



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 1, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

DNB National Bank
Charter Number: 12877

305 Fourth Street West
Clear Lake, South Dakota 57226

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 "Satisfactory."

- DNB National Bank (DNB) meets the credit needs of the community. The bank's quarterly average net loan-to-deposit ratio since the last CRA examination is reasonable at 71.28 percent.
- DNB's level of lending within the assessment area is adequate, with 63 percent of the bank's loans originating in the defined area.
- Overall borrower distribution is good. DNB actively lends to farms of various sizes, including very small farms. Consumer lending performance is reasonable for low-income borrowers and excellent for moderate-income borrowers.

SCOPE OF EXAMINATION

The scope of the examination includes CRA-related activities from June 30, 2002 to June 30, 2007. Examiners selected a random sample of 20 loans, originating between January 1, 2005 and June 30, 2007, from each of the bank's three primary loan types, including consumer, commercial, and agricultural loans.

DESCRIPTION OF INSTITUTION

DNB National Bank (DNB) is a \$42 million community bank headquartered in Clear Lake, South Dakota. DNB is comprised of two offices both of which are located in Deuel County. The bank's main office is in the town of Clear Lake and the branch office, which opened in January 1996, is located 15 miles east in the town of Gary. DNB operates two automated teller machines in Clear Lake. The bank is wholly-owned by DCNB Holding Company, which is also headquartered in Clear Lake.

DNB offers basic loan and deposit products, as well as telephone and online banking services. The bank's primary focus is local community banking, but it also originates and purchases some large, out-of-area commercial and agricultural loans. According to the June 30, 2007 Report of Condition and Income, the bank's loan portfolio by dollar volume is comprised primarily of commercial loans (58 percent), followed by agricultural (29 percent), residential real estate (7 percent), consumer (4 percent), and other (2 percent). Net loans represent 52 percent of the bank's total assets.

DNB received a "Satisfactory" rating at its July 29, 2002 CRA examination. There are no financial, legal, or other factors that impede the bank's ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area coincides with the boundaries of Deuel County in South Dakota. Deuel County consists of census tract numbers 9536 and 9537, both of which are middle-income tracts. The bank's assessment area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

Deuel County, which is primarily an agricultural community, has a population of 4,301 (U.S. Census Bureau, 2000). The census non-metropolitan median family income for the state of South Dakota in 2000 was \$39,438. The 2006 updated U.S. Department of Housing and Urban Development's statewide non-metropolitan area median family income for South Dakota is \$48,000. Of the 1,275 total families in Deuel County, 16.33 percent are low-income, 19.86 percent are moderate-income, 28.49 percent are middle-income, and 35.32 percent are upper-income.

Economic conditions in Deuel County are generally good, although there are economic fluctuations that typically coincide with the agricultural conditions of the area. Behind farming, the service industry (14.59 percent) and retail trade (8.42 percent) are the largest industries within the county. According to U.S. Department of Labor data, the unemployment rate in Deuel County as of June 2007 was 2.7 percent, which was slightly less than the 2.8 percent reported for the State of South Dakota.

DNB faces competition from two other banks in Deuel County, which are Wells Fargo and First Bank & Trust of Milbank. According to the June 30, 2007 FDIC summary of deposits report, DNB maintains the largest deposit share in Deuel County at 48.40 percent, followed by First Bank & Trust of Milbank at 39.22 percent, and Wells Fargo at 12.38 percent. DNB also faces competitive pressures from financial institutions in the adjacent counties of Brookings, Hamlin, Codington, and Grant. Within the five-county area, there are a total of 20 financial institutions offering services. When compared to the other 19 financial institutions, DNB ranks 16th in total asset size and 12th in deposit market share at 1.92 percent.

Examiners identified no unmet credit needs within DNB's assessment area. Examiners also conducted an interview with a community contact, who indicated that local banks are able to meet the credit demands of borrowers in the area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

DNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's average net loan-to-deposit ratio over the past 21 quarters, from June 30, 2002 to June 30, 2007, is 71 percent and has ranged from 61 percent to 85 percent.

DNB's net loan-to-deposit ratio approximates those of other similarly situated area banks. Examiners performed an analysis of five similarly situated banks located within Deuel County and the adjacent counties of Brookings, Codington, Hamlin, and Grant having total assets between \$27 million and \$57 million. During the 21 quarters from June 30, 2002 to June 30, 2007, the other five similarly situated banks had average net loan-to-deposit ratios averaging 71 percent, and ranging from 50 percent to 91 percent.

Lending in the Assessment Area

The bank originates a majority of its loans to borrowers located within its defined assessment area. DNB originated 63 percent of its loans by number and 26 percent of its loans by dollar volume within Deuel County. The bank regularly originates and participates in large out-of-area commercial and agricultural loans, which causes the dollar volume percentages to be lower. DNB lends to commercial borrowers within the assessment area, although the bank's commercial loan demand has been relatively soft in Deuel County. Based upon the loan sample reviewed, the following table demonstrates the bank's assessment area lending by number and dollar volume of loans:

| Lending in Assessment Area by Number and Dollar Volume | | | | |
|---|-----------------|--------------------------|---------------------------------------|---------------------------|
| Type of Loan | Number | Percent of Number | Dollars (000s) | Percent of Dollars |
| Agricultural | 15 of 20 | 75% | \$618,265 of \$1,476,699 | 42% |
| Consumer | 17 of 20 | 85% | \$78,949 of \$88,298 | 89% |
| Commercial | 6 of 20 | 30% | \$1,290,186 of \$6,157,377 | 21% |
| Total | 38 of 60 | 63% | \$1,987,400 of \$7,722,374 | 26% |

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

The bank's demonstrates strong agricultural lending performance to farms of various sizes. Lending to borrowers of different income levels is good overall.

DNB's has an excellent record of lending to farms of different sizes. Based upon the 20 agricultural loans sampled, DNB's makes 100 percent of its agricultural loans to farms with gross annual revenues of less than \$1 million, which exceeds community demographics of 97.73 percent. In addition, DNB makes 75 percent of its agricultural loans to the assessment area's smallest farms, those with under \$250,000 in gross annual revenues.

DNB’s consumer lending to moderate-income borrowers is excellent and substantially exceeds assessment area demographics. Consumer lending to low-income borrowers is reasonable and slightly exceeds community demographics. Based upon the loan sample reviewed, the following table compares the bank’s consumer lending borrower distribution to area demographics:

| Borrower Distribution of Consumer Loans by Income Level | | | |
|--|---------------|--------------------------|------------------------------|
| Deuel County | | | 2000 U.S. Census Data |
| Borrower Income Level | Number | Percent of Number | Percent of Households |
| Low | 5 | 25% | 22.02% |
| Moderate | 8 | 40% | 18.20% |
| Middle | 4 | 20% | 19.98% |
| Upper | 1 | 5% | 39.80% |
| Unknown | 2 | 10% | 0.00% |
| Totals | 20 | 100% | 100% |

We did not review the distribution of commercial loans as the number of loans in the assessment area with revenue information was insufficient for analysis.

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The assessment area contains only middle-income census tracts.

Responses to Complaints

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

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.