-	-	17%	55%	83%	45%	-	-

Source: Loan sample, 2014 business demographic data

Consumer Loans:

The bank’s geographic distribution of consumer loans reflects reasonable dispersion throughout CTs of different income levels. The bank’s performance is reasonable in the moderate-income CT. Based on sample of 60 loans, the bank originated or purchased 25 percent of consumer loans sampled in their AA to borrowers located in moderate-

income CTs. This reasonably compares to the 26 percent of households in the AA located in moderate-income CTs. There are no low-income CTs in the AA.

Table 6B below shows the bank’s performance compared to the percentage of households in each CT income level.

Table 6B - Geographic Distribution of Consumer Loans in Roberts County 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	-	-	26%	25%	74%	75%	-	-

Source: Loan sample, 2010 U.S. Census data

Responses to Complaints

Neither the bank nor the Office of the Comptroller of the Currency received any complaints regarding the bank’s CRA performance since the last CRA examination dated January 3, 2012

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c) in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in an geography by the bank, or in an assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

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