

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 American State Bank, Pierre, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of November 4, 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."

There are several factors that support the bank's outstanding rating. First, the bank has maintained a high loan-to-deposit ratio since the last evaluation. Second, it has made almost all of its loans within its assessment area. Third, it actively lends to borrowers of different income levels and to small businesses and farms. Fourth, its lending in geographies of different income levels in its assessment area is reasonable. Finally, it has a significant amount of investments and services that enhance credit availability in the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	AMERICAN STATE BANK PIERRE, 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 Income Levels and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No CRA 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 assessment area effectively. The bank was rated outstanding in helping to meet the community credit needs at its previous CRA evaluation. The bank operates a full-service office in Pierre, South Dakota, and has not closed any offices since the last evaluation. The bank also operates six automated teller machines ("ATM"). Three of the ATMs are located at gas/convenience stores in Pierre, two are located at gas/convenience stores in Fort Pierre, and one is located at the bank's office. Two of the ATMs are available 24 hours day; the remaining four are available during store hours. The bank opened four of the six ATMs since the previous CRA evaluation.

According to its September 30, 1996, Report of Condition ("ROC"), the bank had total assets of approximately \$62.3 million. Since March 31, 1995, the bank's total assets have increased approximately \$7.6 million. Loans have increased by \$2.1 million, and deposits have increased by \$9.3 million. These increases are attributed to increased loan demand, the bank actively seeking additional deposits, and the receipt of substantial public funds. The bank also serves as the depository for two very large customers.

A significant portion of the bank's loan portfolio includes agriculture-related loans, which mirrors the agricultural nature of the local economy. According to the bank's September 30, 1996, ROC, agricultural loans make up 55% of the bank's portfolio. The remainder of the portfolio includes approximately 34% commercial, 6% consumer, 4% consumer real estate, and 1% other loans.

The bank offers many types of loan products that serve local residents' credit needs. Its products include consumer, real estate, commercial, and agricultural loans. In addition to conventional loan products, the bank provides loans guaranteed by federal and state agencies, including the Small Business Administration, the South Dakota Housing Development Agency, and the Farm Service Agency. The bank also offers government-guaranteed student loans.

DESCRIPTION OF AMERICAN STATE BANK'S ASSESSMENT AREA

The bank defines its assessment area as the following nine counties in central South Dakota: Dewey, Haakon, Hughes, Hyde, Jones, Lyman, Stanley, Sully, and Ziebach. Much of the assessment area is sparsely populated. Eight of the counties in the assessment area have only one block numbering area ("BNA"). The assessment area contains the following BNAs: 9871 (Ziebach County); 9881 (Dewey County); 9901 (Haakon County); 9891 (Stanley County); 9791 (Sully County); 9766 (Hyde County); 9726 (Lyman County); 9916 (Jones County); and 9776, 9777, 9778, and 9779 (Hughes County). The bank's assessment area includes the Cheyenne River and Lower Brule Indian Reservations, and those portions of the Crow Creek Indian Reservation located in Lyman, Hyde, and Hughes counties. The bank's office is located in Pierre, which is in Hughes County. Based on 1990 census data, the bank's assessment area has a population of 35,884.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA'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 an upper-income person. BNAs are classified using

similar categories based on the level of the median family income in the geography.

Two of the BNAs in the bank's assessment area, 9871 and 9881, are classified as moderate income; this area makes up the Cheyenne River Indian Reservation.

Eight BNAs, 9901, 9776, 9779, 9766, 9916, 9726, 9891, and 9791, are classified as middle income. Two BNAs, 9777 and 9778, are classified as upper income. There are no low-income BNAs in the assessment area. According to 1990 census data, the assessment area's median family income is \$27,075, while the median family income for nonmetropolitan areas in South Dakota is \$25,547.

Of the 13,048 households in the assessment area, approximately 22% are low income, 15% are moderate income, 18% are middle income, and 45% are upper income. Approximately 18% of the households have incomes below the poverty level. The distribution of household and family income for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Percentage of Households Compared to Median Household Income	22	15	18	45
Percentage of Families Compared to Median Family Income	20	16	21	43

The assessment area's economy has four main sectors: state government (Pierre is the state capital), agriculture (according to 1990 census data updated through 1994, more than 13% of the assessment area's labor force is engaged in agriculturally related jobs), shopping (Pierre is a regional shopping area with a retail trade area having a radius of 100 miles), and tourism/service (the Missouri River's Lake Oahe attracts sports enthusiasts in the summer and fall). Agriculture is the dominant industry in the assessment area. One individual involved in area economic development issues and familiar with local economic conditions characterized the local economy as poor but rebounding. In the last 18 to 24 months, the state eliminated more than 500 jobs in Pierre, most of which were white collar. According to the community contact, many of the downsized state workers still have not found comparable replacement jobs, although some have started service-related businesses.

Agricultural prices have been depressed, so ranchers and farmers have experienced financial difficulties. Merchants and tourism have also suffered.

Another contact involved in the agricultural sector of the local economy stated that although the area had suffered from moisture problems in recent years, the problem this year has been with hail storms, which have resulted in crop damage. According to the contact, the average farming operation is about 2,400 acres and the average ranch size is between 8,500 and 10,000 acres. Most farms are located east of the Missouri River, and most ranches are located west of the river. This year started out as one of the best in recent history for grain operations, but grain prices are down. The cattle market is now depressed after a 13-year high. In addition to agriculture, the Pierre area has an active economic development program to bring new businesses to the area.

Along with information obtained from interviews with bank management, examiners contacted local government, tribal officials, and a community member familiar with the assessment area as part of the bank's CRA evaluation. Information from these contacts was used to evaluate the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done an outstanding job of meeting the credit needs in its assessment area. Much of the analysis on the following pages was based on a statistical sample of 111 consumer, 91 agricultural, and 77 small business loans originated in the six months preceding the evaluation. The criteria discussed below were reviewed in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance based on the ratio's consistently high level and community development loans. The quarterly average of the bank's loan-to-deposit ratio is 86% since the previous evaluation. The following chart, based on quarterly ROC data, shows that the bank's ratio has been consistently high since the last evaluation.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO- DEPOSIT RATIO
September 30, 1996	\$43,382	\$53,367	81%
June 30, 1996	\$44,171	\$50,470	88%
March 31, 1996	\$40,171	\$51,244	78%
December 31, 1995	\$41,354	\$49,745	83%
September 30, 1995	\$41,329	\$47,299	87%
June 30, 1995	\$42,050	\$45,589	92%
March 31, 1995	\$41,259	\$44,109	94%

Not included in the bank's loan-to-deposit ratio are a significant number of real estate loans that were sold on the secondary market in 1995 and 1996. If included, the bank's loan-to-deposit ratio would increase by several percentage points.

The loan-to-deposit ratio chart shows seasonal fluctuations in loan volume as a result of the advances and paydowns on agricultural lines of credit. In addition, the bank serves as the depository bank for two very large depositors whose account balances are volatile and can fluctuate radically. The accounts typically carry large balances at the end of each quarter. Also, the bank bid

on and received a large public funds deposit during the third quarter of 1996, which ended September 30, 1996. These deposits represent temporary funds. Accordingly, these funds have not been invested in loans.

Based on its June 30, 1996, Uniform Bank Performance Report, the bank's loan-to-deposit ratio is in the 95th percentile. In addition, the following chart, based on September 30, 1996, ROC data, shows that the bank's level of lending is higher than all but one of its competitors in the assessment area.

BANK AND LOCATION	TOTAL ASSETS September 30, 1996 (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
Subject Bank	\$ 62,274	86%
Competitor A	\$234,687	73%
Competitor B	\$123,931	80%
Competitor C	\$ 17,137	69%
Competitor D	\$ 11,597	51%
Competitor E	\$ 20,295	76%
Competitor F	\$ 82,751	93%
Competitor G	\$ 18,614	55%

The bank has also made several significant community development loans since the last evaluation. They are detailed below.

- The bank made a sizable loan to fund a U.S. Department of Housing and Urban Development commitment for subsidized rent relief for low-income renters of a local apartment complex.
- The bank funded a mobile home park construction project that will serve low- and moderate-income homeowners.
- The bank provided a sizable working line of credit to an organization contracted by the South Dakota Department of Transportation that promotes equal employment opportunities for low-income women and minority and handicapped people.
- The bank provided a vehicle acquisition loan to an organization that helps provide health services and education to American Indians.
- The bank provided a large working capital loan to an organization contracted by the state to provide home health care services to Medicare and Medicaid recipients.
- The bank helped develop and initially fund a local Indian tribe's revolving loan/lease program. This loan program serves low- and moderate-income tribal borrowers.
- The bank provided several large real estate acquisition loans to another Indian tribe to acquire real estate for construction purposes.
- The bank is an active Small Business Administration ("SBA") lender. The bank has provided several SBA loans since the last evaluation.
- The bank provided some South Dakota Housing Development Authority affordable housing loans to low- and moderate-income home buyers

since the last evaluation.

Based on its high loan-to-deposit ratio relative to its competitors, strong community development lending, the amount of secondary market lending, and the lack of any unmet credit needs as noted by community contacts, the bank's loan-to-deposit ratio exceeds the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of a statistical sample of loans originated by the bank in the six months preceding the evaluation reveals that nearly all its loans were made inside the assessment area. The following table shows the percentage of loans within the assessment area based on total number and amount in each major loan category.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Small Farm	98%	93%
Commercial	100%	100%
Consumer	95%	98%

Based on the high concentration of lending within the assessment area for all loan types in the sample, the bank's lending in the assessment area exceeds the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different incomes and to businesses of different sizes exceeds the standards for satisfactory performance. As mentioned previously, the bank's primary focus is agricultural lending, followed by commercial lending. The definition of a small farm or business is one that has gross annual revenues of \$1 million or less. As the following table illustrates, almost all of the bank's agricultural and commercial borrowers in the CRA sample meet the definition.

DISTRIBUTION OF LOANS BY BORROWER REVENUES		
Loan Type	Annual Revenue £ \$1 million	Annual Revenue > \$1 million
Agricultural	100%	0%
Commercial	96%	4%

In addition, most of the loans for commercial and agricultural borrowers were for amounts less than or equal to \$250,000. Specifically, 96% of the commercial loans and 85% of the agricultural loans equaled or were below this amount. In addition, 90% of the commercial loans and 75% of agricultural loans had amounts less than or equal to \$100,000.

The distribution of consumer loans across the various income levels is satisfactory. As previously mentioned, CRA categorizes income levels into four groups: low, moderate, middle, and upper. According to 1990 census data, the median household income and family income for the bank's assessment area are \$22,487 and \$27,075, respectively. These figures exceed the statewide nonmetropolitan household and family incomes for South Dakota.

The following table shows the percentage of consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low-Income Borrowers	Moderate- Income Borrowers	Middle- Income Borrowers	Upper- Income Borrowers
<u>Consumer</u>				
Total Number of Loans	41%	27%	22%	10%
Total Amount of Loans	21%	29%	29%	21%
*Based on South Dakota median family income for 1995 of \$30,100				

Although the bank made a large percentage of its consumer loans to low- and moderate-income borrowers, the data may not be a true indication of the bank's lending because 42% of the consumer loans in the sample did not have income information in the files. Consumer loans make up approximately 6% of the bank's loan portfolio. As discussed in the Description of Assessment Area section, approximately 37% of the area's residents are classified as low or moderate income, 18% are classified as middle income, and 45% are classified as upper income. Based on this data, it appears that the bank's lending to borrowers of different income levels is reasonable.

As noted above, all the bank's agricultural loans and nearly all its commercial loans are to small businesses. In addition, 90% of the commercial loans and 75% of agricultural loans are for amounts under \$100,000. In light

of these numbers, the bank's emphasis on agricultural and commercial lending (55% and 34% of the portfolio, respectively), and the reasonable distribution of consumer lending activity, the bank's record of lending to borrowers of differing incomes and businesses of different sizes exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's loans are distributed adequately throughout the assessment area and meet the standard for satisfactory performance. As previously discussed, the bank's assessment area includes two moderate-income, eight middle-income, and two upper-income BNAs. The bank's sole office is located in Pierre, which is within the boundaries of a middle-income BNA. According to the 1990 census data, approximately 22% of the assessment area's 35,884 residents live in the moderate-income BNAs. In comparison, about 51% of the assessment area residents live in middle-income BNAs and 27% live in upper-income BNAs. The following table illustrates the distribution of the bank's loans by BNA income level.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA GEOGRAPHIES *			
Type of Loan	Moderate Income	Middle Income	Upper Income
AGRICULTURAL			
Total Number of Loans	19%	75%	6%
Total Amount of Loans	10%	84%	5%
COMMERCIAL			
Total Number of Loans	5%	60%	35%
Total Amount of Loans	1%	79%	20%
CONSUMER			
Total Number of Loans	7%	52%	42%
Total Amount of Loans	3%	52%	45%
*The bank's assessment area does not include any low-income BNAs.			

A review of the bank's loan portfolio, as previously discussed in the Description of Institution section, reveals that approximately 55% of the bank's loan portfolio are agricultural loans. The remainder of the portfolio includes approximately 34% commercial, 6% consumer, 4% consumer real estate, and 1% other loans.

The two moderate-income BNAs, 9871 and 9881, encompass the Cheyenne River Indian Reservation ("Reservation"). Of the 2,372 households located in these two BNAs, 40% have incomes below the poverty level. Individuals of these households typically do not qualify for types of credit other than small loans, which explains the low level of commercial loans. The residents of the Reservation historically have not been active real estate borrowers. In addition, the Reservation has a tribal loan program that provides consumer loans for tribal members. Also, the moderate-income BNAs have three other banks located within their boundaries. These BNAs are approximately 75 miles from the bank at their closest points. Despite these conditions, the agricultural lending in the moderate-income BNAs almost approximates the percentage of the assessment area's population residing in these areas. Based on the preceding discussion of the demographics of the assessment area and the bank's lending activity, the distribution of the bank's loans among geographies of different income levels is reasonable and meets the standards for satisfactory performance.

INVESTMENTS AND SERVICES

The bank's level of qualified investments and services significantly improves individuals' access to credit in the assessment area. As detailed below, the bank has made several qualified investments and provided numerous community development services since the last evaluation.

- The bank serves as the depository bank for a local tribe. The bank also assisted this tribe in setting up its Tribal Child Welfare Agency by providing financial and legal advice and expertise.
- The bank's president is on the board of directors of a statewide economic development organization that provides financial advice and counseling services to businesses in need of such assistance and publishes a biennial publication of state business and demographic data for businesses seeking to locate or expand in the state.
- Bank officers are members of the area nonprofit economic development corporation that promotes the economic revitalization of the Pierre-Fort Pierre area. In addition, one of the bank's senior commercial loan officers serves on the organization's revolving loan fund committee. The bank has pledged a grant to help initially capitalize the revolving loan fund.
- The bank provided an initial grant (and pledged grants for two additional years) to a local domestic violence shelter for physically and emotionally abused low- and moderate-income individuals. The grant was used to help the organization obtain a facility.

- The bank's president and another senior officer have provided financial services advice and expertise to an organization that helps people with mental handicaps develop daily living skills. The bank has also provided the organization with a grant and a no-cost checking account.
- Another bank employee serves on the local economic development corporations's real estate committee. This committee was instrumental in securing the purchase of land to build a speculative home for purchase by a low-income family. This bank employee also worked with the South Dakota Housing Development Authority to obtain construction funding for this dwelling.
- One of the bank's commercial loan officers conducted a seminar on financing small businesses for a local organization that promotes the entrepreneurship of women.
- The bank pledged an expansion grant to the local YMCA, which serves low- and moderate-income families.

The investments and services discussed above significantly improve individuals' access to credit in the assessment area.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair lending laws and regulations. There was one technical violation of the monitoring information provisions of the Equal Credit Opportunity Act's Regulation B. Furthermore, the bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

November 4, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

American State Bank
Name of Depository Institution

094611380000
Identification Number of Institution

Pierre, 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.