



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 29, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Valley Bank, National Association
Charter Number 23068**

**112 East Main Street
Elk Point, SD 57025**

**Comptroller of the Currency
Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, SD 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.

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INSTITUTION'S CRA RATING

This institution is rated "Satisfactory."

- Valley Bank, National Association meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 80.69 percent since the bank's last CRA examination.
- A majority of loans by both number (74 percent) and dollar volume (68 percent) are located within the bank's defined assessment areas.
- The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers), small farms, and businesses of various sizes.
- Geographic distribution of loans is reasonable and approximates community demographics.

DESCRIPTION OF INSTITUTION

Valley Bank, National Association (Valley Bank) is a \$70 million commercial bank headquartered in Elk Point, South Dakota. The bank has five branches, all in South Dakota: two in Sioux Falls, and one each in Elk Point, Jefferson, and North Sioux City. The bank opened a new branch in Eastern Sioux Falls in February 2001. The bank owns and operates nine automated teller machines (ATMs). Four of the ATMs (one in Elk Point, one in North Sioux City, and two in Sioux Falls) are deposit-taking.

Valley Bank's business focus is commercial, agricultural, and consumer lending. According to its Report of Condition and Income, the bank has the following outstanding loans by dollar volume on March 31, 2002: commercial (69 percent), residential real estate (12 percent), agricultural (11 percent), consumer (6 percent), and other (2 percent). Net loans total 71 percent of total assets.

The bank is 100 percent owned by Haugo Bancshares, Inc., a \$73 million one-bank holding company headquartered in Sioux Falls, South Dakota.

Valley Bank received a "Satisfactory" rating at its February 5, 1997 CRA examination. This Performance Evaluation assesses the bank's CRA activities from April 1, 1997 through March 31, 2002. There are no financial, legal, or other factors that impede the bank's ability to meet the credit needs of its assessment areas.

DESCRIPTION OF ASSESSMENT AREAS

Valley Bank has identified two assessment areas. The Northern assessment area includes the majority of Minnehaha and Lincoln Counties and is part of the Sioux Falls, SD metropolitan area (MA) #7760. The bank's two Sioux Falls offices serve the Northern assessment area. The Southern assessment area includes all of Union County and one contiguous census tract in Woodbury County, Iowa. The area in Woodbury County is served by the bank's branch in North Sioux City, with the remainder of the Southern assessment area being served by the bank's Elk Point and Jefferson branches. The total population of both assessment areas is 122,254 persons, according to 1990 U.S. Census data.

The assessment areas comply with regulatory requirements. They include all Valley Bank branch offices and ATMs, as well as a majority of the bank's loans. The areas do not arbitrarily exclude any low- or moderate-income block numbering areas (BNAs) or census tracts (CTs).

The 1990 U.S. Census and 2002 Department of Housing and Urban Development (HUD) estimated median family incomes (MFI) for the non-metropolitan areas of South Dakota are \$25,547 and \$44,800, respectively. The 1990 U.S. Census and 2002 HUD estimated MFI for the Sioux Falls, SD MA #7760 are \$34,101 and \$58,800, respectively. The following table summarizes the income levels of individual geographies and families located within the bank's assessment areas:

Income Distribution of Geographies and Families								
Assessment Area	Number of Geographies				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Northern	0 (0%)	7 (26%)	13 (48%)	7 (26%)	16%	19%	28%	37%
Southern	0 (0%)	1 (25%)	3 (75%)	0 (0%)	19%	19%	23%	39%
Total	0 (0%)	8 (26%)	16 (52%)	7 (23%)	16%	19%	28%	37%

Economic conditions in the assessment areas are generally good. Major employers in Sioux Falls are centered in health care, credit card processing, meat processing, and education. Major employers in the Southern assessment area include manufacturing, meat processing, and agriculture. According to the U.S. Bureau of Labor Statistics, unemployment levels in the assessment areas are well below the national average of 5.9 percent for June 2002. Sioux Falls area unemployment is 2.2 percent, Union County unemployment is 4.0 percent, and South Dakota unemployment is 3.0 percent.

Competition from other financial institutions is strong. Citibank (South Dakota), N.A. dominates Minnehaha and Lincoln Counties with a 49 percent market share of deposits, although many of these deposits are obtained nationwide. Valley Bank's market share for deposits in Minnehaha and Lincoln County is 0.42 percent, ranking 19th among 28 banks operating in the Northern assessment area. The bank has a much larger presence in the Southern assessment area, ranking second among eight banks operating in Union County with a deposit market share of 19.36 percent.

Examiners did not identify any unmet credit needs in either of Valley Bank's assessment areas. Community contacts and other information indicate a relatively strong, stable statewide economy and many financial institutions willing and able to provide all types of credit.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Valley Bank's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 80.7 percent for the 22 quarters beginning December 31, 1996 and ending March 31, 2002. Valley Bank's net loan-to-deposit ratio has remained relatively stable over the 22 quarters and totals 83.3 percent at March 31, 2002.

Valley Bank's net loan-to-deposit ratio compares favorably with other community banks of similar size (total assets under \$100 million) in the assessment areas. Valley Bank ranks fourth among eight similarly situated banks in the assessment area. The other seven banks had quarterly average net loan-to-deposit ratios averaging 76 percent and ranging between 52 percent and 93 percent for the 22 quarters from December 31, 1996 through March 31, 2002.

Lending in Assessment Areas

Valley Bank originates a majority of its loans to borrowers located within its defined assessment areas. Of loans originated from January 1, 1997 to March 31, 2002 for commercial, agricultural, or consumer purposes, about 74 percent by number and 68 percent by dollar volume were made to borrowers within the bank's assessment areas. The following table shows primary product loans originated inside the assessment areas by number and dollar volume:

Lending in Assessment Areas by Number and Dollar Volume				
Type of Loan	Number	Percent of Number	Dollars (000s)	Percent of Dollars
Commercial	634 of 827	77%	\$57,657 of \$88,282	65%
Agricultural	274 of 410	67%	\$18,408 of \$24,330	76%
Consumer	1,160 of 1,567	74%	\$9,495 of \$12,386	77%
Total	2,068 of 2,804	74%	\$85,560 of \$124,998	68%

Source: Bank records (verified by examiners)

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

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. Lending to small businesses and farms and to low- and moderate-income individuals meets or exceeds community demographics.

Valley Bank's commercial lending in the Northern assessment area to businesses with gross annual revenues under \$1 million is 80 percent and nearly meets community demographics of 89 percent. The largest number of originations was to businesses with less than \$100 thousand in gross annual revenues. Examiners sampled 20 loans to commercial borrowers originated in the Northern assessment area from January 1, 2000 to March 31, 2002. The following table compares the bank's commercial lending activity by revenue size to community demographics:

Borrower Distribution of Commercial Loans by Revenue Size			
Northern Assessment Area			
Gross Annual Revenue	Number	Percent of Number	Business Data
<\$100,000	7	80%	89%
\$100,000 - \$250,000	4		
\$250,000 - \$500,000	2		
\$500,000 - \$1,000,000	3		
>\$1,000,000	4	20%	11%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

Agricultural lending in the Southern assessment area meets the community demographics. The largest number of originations was to farms with less than \$250 thousand in gross annual revenues. Examiners sampled 20 loans to agricultural borrowers originated in the Southern assessment area from January 1, 2000 to March 31, 2002. The following table compares the bank's agricultural lending activity by revenue size to community demographics:

Borrower Distribution of Agricultural Loans by Revenue Size			
Southern Assessment Area			
Gross Annual Revenue	Number	Percent of Number	1997 Ag Census
<\$50,000	5	25%	39%
\$50,000 - \$100,000	3	15%	17%
\$100,000 - \$250,000	7	35%	27%
\$250,000 - \$500,000	3	15%	11%
>\$500,000	2	10%	6%
Totals	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)

Consumer lending in both assessment areas is reasonable. Valley Bank exceeds the community demographics for both low- and moderate-income households in the Northern assessment area, and meets the community demographics for both low- and moderate-income households in the Southern assessment area. Examiners sampled 20 consumer loans originated in each of the two assessment areas from January 1, 2000 to March 31, 2002. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

Borrower Distribution of Consumer Loans by Income Level						
Borrower Income Level	Northern Assessment Area			Southern Assessment Area		
	Number	Percent of Number	Percent of Households	Number	Percent of Number	Percent of Households
Low	8	40%	21%	4	20%	23%

Moderate	6	30%	18%	4	20%	17%
Middle	5	25%	22%	10	50%	19%
Upper	1	5%	39%	2	10%	41%
Totals	20	100%	100%	20	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

We did not review borrower distribution of agricultural lending in the Northern assessment area or commercial lending in the Southern assessment area due to the limited number of originations of these types of loans in those areas. We did not review borrower distribution of residential real estate lending, as it is not a primary product in either assessment area.

Geographic Distribution of Loans

Geographic distribution of commercial, agricultural, and consumer loans in both assessment areas is reasonable. Commercial loan distribution in moderate-income census tracts in the Northern assessment area is reasonable and is consistent with assessment area demographics, as shown in the following table:

Geographic Distribution of Commercial Loans in the Northern Assessment Area					
Tract Income Level	Originations from January 1, 1997 to March 31, 2002				Percent of Businesses by Tract Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	0	0%	\$0	0%	0%
Moderate-Income	157	32%	\$15,063	28%	40%
Middle-Income	267	55%	\$28,528	54%	48%
Upper-Income	66	13%	\$9,408	18%	12%
Totals	490	100%	\$53,000	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Agricultural loan distribution in moderate-income census tracts in the Southern assessment area is reasonable and is consistent with the assessment area demographics, as shown in the following table:

Geographic Distribution of Agricultural Loans in the Southern Assessment Area					
Tract Income Level	Originations from January 1, 1997 to March 31, 2002				Percent of Farms by Tract Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	0	0%	\$0	0%	0%
Moderate-Income	1	0%	\$18	0%	1%
Middle-Income	239	100%	\$15,500	100%	99%
Upper-Income	0	0%	\$0	0%	0%
Totals	240	100%	\$15,518	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Overall, consumer loan distribution in moderate-income geographies is reasonable. Geographic distribution to moderate-income census tracts approximates assessment area demographics in the Northern assessment area. However, geographic distribution to moderate-income census tracts

is well below assessment area demographics in the Southern assessment area. Valley Bank does not have a branch in the one moderate-income census tract, which is located in Woodbury County, IA. The nearest Valley Bank branch is across the state line in South Dakota. There are numerous banks in Sioux City, Iowa providing a high level of competition for consumer lending.

Geographic Distribution of Consumer Loans in the Northern Assessment Area					
Tract Income Level	Originations from January 1, 1997 to March 31, 2002				Percent of Households by Tract Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	0	0	0	0	0%
Moderate-Income	113	18%	\$929	14%	25%
Middle-Income	357	56%	\$3,592	55%	54%
Upper-Income	167	26%	\$2,014	31%	21%
Totals	637	100%	\$6,535	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Geographic Distribution of Consumer Loans in the Southern Assessment Area					
Tract Income Level	Originations from January 1, 1997 to March 31, 2002				Percent of Households by Tract Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	0	0%	\$0	0%	0%
Moderate-Income	41	8%	\$267	9%	21%
Middle-Income	482	92%	\$2,693	91%	79%
Upper-Income	0	0%	\$0	0%	0%
Totals	523	100%	\$2,960	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

We did not review geographic distribution of agricultural lending in the Northern assessment area or commercial lending in the Southern assessment area due to the limited number of originations of these types of loans in those areas. We did not review geographic distribution of residential real estate lending, as it is not a primary product in either assessment area.

Examiners found no significant gaps in the bank's lending patterns. Valley Bank originated commercial and consumer loans in most of the 27 census tracts in the Northern assessment area. Valley Bank did not originate commercial loans in four census tracts, including three moderate-income tracts and one upper-income tract. The bank did not originate consumer loans in two census tracts, including one moderate-income tract and one upper-income tract. Valley Bank originated agricultural and consumer loans in all four BNAs in the Southern assessment area.

Responses to Complaints

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

Fair Lending Review

An analysis of 1998, 1999, 2000, and 2001 public comments, consumer complaint information, and Home Mortgage Disclosure Act data was performed according to the OCC's risk based fair

lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.