

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 Pioneer Bank & Trust, Belle Fourche, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of July 22, 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 "Satisfactory."

Several factors support the bank's satisfactory CRA rating. First, the bank has maintained a reasonable loan-to-deposit ratio since the last evaluation. Second, it makes almost all its loans to residents of its assessment areas. Third, it has a reasonable distribution of loans to borrowers of different incomes and to businesses of different sizes. Finally, it makes a reasonable percentage of its loans to residents of the low- and moderate-income census tracts and block numbering areas ("BNA") in its assessment areas.

The following table indicates the performance level of Pioneer Bank & Trust, Belle Fourche, South Dakota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	PIONEER BANK & TRUST 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	The bank received no CRA complaints since the previous evaluation.		

DESCRIPTION OF INSTITUTION

The bank is able to meet credit needs effectively based on its size and product offerings. The bank received a satisfactory CRA rating at its last evaluation. The bank's main office is located in Belle Fourche, South Dakota, and it has branch offices in Rapid City, Spearfish, and Buffalo, South Dakota. One of the bank's two Rapid City offices is in a moderate-income census tract. The bank operates deposit-taking, 24-hour automated teller machines at its Rapid City and Spearfish offices.

The bank's asset size has increased since the last evaluation. Based on its March 31, 1996, Report of Condition ("ROC"), the bank's assets totaled approximately \$186.9 million. Its assets have increased about \$18.6 million since March 31, 1995. The bank is primarily an agricultural and commercial lender. According to its March 31, 1996, ROC, the bank's loan portfolio includes 31% commercial and 21% agricultural loans. Commercial real estate and agricultural real estate loans account for an additional 19% and 3% of the portfolio, respectively. The remainder of the portfolio includes 13% consumer real estate and 13% consumer loans.

The bank offers a variety of loan products that help serve the credit needs of residents of its assessment areas. Its products include agricultural, commercial, consumer, and real estate loans. Consumer loan types offered by the bank include home equity and overdraft checking lines of credit and credit cards. In addition, the bank provides loans guaranteed by the Farm Service Agency, Small Business Administration, Federal Housing Administration, Department of Veterans Affairs, and South Dakota Housing Development Authority.

DESCRIPTION OF PIONEER BANK & TRUST'S ASSESSMENT AREAS

Assessment Area 1

The bank has two assessment areas. Assessment area 1 includes the bank's Belle Fourche, Spearfish, and Buffalo offices. Its 17 block numbering areas ("BNA") cover a seven-county area that includes Butte, Harding, Lawrence, Meade, and Perkins counties in western South Dakota; Carter County in eastern Montana; and portions of Crook County in eastern Wyoming. The assessment area has three moderate-income BNAs (9501, 9602, and 9603), 11 middle-income BNAs (201, 202, 204, 9503, 9961, 9962, 9964, 9976, 9977, 9983, and 9987), and three upper-income BNAs (203, 9963, and 9965). Two of the three moderate-income BNAs are in Carter County, Montana, and the third is in Crook County, Wyoming. These sparsely populated BNAs are on the western edge of the assessment area.

CRA divides income levels into four categories: low, moderate, middle, and upper income. Because assessment area 1 is not located in a metropolitan statistical area, 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 at least 80% but less than 120% of the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the statewide nonmetropolitan median family income is considered an upper-income person. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography.

Based on 1990 census data, assessment area 1 has 60,876 residents; its median family income is \$27,507, and its median household income is \$23,210.

According to the same census, the statewide nonmetropolitan median family incomes for South Dakota, Montana, and Wyoming, respectively, are as follows: \$25,547, \$27,352, and \$32,096. Of the 22,072 households in assessment area 1, 20% are low income, 16% are moderate income, 19% are middle income, and 45% are upper income. Approximately 11% of the assessment area's families and 15% of its households have incomes below the poverty level.

The vast majority of the assessment area's residents live in middle-income BNAs. Specifically, 70% of the residents live in middle-income BNAs, 26% live in upper-income BNAs, and 4% live in moderate-income BNAs. The assessment area has no low-income BNAs.

Assessment area 1 has a relatively diverse economy. Most of the assessment area is rural; cattle and sheep ranching are major parts of the local economy. Belle Fourche, with a population of about 4,600, serves as the center of this agricultural economy. Bentonite mining and refining operations employ more than 300 individuals in the area. North and northeast of Belle Fourche, the assessment area extends about 100 miles to the North Dakota border. Included in this area is the Buffalo office and a very sparsely populated region of western South Dakota and eastern Montana.

Low cattle prices have hurt Belle Fourche's economy in recent years. In addition, according to bank management, Belle Fourche retailers have continued to struggle as larger, national retailers enter the nearby Spearfish market. The recent closing of a U.S. Air Force radar scoring site has also hurt the area; more than 50 families will leave the community as a result of this closing.

Because few homes are for sale and new home construction is limited, bank management indicated there is little demand for residential real estate loans in Belle Fourche. Although some existing Belle Fourche businesses have expanded in recent years, the bank receives few requests for small business start-up loans in the area.

The Black Hills region of the assessment area, including Spearfish and Sturgis, South Dakota, has its own distinct economy. According to community contacts, Spearfish has a strong, diverse economy supported by mining, lumber, health-care, retail, and educational interests. The community has experienced continued growth with more residents moving to the area from outside South Dakota; it now has about 7,000 residents. As a result, housing prices have continued to increase and some residents have moved to Belle Fourche and Deadwood, South Dakota, to find affordable homes. According to bank management, many new homes in the area cost between \$200,000 and \$300,000 and, because of a shortage of available properties, many lots now cost more than \$65,000.

Bank management described the small business sector in Spearfish as strong. Although the area receives a significant amount of tourist traffic, most local businesses do not depend heavily on tourism dollars. Students at a local state university help support local businesses all year.

According to bank management, Spearfish has a very competitive banking market. Although it has only 7,000 residents, the city has four banks, one credit union, a mortgage company, and a finance company. Bank management said it is very difficult to compete with dealers and the credit union for consumer loan business.

Assessment Area 2

This assessment area includes two South Dakota counties, Pennington and Custer. The Rapid City metropolitan statistical area ("MSA") is defined as Pennington County. Accordingly, the bank is subject to the loan reporting

requirements of the Home Mortgage Disclosure Act ("HMDA"). Rapid City is in the central portion of the county; the remainder of the county is rural and includes such tourist attractions as Mount Rushmore National Memorial and portions of the Badlands National Park. Located directly south of Pennington County, Custer County is a sparsely populated county of about 6,000 residents. The bank has two Rapid City offices in this assessment area.

This assessment area comprises 21 census tracts and two BNAs. Of these 21 tracts, seven are moderate-income (102-105, 109.02, 114, 115); approximately 32% of assessment area residents live in these tracts. Two BNAs (9951, 9952) and nine census tracts (101, 106-109, 111, 112, 116, 117) are middle-income and contain about 43% of the assessment area's population. The remaining five census tracts (109.01, 110.01-110.03, 113) are upper-income and have about 25% of the assessment area's residents.

As discussed under the assessment area 1 section, CRA assigns an income determination to borrowers and geographies based on a median income figure. Because assessment area 2 includes an MSA, the income level of borrowers and geographies within that MSA is determined relative to the MSA median family income. Income levels for the non-MSA portion of the assessment area are determined based on the statewide nonmetropolitan median family income. Based on 1990 census data, the MSA median family income is \$29,570 and the South Dakota statewide nonmetropolitan median family income is \$25,547.

According to 1990 census data, the assessment area has 87,522 residents, 81,343 of whom live in the Rapid City MSA. Based on the 1990 census, the median family income for assessment area residents is \$29,338 and the median household income is \$25,133. Approximately 10% of the assessment area's families and 12% of its households live below the poverty level. Of the assessment area's 33,004 total households, 20% are low income, 19% are moderate income, 21% are middle income, and 40% are upper income.

According to bank management and community contacts, Rapid City has a relatively stable economy with tourism as one of its major components. Each year, many tourists come to the area to visit the nearby Black Hills. Community contacts noted, however, that tourism dollars have decreased in recent years. For example, according to 1996's Rapid City Community Data Sheet, total gross sales in the community decreased about \$3 million between 1994 and 1995.

Rapid City's average unemployment rate in 1995 was 3.17%. Although somewhat dependent on tourism dollars, the area has several large, nontourism employers. Despite recent cutbacks, Ellsworth Air Force Base employs more than 4,000 area residents. The local hospital and school district employ about another 4,500 individuals. A computer manufacturing company has about 700 employees.

Several community contacts said there is a significant lack of affordable housing in the Rapid City area. It is difficult to find homes for less than \$60,000, and rental costs have continued to rise. One contact said rent for many apartments exceeds \$600 a month, which is a significant amount considering the modest wages paid in the area. Although there has been a tremendous increase in new home construction recently, most of these homes are built by upper-income individuals.

Like Spearfish, Rapid City has a highly competitive banking environment, particularly for consumer and consumer real estate loans. There are a large number of banks and nonbank financial institutions in the community.

Examiners contacted a number of community contacts, including local government officials and members of community organizations, as part of this evaluation. Information obtained from these individuals was used in evaluating the bank's CRA performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs of its two assessment areas. An analysis of the following criteria determined this rating.

Loan-to-Deposit Ratio Analysis

The bank's loan-to-deposit ratio is reasonable and, as such, meets the standards for satisfactory performance. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 50%. The following chart, based on quarterly ROC data, shows that the bank's level of net loans increased slightly since the previous evaluation and the bank's net deposits have increased by approximately \$10.2 million since the last evaluation. This increase was primarily due to a large municipal deposit the bank received during the third quarter of 1995.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	LOAN-TO- DEPOSIT RATIO
March 31, 1996	\$80,754	\$162,153	50%
December 31, 1995	\$77,350	\$159,646	48%
September 30, 1995	\$77,433	\$158,736	49%
June 30, 1995	\$78,767	\$151,905	52%

Not included in the numbers listed above are the large number of residential real estate loans sold on the secondary market since the last evaluation. The bank is an active secondary-market lender in Rapid City and Spearfish. If included, the bank's quarterly loan-to-deposit ratio would have increased by several percentage points.

The bank's average loan-to-deposit ratio is lower than its major bank competitors. Based on quarterly ROC data, the following table identifies the asset size and quarterly average loan-to-deposit ratio for the bank and its competitors.

BANK NAME	MARCH 31, 1996 TOTAL ASSETS (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
Subject Bank	\$186,912	50%
Competitor A	\$166,468	76%
Competitor B	\$107,510	84%
Competitor C	\$ 50,220	67%

As illustrated, the bank's loan-to-deposit ratio is lower than that of its competitors. Several factors contribute to this fact. First, as previously discussed, the bank's Spearfish and Rapid City offices operate in very competitive banking environments. In particular, Rapid City has several banks and credit unions, including branch offices of two large regional banks. Because the bank has been in the Rapid City market only about 10 years, it has had some difficulty gaining market share in such a competitive environment. Second, the Rapid City office routinely handles large, municipal deposit accounts. Third, the Belle Fourche office has a number of prosperous customers who maintain large sums in consumer deposit accounts. In addition, Belle Fourche has a relatively large number of elderly residents, many of whom have little demand for loans. Although this office has a large portion of the bank's deposits, it has a much smaller percentage of the loans. Finally, none of the competitors listed above have significant operations in Belle Fourche; they have main offices in Rapid City or other parts of the assessment areas. This fact may account for their increased lending activity.

Although the bank's loan-to-deposit ratio is lower than its competitors, it is reasonable given the demographics and the competitive nature of its assessment areas. In addition, it does not include the significant number of secondary-market loans sold since the last evaluation. Because of the foregoing reasons, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

Lending in the Assessment Areas

The bank's lending levels within its assessment area exceed the standards for satisfactory performance. In the last six months, the bank made a substantial majority of its loans to residents of its assessment areas. The following table shows the percentage of total number and total dollar volume of loans located within the assessment areas.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREAS

Loan Type	Total Number of Loans	Total Amount of Loans
Consumer Real Estate	96	99
Consumer	96	91
Commercial/Agricultural	97	99

Because almost all the bank's total number and dollar volume of loans are located within its assessment areas, the bank's performance exceeds standards for satisfactory performance.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The bank's level of lending to borrowers of different income levels and to businesses of different sizes is reasonable and meets the standards for satisfactory performance. The following discussion analyzes the bank's lending patterns in each assessment area.

Assessment Area 1

The bank has reasonable lending levels by income level in assessment area 1. As previously discussed, CRA groups income levels into four categories: low, moderate, middle, and upper income. The following table shows the percentage of consumer real estate, and consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA 1 BY BORROWER INCOME LEVEL*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
CONSUMER REAL ESTATE				
Total Number of Loans	4%	4%	24%	68%
Total Amount of Loans	0%	1%	21%	77%
CONSUMER				
Total Number of Loans	25%	20%	22%	33%
Total Amount of Loans	10%	13%	26%	52%
*Income level is determined based on the following 1995 nonmetropolitan median family incomes for South Dakota, Montana, and Wyoming, respectively: \$30,100, \$32,200, and \$37,700.				

As shown above, the bank made only 8% of its consumer real estate loans to low- and moderate-income borrowers in 1995. Most of these loans (68%) went to upper-income borrowers. Because the Belle Fourche and Buffalo offices make relatively few consumer real estate loans, the CRA loan sample included no real estate loans from Belle Fourche and only five from Buffalo. The Spearfish office made most of the sampled real estate loans. Given these facts, it is reasonable that the bank made few real estate loans to low- and moderate-income individuals. As discussed previously, Spearfish has an expensive housing market with few available homes for low- and moderate-income residents.

The bank's level of lending to low- and moderate-income consumer borrowers is much higher than its real estate lending levels. In the last six months, the bank made 45% of its assessment area 1 consumer loans to low- and moderate-income borrowers. Given that 36% of the assessment area's households have low and moderate incomes, the bank's level of lending to these individuals compares favorably with the area's demographics.

The bank provides almost all its agricultural and commercial loans in assessment area 1 to small farms and businesses. In addition, almost all the sampled loans in assessment area 1 had loan amounts of \$100,000 or less. Specifically, 94% of the loans had amounts of \$100,000 or less and 6% had amounts less than or equal to \$250,000 but greater than \$100,000. The bank made no sampled loans in assessment area 1 that had amounts greater than \$250,000. Given the bank's level of lending to low- and moderate-income consumer borrowers and its large number of loans to small farms and businesses, the bank's record of lending in assessment area 1 meets the standards for satisfactory performance.

Assessment Area 2

The bank also has reasonable lending levels by income level in assessment area 2. The following table shows the percentage of consumer real estate and consumer loans made to borrowers of different income levels in assessment area 2.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA 2 BY BORROWER INCOME LEVEL*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
CONSUMER REAL ESTATE				
Total Number of Loans	7%	7%	30%	57%
Total Amount of Loans	12%	1%	16%	71%
CONSUMER				
Total Number of Loans	13%	33%	25%	30%
Total Amount of Loans	6%	29%	28%	38%
*Income level is determined based on the 1995 MSA median family income of \$34,800 and South Dakota's 1995 nonmetropolitan median family income of \$30,100.				

As shown above, the bank made 14% of its assessment area 2 consumer real estate loans to low- and moderate-income borrowers. More than half of these loans (57%) went to upper-income borrowers and 30% went to middle-income borrowers. Although 39% of the assessment area's households are classified as low and moderate income and 40% are classified as upper income, the bank's lending patterns appear reasonable given the local real estate market. As discussed previously, affordable housing in Rapid City is in short supply. Community contacts said that the area has few homes for sale under \$60,000 and that upper-income individuals build most new homes. Considering that a moderate-income household has an income equal to or less than \$27,840 (according to 1995 income data), the lack of housing loans to these borrowers does not appear unreasonable. Given Rapid City's housing market, it also seems reasonable that the bank would have its largest percentage of real estate loans to upper-income borrowers.

According to HMDA data for the MSA, the bank made loans to 18 of 31 low- and moderate-income individuals who applied for HMDA loans in 1995. The bank originated loans to 18 of 22 low- and moderate-income MSA residents who applied for HMDA loans in 1994.

As also occurred in assessment area 1, the bank made a much larger percentage of its consumer than its real estate loans to low- and moderate-income borrowers. Approximately 46% of its consumer loans in assessment area 2 went to low- and moderate-income borrowers. This percentage of loans exceeds the 39% of assessment area households that have low and moderate incomes.

Almost all of the bank's commercial and agricultural borrowers in assessment area 2 are small businesses and farms. In addition, the bank provides smaller loans to these borrowers. Based on the sampled commercial and agricultural loans, 94% had amounts of \$100,000 or less; 5% had amounts between \$100,000 and \$250,000; and 1% had amounts between \$250,000 and \$1,000,000. The bank's lending in assessment area 2 is reasonable given the percentage of consumer loans to low- and moderate-income borrowers and the high percentage of loans to small businesses and farms. Overall, the bank's lending to borrowers of

different incomes and to businesses of different sizes meets the standards for satisfactory performance.

Geographic Distribution of Loans

The distribution of the bank's loans in geographies of different income levels is reasonable and meets the standards for satisfactory performance. The following discussion reviews the bank's lending patterns by geography in each assessment area.

Assessment Area 1

The bank has a reasonable distribution of its loans in the assessment area's geographies. As previously discussed, assessment area 1 has three moderate-income BNAs that contain only 4% of the area's population. The vast majority of residents reside in the assessment area's middle-income BNAs. All three assessment area offices are located in middle-income BNAs. The following table shows the distribution of sampled loans in the assessment area's moderate-, middle-, and upper-income BNAs.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA 1 BY BNA INCOME LEVEL*			
Loan Type	Moderate- income BNA	Middle- income BNA	Upper- income BNA
CONSUMER REAL ESTATE			
Total Number of Loans	0%	52%	48%
Total Amount of Loans	0%	66%	34%
CONSUMER			
Total Number of Loans	8%	70%	22%
Total Amount of Loans	8%	69%	22%
AGRICULTURAL/COMMERCIAL			
Total Number of Loans	12%	65%	23%
Total Amount of Loans	23%	52%	25%
*Assessment area 1 has no low-income BNAs.			

The bank's lending in the assessment area's moderate-income BNAs is reasonable given the area's demographics. As noted, only 4% of the assessment area's population lives in moderate-income BNAs. In addition, all three of these BNAs are located on the far western edge of the assessment area in very sparsely populated ranch country. Many of these residents live on ranches, which helps explain why there are more agricultural loans in the moderate-income BNAs. As such, there is also little demand for real estate loans in these areas. Both the bank's consumer and agricultural and commercial lending exceeds the percentage of residents living in the moderate-income BNAs. Given the bank's lending levels in assessment area 1's moderate-income areas, the bank's activity meets the standards for satisfactory performance.

Assessment Area 2

The bank has a reasonable distribution of loans among this assessment area's geographies. Assessment area 2 has seven moderate-income census tracts where about 32% of the assessment area's residents live. The assessment area also has nine middle-income census tracts, two middle-income BNAs, and five upper-income census tracts. The middle-income tracts and BNAs have 43% of the population and the upper-income tracts have 25% of the population. The table below shows the distribution of assessment area loans among these tracts and BNAs.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA 2 BY TRACT OR BNA INCOME LEVEL*			
Loan Type	Moderate Income	Middle Income	Upper Income
CONSUMER REAL ESTATE			
Total Number of Loans	17%	40%	43%
Total Amount of Loans	17%	49%	34%
CONSUMER			
Total Number of Loans	25%	45%	30%
Total Amount of Loans	27%	39%	34%
AGRICULTURAL/COMMERCIAL			
Total Number of Loans	25%	41%	33%
Total Amount of Loans	24%	33%	43%
*Assessment area 2 has no low-income census tracts or BNAs.			

As shown above, the bank made 17% of its consumer real estate and 25% of its consumer and agricultural/commercial loans in the assessment area's moderate-income census tracts. Given that 32% of the assessment area's residents live in these tracts, the bank's level of consumer and agricultural/commercial lending compares favorably with the area's population distribution. Although one of the bank's Rapid City offices is located in a moderate-income census tract, this tract has only 1,208 households and contains a number of commercial businesses. The bank's lower level of consumer real estate lending in the moderate-income tracts is probably attributable to Rapid City's tight real estate market. The bank's lending in middle- and upper-income tracts also compares favorably with the percentage of residents living in these tracts and BNAs.

In 1995, the bank made 12% of its HMDA loans in low- and moderate-income MSA

census tracts. The bank made 27% of its HMDA loans in the same tracts in 1994. Because the bank's lending in moderate-income tracts approximates the assessment area's population distribution, the geographic distribution of the bank's loans is reasonable. Overall, the bank's lending in the various geographies of both assessment areas is reasonable and meets the standards for satisfactory performance.

General Comments

The evaluation did not reveal any substantive violations of fair lending laws and regulations. The evaluation revealed isolated violations of the technical aspects of HMDA. Bank management promised to correct the violations promptly.

In addition, the bank has received no CRA-related complaints since the previous evaluation.

PUBLIC DISCLOSURE

July 22, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Pioneer Bank & Trust
Name of Depository Institution

094601100000
Identification Number of Institution

Belle Fourche, 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.