

**GENERAL INFORMATION**

*The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of State Bank of Alcester, Alcester, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of April 29, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated "Outstanding."

The bank's outstanding rating is based on several factors. First, the bank has maintained a high loan-to-deposit ratio since the previous evaluation. Second, it has a substantial majority of its small business/agricultural, consumer, and real estate loans in its assessment area. Finally, it underwrites a significant portion of its loans to borrowers with low- and moderate-income levels and to businesses of different sizes.

The following table indicates the performance level of State Bank of Alcester, Alcester, South Dakota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	State Bank of Alcester Alcester, South Dakota PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous evaluation.		

## **DESCRIPTION OF INSTITUTION**

Based on its size and financial condition, the bank is able to meet the credit needs of the communities located in its assessment area. The bank's main office is located in Alcester, South Dakota; it is the community's only financial institution. It has two automated teller machines ("ATM") in Beresford, South Dakota, and a third ATM in Alcester. The bank is also adding drive-through deposit services to its main office.

According to the March 31, 1996, Report of Condition ("ROC"), the bank has total assets of \$54.3 million and total deposits of \$46.1 million. Its loan portfolio mix is 53% agricultural and agricultural real estate, 16% consumer, 15% consumer real estate, 14% commercial, and approximately 2% commercial real estate and other loans. The bank's net loans have remained stable since the previous evaluation, ranging from \$27.7 million to \$30.6 million. Net loans as of March 31, 1996, are \$29.5 million. However, the bank's total deposits have increased as well; total deposits ranged from \$44.2 million to \$46.1 million during the same time period. Bank management indicated that total deposits have increased as a result of interest rates perceived to be higher than those of the bank's competitors. However, rate surveys have shown that the bank's interest rates are equal to its competitors. Governmental contacts indicated that a number of small businesses and public entities bypass their own local financial institutions to deposit funds with the bank.

Considering its asset size, the bank offers a remarkable variety of credit and deposit products. For example, it offers several types of consumer loans, including five credit card programs. Furthermore, it offers conventional, Federal Housing Administration, Rural Economic and Community Development Rural Housing, Veterans Administration, South Dakota Housing Development Authority, home improvement, and multifamily mortgage loans. The bank also participates in a number of South Dakota-guaranteed farm and small business loan programs.

## **DESCRIPTION OF THE ASSESSMENT AREA FOR STATE BANK OF ALCESTER, ALCESTER, SOUTH DAKOTA**

Located in the northeastern part of Union County, Alcester is close to the Iowa border. The community is approximately 40 miles southeast of Sioux Falls, South Dakota. Sioux Falls is outside the bank's assessment area but is the largest city in the eastern part of South Dakota. The Sioux Falls metropolitan statistical area ("MSA") encompasses Lincoln County, which is part of the bank's assessment area. Bank management indicated that because of population growth in Sioux Falls, it is possible that Union County might be incorporated into the MSA in the future.

The bank's assessment area consists of four block numbering areas ("BNA") (201, 202, 9703, and 9704) and one census tract (104); it covers a two-state area that encompasses two counties in southeastern South Dakota and two counties in northwestern Iowa. The major towns in the assessment area are Alcester, South Dakota, and Akron and Hawarden, Iowa. Alcester is located in Union County, South Dakota. Akron and Hawarden are in the Iowa counties of Plymouth and Sioux, respectively.

According to 1990 census data, the assessment area has a total population of 16,652. Census data, bank staff, and community contacts all indicate that the assessment area has been experiencing a population increase. This is due to population growth in Lincoln County, which borders Sioux Falls and is part of the Sioux Falls MSA. The largest employers in Alcester are a retirement home with approximately 125 employees, a manufacturing company with 75 employees, a service company with 50 employees, and the school system with approximately 50 employees.

CRA divides income into four categories: low income, moderate income, middle income, and upper income. Because the majority of the bank's assessment area is not in an MSA, the categorization of a borrower or geography's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median income. An individual with an income that is 120% or more of the statewide nonmetropolitan median income is considered upper income. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography.

The BNAs and census tract in the assessment area are classified as middle income. The assessment area's median household income is \$22,677; its median family income is \$27,206. According to 1990 census data, the median family income for the statewide nonmetropolitan areas of South Dakota is \$25,547 and of Iowa is \$29,303. The 1990 census data indicate that 24% of the assessment area's households are low income, 17% are moderate income, 22% are middle income, and 37% are upper income. The minority population of the assessment area is only .5% of the total population.

The assessment area's economy is based on agricultural production. However, there are a number of small retail businesses in Alcester that provide stable employment. A primary need in the assessment area has been residential housing in Alcester. In an attempt to meet this need, the bank sold a parcel of real estate to a development corporation. The corporation made infrastructure improvements and sold the individual lots to local residential developers.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank has done an outstanding job of meeting the credit needs in its assessment area. The criteria detailed below were reviewed in determining this rating.

##### Loan-to-Deposit Ratio Analysis

The bank's lending in its assessment area exceeds the standards for satisfactory performance. The quarterly average of the bank's loan-to-deposit ratio since the previous evaluation is 66%. The following chart, based on quarterly ROC data, reflects that the loan-to-deposit ratio has been consistently more than 60% since the last evaluation.

<b>Date</b>	<b>Net Loans (In thousands)</b>	<b>Deposits (In thousands)</b>	<b>Loan-to-Deposit Ratio</b>
March 31, 1996	\$29,525	\$46,150	64%
December 31, 1995	\$30,033	\$45,447	66%
September 30, 1995	\$30,652	\$44,096	70%
June 30, 1995	\$29,115	\$44,077	66%
March 31, 1995	\$27,728	\$42,250	66%
December 31, 1994	\$28,998	\$44,203	66%

The bank's net loans have remained relatively stable since the previous evaluation. Furthermore, the deposits have increased since the previous evaluation. The bank attributes this growth to the addition of customers who have moved their accounts from competitors. The bank's loan-to-deposit ratio does not include a number of residential real estate loans sold on the secondary market since the previous evaluation.

The table below shows how other banks in the assessment areas compare with the subject bank in terms of total assets and quarterly average loan-to-deposit ratio.

Name	Total Assets	Loan-to-Deposit Ratio
Subject Bank	\$54,283,000	66%
Competitor A	\$27,674,000	68%
Competitor B	\$24,109,000	75%
Competitor C	\$13,663,000	86%
Competitor D	\$23,258,000	66%

The bank's 66% loan-to-deposit ratio is on the low end of the spectrum. However, as noted above, the bank sold several secondary market real estate loans since the previous evaluation. The previous evaluation reflected the same loan-to-deposit ratio pattern among the same competitor banks. The bank indicated that it has had very little loan growth, but continues to attract deposits. Governmental contacts confirmed that the bank attracts deposits from various public entities that bypass their local financial institutions. Based on its asset size, the bank offers a remarkable variety of credit products for its customers. In addition, competition for loans is also provided by a number of large financial institutions located in Sioux Falls, South Dakota. Many of these institutions do not compete with the bank for deposit customers. Based on the strong competition for loans, the bank's size relative to its direct competitors, and the sale of loans, the loan-to-deposit ratio exceeds standards for satisfactory.

#### Lending in Assessment Area

The bank's lending in its assessment area exceeds the standards for satisfactory performance because a large percentage of its loans are in its assessment area. A review of a statistical sample of bank loans originated in the past six months reveals that a substantial majority of them were made inside the assessment area. Examiners reviewed the bank's three major loan product categories (agricultural/small business, consumer, and consumer real estate) by analyzing the number and dollar amount of new loans originated inside and outside the assessment area.

The table below shows the percentage of the total number and dollar volume of reviewed loans that were inside the assessment area.

Percentage of Loans in the Assessment Area		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans
Agricultural/Small Business	85%	92%

Consumer	75%	62%
Consumer Real Estate	81%	72%

The bank originated a sizable number of loans and total dollar volume of loans in its assessment area. This is particularly true for agricultural and small business loans which represent 67% of the bank's loan portfolio. The percentages for consumer loans are affected by the bank's lending to borrowers who reside in Sioux Falls, South Dakota. Although the bank has some customers in the Sioux Falls area, the bank is located more than 40 miles from the city. In addition, Sioux Falls is a very competitive consumer banking market.

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

The bank's lending to borrowers of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance. The bank provides a significant portion of its loans to low- and moderate-income borrowers and to small businesses and farms. The income level of consumer and consumer real estate loans is determined based on the nonmetropolitan median family income for the state in which the consumer resides. The bank's

distribution of loans in its assessment area by income level is illustrated in the following chart.

<b>Distribution of Loans in the Assessment Area by Borrower Income Level*</b>				
	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
<u>Consumer:</u>				
Percentage of Total Loans	48	35	8	9
Percentage of Total Loan Amounts	37	42	7	14
<u>Real Estate:</u>				
Percentage of Total Loans	15	22	33	30
Percentage of Total Loan Amounts	4	24	33	40

\*Income level is determined based on the 1995 statewide median family income of \$30,100 for South Dakota and \$34,400 for Iowa. The 1995 Sioux Falls MSA median family income is \$40,500.

The data in the table indicate that the bank provided 83% of the consumer and 37% of the consumer real estate loans to low- and moderate-income individuals. Overall, these percentages meet or exceed the percentage of low- and moderate-income individuals who live in the assessment area. As previously mentioned, approximately 38% of the assessment area's households are classified as low and moderate income. The bank's percentages of loans originated and amounts borrowed for consumer loans significantly exceed the percentage of these households in the assessment area. The percentage of originated consumer real estate loans equals this percentage. However, it should be noted that the bank originates and sells consumer real estate loans on the secondary market. Consumer real estate loans that are sold on the secondary market often follow a more stringent underwriting criteria than loans which are maintained with the bank.

The bank lends to small business and agricultural borrowers. All but one of the bank's agricultural and small business loans were provided to entities or individuals with total gross annual revenues of less than \$1 million. This distribution of agricultural and small business loans is consistent with the bank's asset size, legal lending limit, and the overall assessment area economic conditions. Almost all the commercial and agricultural loans reviewed during the evaluation had loan amounts of less than or equal to \$100,000. Specifically, 96% of these loans had amounts of less than or equal to \$100,000. The remaining 4% of the loans have loan amounts split evenly between the \$100,000 to \$250,000 loan amount category and the \$250,000 to \$1 million loan amount category. The substantial level of consumer lending to low- and moderate-income individuals and to small farms exceeds standards for satisfactory performance.

#### Geographic Distribution of Loans

The geographic distribution of loans in the assessment area meets the

standards for satisfactory performance. The bank's assessment area includes four middle-income BNAs and one middle-income census tract. Consequently, all loans originated in the assessment area are in middle-income BNAs or tracts. No further analysis is required. There is no reason to believe that any low- or moderate-income BNAs or census tracts should be added to the bank's assessment area.

#### General

The evaluation did not reveal any violations of the substantive or technical provisions of the fair housing and fair lending laws and regulations. In addition, the bank has not received any CRA complaints since the last evaluation.

## **PUBLIC DISCLOSURE**

April 29, 1996  
Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

State Bank of Alcester  
Name of Depository Institution

094600300000  
Identification Number of Institution

Alcester, South Dakota  
Address of Institution

Federal Reserve Bank of Minneapolis  
250 Marquette Avenue  
Minneapolis, Minnesota 55401-2171

NOTE: 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.