



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 15, 2011**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

North Country Bank, National Association  
Charter Number 8881

217 Main Street  
McClusky, ND 58463-0000

Office of the Comptroller of the Currency

Minneapolis Field Office  
Campbell Mithun Tower 222 South Ninth Street  
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: Outstanding

- The Loan-to-Deposit ratio is reasonable considering the bank's size, location, financial condition, and local economic conditions.
- A substantial majority of loans originated are located inside the assessment area.
- Lending to farms of different sizes demonstrates excellent penetration.
- The geographic distribution of loans to farms in different census tracts of the assessment area demonstrates excellent dispersion.

## SCOPE OF EXAMINATION

We evaluated North Country Bank, National Association's (NCB) record of meeting the credit needs of the community for the period of March 9, 2005 through March 30, 2011. Loan sampling was conducted to arrive at conclusions in relation to the bank's lending performance.

In order to determine the bank's lending performance. We selected primary products based on the dollar amount and number of loan originations for the period of January 1, 2009 to March 31, 2011. Farm loans are the bank's primary product representing the largest percentage of dollar volume and number volume in the loan portfolio. The table below illustrates the number and dollar volume of loan originations during the evaluation period.

Loan Products	#	%	\$ (000s)	%
<b>Farm Loans</b>	<b>631</b>	<b>48.58%</b>	<b>39,278</b>	<b>77.69%</b>
Business Loans	83	6.39%	6,237	12.34%
Consumer Loans	563	43.34%	4,202	8.31%
Residential Real Estate Loans	22	1.69%	841	1.66%
<b>Total</b>	<b>1,299</b>	<b>100%</b>	<b>50,558</b>	<b>100%</b>

*Loans originated 1/1/09 through 3/31/11*

A sample of 20 farm loans from the designated period was used to determine lending distributions to borrowers and their geographies. Demographic information from the assessment area was used to assess lending performance and the bank's loan-to-deposit ratio was compared with other local similarly situated banks. The area's financial, economic, and other environmental factors were discussed with members of bank management and one community contact located in the city of Underwood to determine what role the bank plays in meeting lending needs of the assessment area.

## DESCRIPTION OF INSTITUTION

North Country Bank, N.A. (NCB) is located in McClusky, North Dakota. The bank changed their name from First National Bank of McClusky to NCB as of December 1, 2006. NCB operates its main branch out of McClusky and has four branches located in Goodrich, Mercer,

Underwood, and Riverdale, North Dakota. The Underwood branch was purchased from First Security State Bank as of November 2005. The bank has four non-deposit taking ATMs. Locations include two ATMs in Underwood at a convenience store and a grocery store, one ATM in Pick City at a convenience store, and one AMT at a convenience store in McClusky.

Davis Bancshares, a one-bank holding company, owns 100% of NCB. The bank's total assets as of March 31, 2011 are \$59.6 million. Tier One capital is \$5.9 million and the Tier One leverage capital ratio is 9.92% as of March 31, 2011.

NCB's main office and branch locations are in a primarily rural area. NCB offers a variety of loan and deposit products and services with a focus on agriculture lending. The agriculture industry dominates lending opportunities given the rural locations of the bank. The following table illustrates the bank's loan portfolio composition as of March 31, 2011.

<b>Loan Portfolio Composition as of 3/31/11</b>	<b>(\$000s)</b>	<b>%</b>
Farm Loans	17,506	64.35%
Commercial Loans	6,534	24.02%
Consumer Loans	2,443	8.98%
Residential Real Estate Loans	723	2.66%
<b>Total</b>	<b>\$27,206</b>	<b>100%</b>

NCB was assigned an “Outstanding” rating during the previous CRA evaluation dated March 8, 2005. There are no legal, financial, or other factors restricting the bank’s ability to meet the credit needs of the community.

## **DESCRIPTION OF ASSESSMENT AREA**

NCB's assessment area (AA) is a rural AA and does not include a Metropolitan Statistical Area (MSA). The AA includes the eastern half of McLean County, all of Sheridan County, and a small northeast portion of Mercer County, all in North Dakota. Cities in the AA include McClusky, Goodrich, Mercer, Underwood, Turtle Lake, Washburn, Coleharbor, Max, Pick City, and Stanton.

The AA includes five census tracts. The one census tract representing all of Sheridan County is designated moderate-income. Two middle-income tracts and one upper-income tract are located in McLean County, and one upper-income census tract is located in Mercer County. The bank’s AA complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

The entire AA consists of small communities predominantly involved in the agriculture industry and small business. The total population of the AA is 11,793 people based on 2000 United States Census Bureau data. The two largest communities are Garrison and Washburn with populations slightly under 2,000. Agriculture is the dominate industry in the area. Major employers in the area include the public school district, small businesses, and farming.

Unemployment rates in the area for 2010 averaged 5.0% for McLean County, 5.1% for Mercer County, and 4.8% for Sheridan County. This compares to a 2010 average unemployment rate of 3.9% for the entire state of North Dakota.

The following table illustrates the demographic data of the AA.

<b>Demographic and Economic Characteristics of the AA</b>	
<i>Population</i>	
Number of Families	3,524
Number of Households	4,943
Number of Low-Income Families	645
% of Low-Income Families	18.30%
Number of Moderate-Income Families	660
% of Moderate-Income Families	18.73%
Number of Middle-Income Families	800
% of Middle-Income Families	22.70%
Number of Upper-Income Families	1,419
% of Upper-Income Families	40.27%
<i>Geographies</i>	
Number of Census Tracts	5
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	20%
% Middle-Income Census Tracts	40%
% Upper-Income Census Tracts	40%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$42,111
2011 HUD-Adjusted MFI	\$63,000
<i>Economic Indicators</i>	
2000 Median Housing Value	\$48,021
% of Households Below Poverty Level	13.53%

Source: 2000 U.S. Census Bureau

We contacted a member of the local Economic Development Corporation during this CRA examination. This community contact indicated there is a variety of banking opportunities in the assessment area for local financial institutions. NCB is active in the community and has a positive reputation for meeting community lending needs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is reasonable considering its size, location, financial condition, and local economic conditions in the bank's AA. The bank's average LTD ratio was 74.34% based on quarterly LTD ratio data collected since the last CRA evaluation. The LTD ratio fluctuated from a low of 51.34% to a high of 98.74% over a period from March 31, 2005 through March 31, 2011.

The bank's LTD ratio ranks as the third highest among five similarly situated banks within the AA. All the financial institutions are of similar asset size (\$30 million to \$100 million in total assets), have at least one branch within the AA, and offer similar loan and deposit products. The following table illustrates NCB's average LTD in comparison to similarly situated banks.

<b>Loan-to-Deposit Ratio Institution</b>	<b>Assets (\$000s)</b>	<b>Average LTD Ratio</b>
Garrison State Bank and Trust	83,776	76.35%
Bank of Turtle Lake	34,085	76.12%
<b>North Country Bank, N.A.</b>	<b>59,565</b>	<b>74.34%</b>
Union State Bank of Hazen	96,685	74.18%
Farmers Security Bank	41,345	64.61%
First State Bank of Wilton	32,677	62.70%

Source: FDIC Deposit Market Share Report as of 6/30/10

### Lending in Assessment Area

NCB originated a substantial majority of loans by number and dollar volume within the AA. A loan sample of 20 loans indicated that NCB originated 90% of the loans by number and 92% of the loans by dollar volume in the AA.

The following table illustrates the bank's commitment to lending in its AA.

<b>Lending in NCB's AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (\$000s)
	#	%	#	%		\$	%	\$	%	
Farm Loans	18	90%	2	10%	20	\$1,464	92.13%	\$125	7.87%	\$1,589

Source: Farm Loan Sample

### Lending to Farms of Different Sizes

NCB's lending to farms of different sizes demonstrates excellent penetration of the AA. Nearly all farming operations located in the AA generate less than \$1 million of revenues annually. NCB's lending patterns compare favorably to demographic data.

<b>Borrower Distribution of Loans to Farms in AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.38%	0.62%	0%	100%
% of Bank Loans in AA by #	90%	10%	0%	100%
% of Bank Loans in AA by \$	90%	10%	0%	100%

Source: Loan Sample; 2010 Business Geodemographic Data

### **Geographic Distribution of Loans**

The geographic distribution of loans to farms in low- and moderate-income areas demonstrates excellent dispersion. Demographic data shows 26% of farms are located in the moderate-income census tract of the AA. NCB’s lending patterns significantly exceed this with 55% of loans made to farms in the moderate-income tract. The following table illustrates NCB’s lending in different geographies.

<b>Geographic Distribution of Loans to Farms in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses/ Farms	% of Number of Loans						
Farm Loans	0%	0%	25.85%	55%	46.15%	25%	28%	20%

Source: Loan sample; 2010 Business Geodemographic Data

### **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 illegal discrimination or other illegal credit practices inconsistent with helping to meet community credit needs.