



## PUBLIC DISCLOSURE

March 07, 2016

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Dakota Community Bank & Trust, National Association  
Charter Number 24604

609 Main Street Hebron, ND 58638

Office of the Comptroller of the Currency

Campbell Mithun Tower  
222 South Ninth Street Suite 800  
Minneapolis, MN 55402-3393

**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: Satisfactory.**

The major factors supporting the institution's rating are as follows:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area's (AA) credit needs.
- A majority of loans are made inside the bank's AAs.
- The distribution of loans to businesses and farms of different sizes is reasonable.
- The geographic distribution of loans throughout the Bismarck MSA AA is reasonable.
- The bank demonstrates adequate responsiveness to area needs through qualified community development loans, investments, and services.

## **Scope of Examination**

Dakota Community Bank and Trust, National Association (DCB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and community development test to assess compliance with the Community Reinvestment Act (CRA). The lending test evaluates DCB's record of meeting the credit needs of its AAs through its lending activities. The community development test evaluates the bank's responsiveness to community development needs in its AAs through community development lending, qualified investments, and community development services.

The lending test analysis is based on the bank's primary loan products for the period January 1, 2014 through December 31, 2015. The number and dollar volume of originated and purchased loans were evaluated to determine the primary products for each of the bank's AAs. Commercial loans and agriculture loans were determined to be the bank's primary products in both AAs. Examiners sampled a sufficient number of commercial and agricultural loans in each applicable AA to analyze the bank's lending performance within each AA.

The evaluation period for community development activities is January 1, 2012 through December 31, 2015. We reviewed all loans, investments, and services with a primary purpose of community development presented by management. Those activities that met the definition of community development are included in this evaluation.

We used call report data to determine the bank's quarterly LTD ratio and annual deposit information reported to the Federal Deposit Insurance Corporation to find similarly situated banks. The most recent deposit information is as of June 30, 2015.

## Description of Institution

DCB is an intrastate community bank headquartered in Hebron, North Dakota. The bank is wholly owned by Dakota Community Bancshares, Inc., which is also headquartered in Hebron, North Dakota. Bank affiliates include Dakota Community Investors, LLC, an investment firm and Dakota Reinsurance Limited, an insurance company. The bank operates eleven branches throughout the state of North Dakota. The bank also operates 49 ATMs throughout this area, none of which are deposit taking. There have been no branch openings or closures since the last CRA evaluation.

As of December 31, 2015, total assets were \$766 million. Tier one capital was \$66 million with a tier one leverage ratio of 8.57 percent. The bank's primary lending focus is commercial lending in the Bismarck MSA region and agriculture lending in the North Dakota Non-MSA region. Net loans and leases represent 63.01 percent of total assets as of December 31, 2015. The loan portfolio is comprised of commercial loans (46.07 percent), agricultural loans (41.36 percent), residential real estate (9.13 percent) and consumer loans (3.44 percent).

There are no known financial or legal impediments that would affect the bank's ability to meet the credit needs of its communities. The bank received a "Satisfactory" rating at its January 3, 2013 CRA evaluation.

## Description of Assessment Area(s)

DCB has two designated AAs, consisting of the Bismarck, ND Metropolitan Statistical Area (MSA) AA and the North Dakota Non-MSA AA. We selected both AAs for full scope reviews as part of our evaluation.

### Bismarck MSA AA

The Bismarck MSA AA includes the entire counties of Burleigh and Morton. The primary cities in the MSA are Bismarck and Mandan. The bank has six branches in the AA, including the main office location. The bank also operates 34 ATMs throughout the AA. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. Two of the bank's branches within this AA are located in moderate-income tracts. Eleven of the bank's ATMs within this AA are located in low- and moderate-income tracts.

The Bismarck MSA has a strong, diversified economy. Bismarck is the capital of North Dakota and serves as a major hub for government, business, and finance. It is also a major distribution center for the agricultural industry. State government is the area's largest employer followed by MedCenter One Health Systems and St. Alexius Medical Center. Bismarck Public Schools and the federal government are also large employers in the area. Unemployment in the Bismarck MSA for 2015 was 2.9 percent. This is in

line with the state of North Dakota unemployment rate of 2.7 percent and well below the national unemployment rate of 5.3 percent.

The following table page illustrates the demographics of the Bismarck MSA AA:

<i>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE BISMARCK MSA AA</i>	
<i>Population</i>	
Number of Families	28,450
Number of Households	43,725
% of Low-Income Families	18.06%
% of Moderate-Income Families	18.51%
% of Middle-Income Families	23.25%
% of Upper-Income Families	40.19%
<i>Geographies</i>	
Number of Census Tracts	24
% Low-Income Census Tracts	4.17%
% Moderate-Income Census Tracts	8.33%
% Middle-Income Census Tracts	66.67%
% Upper-Income Census Tracts	20.83%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$67,178
2015 HUD-Adjusted MFI	\$77,000
<i>Economic Indicators</i>	
2015 Unemployment Rate	2.90%
2010 Median Housing Value	\$139,165
% of Households Below Poverty Level	9.72%

\*\* Table is based on 2010 census information with updated information when available.

Competition among financial institutions in the Bismarck MSA is moderate with 19 financial institutions holding \$3.8 billion in deposits as of June 30, 2015. Per the FDIC Deposit Market Share Report, DCB ranked fourth in the AA with a 10.59 percent market share.

We contacted a member of the Bismarck/Mandan Chamber of Commerce to gain a better understanding of community credit needs and opportunities. The contact indicated that current economic conditions are excellent. The area benefits from oil production in Western North Dakota and thus unemployment is very low. The contact indicated there is a need for affordable housing in the area. The contact indicated that local banks and financial institutions are meeting community needs.

#### North Dakota Non-MSA AA

The North Dakota Non-MSA AA includes the following counties located in the rural southwestern corner of the state: Adams, Billings, Bowman, Dunn, Grant, Hettinger,

Mercer, Slope, and Stark. The AA also includes one census tract in Harding County, located in far northwestern South Dakota. The bank operates five branches within the AA and 15 ATMs. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. All of the bank's branches and ATMs in this AA are located in middle-income census tracts.

The North Dakota Non-MSA AA economy is dominated by agriculture and oil production. Area farm and ranch operations are diversified, incorporating both crops and livestock production. Unemployment in the AA is low, averaging 2.9 percent in 2015. The unemployment rate ranged from 1.9 percent in Dunn County to 4.7 percent in Mercer County. This is in line with the North Dakota unemployment rate of 2.7 percent and well below the national unemployment rate of 5.3 percent.

The following table illustrates the demographics of the North Dakota Non-MSA AA:

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE NORTH DAKOTA NON-MSA AA</b>	
<i>Population</i>	
Number of Families	12,997
Number of Households	19,948
% of Low-Income Families	17.57%
% of Moderate-Income Families	16.38%
% of Middle-Income Families	23.61%
% of Upper-Income Families	42.43%
<i>Geographies</i>	
Number of Census Tracts	20
% Low-Income Census Tracts	NA
% Moderate-Income Census Tracts	NA
% Middle-Income Census Tracts	95.00%
% Upper-Income Census Tracts	5.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$58,592
2015 HUD-Adjusted MFI	\$67,500
<i>Economic Indicators</i>	
2015 Unemployment Rate	2.92%
2010 Median Housing Value	\$96,233
% of Households Below Poverty Level	11.61%

\*\* Table is based on 2010 census information with updated information when available.

Competition among financial institutions in the North Dakota Non-MSA AA is moderate with 18 financial institutions holding \$2.4 billion in deposits as of June 30, 2015. Per the FDIC Deposit Market Share Report, DCB ranked second in the AA with an 11.96 percent market share.

We contacted a member of a local development corporation to gain a better understanding of community credit needs and opportunities. The contact indicated the local economic is strong and thriving. The Western North Dakota oil production has slowed, which is bringing market prices back down. The contact indicated affordable housing is a need in the area. Overall, the contact felt that financial institutions are meeting the needs of the community.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's lending performance is rated Satisfactory. The assessment of the bank's lending performance is based on the loan-to-deposit (LTD) ratio, lending in the bank's AAs, borrower lending distribution, and geographic lending distribution.

#### Loan-to-Deposit Ratio

DCB's LTD ratio is reasonable given their size, financial condition, and the credit needs of their AAs. The bank's LTD ratio averaged 71.09 percent over the twelve quarters since the last CRA examination. The LTD ratio ranged from a high of 74.49 percent in the second quarter of 2014 to a low of 68.53 percent in the first quarter of 2015. The following table shows DCB's average LTD ratio compared to five other similarly situated financial institutions:

<b>Loan-to-deposit Ratio Institution</b>	<b>Assets as of 9/30/2015 (\$000s)</b>	<b>Average LTD Ratio (%)</b>
Plains Commerce Bank	588,109	99.10%
Choice Financial Group	930,293	96.59%
Cornerstone Bank	793,392	91.08%
Starion Financial	1,182,930	79.04%
<b>Dakota Community Bank &amp; Trust NA</b>	<b>766,447</b>	<b>71.09%</b>
BNC National Bank	872,265	48.87%

Source: Call Report Data as of September 30, 2015.

#### Lending in Assessment Area

During the review period, DCB originated a majority of its loans inside its AAs. The combined percentage of agricultural and commercial loans originated within the bank's two AAs totaled 85.45 percent by number and 85.73 percent by dollar volume. The following table shows the bank's lending activity inside and outside its AAs during the evaluation period:

<b>Lending in DCB's AAs</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	49	80.33	12	19.67	61	\$4,441	54.89	\$3,650	45.11	\$8,091
Commercial	45	91.84	4	8.16	49	\$21,739	96.85	\$706	3.15	\$22,445
<b>Total</b>	<b>94</b>	<b>85.45</b>	<b>16</b>	<b>14.55</b>	<b>110</b>	<b>\$26,180</b>	<b>85.73</b>	<b>\$4,356</b>	<b>14.27</b>	<b>\$30,536</b>

Source: Business and Farm Loan Samples.

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

The distribution of loans reflects reasonable penetration among farms and businesses of different sizes given the AA demographics.

**Bismarck MSA AA**

The distribution of loans reflects reasonable penetration among farms and businesses of different sizes in the Bismarck MSA AA.

**Borrower Distribution of Farm Loans**

The borrower distribution of loans to small farms demonstrates reasonable penetration among farms of different sizes. Lending to farms with revenues of \$1 million or less is near the area demographics. The table below demonstrates the borrower distribution of farm loans:

<b>Borrower Distribution of Loans to Farms in the Bismarck MSA AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.67%	0.36%	0.97%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Bank Loans in AA by \$	92.97%	7.03%	0.00%	100%

Source: Farm Loan Sample; Dunn and Bradstreet Data.

**Borrower Distribution of Business Loans**

The borrower distribution of loans to small businesses demonstrates reasonable penetration among businesses of different sizes. Lending to businesses with revenues of \$1 million or less is somewhat lower than the AA demographics. The table below demonstrates the borrower distribution of business loans:

<b>Borrower Distribution of Loans to Businesses in Bismarck MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.91%	5.17%	17.92%	100%
% of Bank Loans in AA by #	55.00%	35.00%	10.00%	100%
% of Bank Loans in AA by \$	5.63%	81.49%	12.88%	100%

Source: Business Loan Sample; Dunn and Bradstreet Data.

North Dakota Non-MSA AA

The distribution of loans reflects reasonable penetration among farms and business of different sizes in the North Dakota Non-MSA AA.

**Borrower Distribution of Farm Loans**

The borrower distribution of loans to small farms demonstrates excellent penetration among farms of different sizes. Lending to farms with revenues of \$1 million or less exceeds the area demographics. The table below demonstrates the distribution of farm loans:

<b>Borrower Distribution of Loans to Farms in the North Dakota Non-MSA AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.56%	0.35%	0.09%	100%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100%

Source: Farm Loan Sample; Dunn and Bradstreet Data.

**Borrower Distribution of Business Loans**

The borrower distribution of loans to small businesses demonstrates reasonable penetration among businesses of different sizes. DCB’s lending to businesses with revenues of \$1 million or less is near to the area demographics. The table below demonstrates the distribution of business loans:

<b>Borrower Distribution of Loans to Businesses in the North Dakota Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.89%	4.34%	18.77%	100%
% of Bank Loans in AA by #	76.00%	24.00%	0.00%	100%
% of Bank Loans in AA by \$	70.50%	29.50%	0.00%	100%

Source: Business Loan Sample; Dunn and Bradstreet Data.

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the AAs. The Bismarck MSA AA included one low-income census tract and two moderate-income census tracts. The geographic distribution analysis was not completed for the North Dakota Non-MSA AA as there were no low- or moderate-income census tracts in the AA.

Bismarck MSA AA

The geographic distribution of loans reflects reasonable dispersion throughout the Bismarck MSA AA.

**Geographic Distribution of Farm Loans**

The geographic distribution of farm loans is excellent when compared to the area demographics. Lending in moderate-income tracts exceeds the demographic comparator. While lending in the low-income tract is below the demographic comparator, only 1.56 percent of farms are located in that tract making it difficult to lend to small farms. The table below illustrates the geographic distribution of farm loans:

Geographic Distribution of Loans to Farms in Bismarck MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farms	1.56%	0.00%	14.54%	25.00%	69.71%	60.00%	14.18%	15.00%

Source: Farm Loan Sample; Dunn and Bradstreet Data

**Geographic Distribution of Business Loans**

The geographic distribution of business loans is reasonable when compared to the area demographics. The bank’s performance in the low-income tract was below the demographic comparator; however, the bank’s performance in the moderate-income tracts exceeds the demographic comparator. The table below illustrates the geographic distribution of business loans:

Geographic Distribution of Loans to Businesses in Bismarck MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans
Business	5.58%	0.00%	6.81%	30.00%	71.03%	60.00%	16.58%	10.00%

Source: Business Loan Sample; Dunn and Bradstreet Data

## **Responses to Complaints**

DCB did not receive any CRA related complaints during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the community development test is rated Satisfactory. DCB's community development performance demonstrates adequate responsiveness to the community development needs of both its Bismarck MSA AA and North Dakota Non-MSA AA.

### **Bismarck MSA AA**

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

DCB originated five community development loans totaling \$182 thousand during the evaluation period.

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

DCB made 98 investments and donations totaling approximately \$434 thousand during the evaluation period. The majority of the donations were to organizations that provide community services to low- or moderate-income persons in the AA. The largest single donation was to the ND Housing Finance Agency for the Housing Development Fund to help build affordable housing buildings around the state of North Dakota.

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

DCB provides a significant amount of community development services in the Bismarck MSA AA. A total of eleven bank employees served with 17 different community organizations that provide needed community services to low- and moderate- income individuals or promote economic development.

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

DCB's community development loans, investments, and services reflect adequate responsiveness to the community development needs of the Bismarck MSA AA. DCB operates two branches and 11 ATMs in moderate-income tracts in the Bismarck MSA AA. This generally increases access to financial services to low- and moderate-income individuals.

### **North Dakota Non-MSA AA**

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

DCB originated 31 community development loans totaling \$7.5 million during the evaluation period.

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

DCB made 33 investments and donations totaling approximately \$303 thousand during the evaluation period. The majority of the donations were to organizations that provide community services to low- and moderate-income persons in the AA. The largest single donation was a donation to the ND Housing Finance Agency to help construct an affordable housing building in Bowman, ND. The property is located in an underserved area.

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

DCB provides a reasonable amount of community development services in the North Dakota Non-MSA AA. A total of four employees served with three community organizations, including those that provide needed community services to low- and moderate- income individuals, and those that promote affordable housing or economic development.

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

DCB's community development loans, investments, and services reflect adequate responsiveness to the community development needs of the North Dakota Non-MSA AA. Two of the bank's branches are located in distressed or underserved tracts. This demonstrates the bank's responsiveness to area needs by increasing access to financial services through maintenance of branches that help to revitalize or stabilize moderate-income geographies or distressed or underserved geographies.

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

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

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