

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 First State Bank of Rushmore, Rushmore, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of May 28, 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."

Several factors support the bank's outstanding rating. First, the bank maintains a reasonable loan-to-deposit ratio that is supplemented by significant community development lending activity. Second, the bank has made a significant number of its loans within its assessment area. Third, the bank lends to borrowers of many different income levels and to small businesses and farms. Finally, the bank is proactive and participates in the limited number of community development investments that are available and provides a high level of service that benefits low- and moderate-income individuals. These investments and services contribute to the outstanding rating.

The following table indicates the performance level of First State Bank of Rushmore, Rushmore, Minnesota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	First State Bank of Rushmore, Rushmore, Minnesota 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 prior evaluation.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of the communities in its assessment area effectively. At the previous evaluation, the bank was rated outstanding in helping to meet the credit needs of its community. According to the bank's March 31, 1996, Report of Condition ("ROC"), its total assets are approximately \$53.6 million. Since September 1994, the bank's total assets have increased approximately \$6.6 million. 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 March 31, 1996, ROC, agricultural loans and agricultural/commercial real estate loans each totaled 27% of the bank's portfolio. The remainder of the portfolio includes 21% commercial, 15% residential real estate, and 10% consumer loans.

The bank's main office is in Rushmore, Minnesota; it has one full-service branch office in Worthington, Minnesota. Although the Rushmore facility is designated as the main office, the Worthington branch is considered the organization's principal office, responsible for operations and controls. The bank added another cash-dispensing automated teller machine ("ATM") in Worthington since the previous evaluation. The bank currently services three other ATMs, all in Worthington. One is a cash-dispensing and deposit-taking machine installed at the bank's Worthington branch, and the other two are cash-dispensing ATMs located elsewhere in the community. The bank's facilities allow it to provide its products and services to its entire assessment area.

The bank offers a variety of loan products that serve the credit needs of area residents. Its agricultural products include operating, machinery, and farm real estate loans. In addition, the bank provides Farmers Home Administration-guaranteed and -subordinated loans and Rural Finance Authority-guaranteed loans. Commercial customers may obtain conventional and Small Business Administration ("SBA")-guaranteed loans for equipment, short-term financing, business start-up funds, accounts receivable and inventory financing, and commercial real estate purposes. Besides its agricultural and commercial products, the bank provides several real estate loan products for purchasing, refinancing, and improving homes. The bank also helps customers obtain Minnesota Housing Finance Agency First-Time Home Buyer and Minnesota Housing Finance Agency Home Improvement loans. Under these programs, the bank helps customers complete their applications and provides the early Truth in Lending disclosure statements. The bank refers the applications to an area bank that originates such loans for processing. Under this arrangement, the bank is able to assist customers seeking Federal Housing Administration ("FHA") loans. Finally, the bank has an active consumer lending program. The bank's loan products appear appropriate for its community's credit needs.

DESCRIPTION OF ASSESSMENT AREA, NOBLES COUNTY

The bank defines its assessment area as Nobles County, a southwestern Minnesota county that borders Iowa. The bank's designated main office is in Rushmore, Minnesota; its one branch office is located nine miles west of Rushmore in Worthington, Minnesota. According to 1990 census data, Nobles County has 20,098 residents, 395 of whom live in Rushmore and 9,629 of whom live in Worthington.

CRA divides income levels into four categories: low income, moderate income, middle income, and upper income. Because the bank's assessment area is not in a metropolitan statistical area ("MSA"), the categorization of a borrower or block number area's ("BNA") 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.

Because Nobles County is not in an MSA, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income.

Of the six BNAs located in the county, five are designated as middle income, while the remaining BNA is designated as upper income. According to 1990 census data, the assessment area's median family income is \$28,427, while the median family income for nonmetropolitan area in Minnesota is \$28,933. Of the 7,758 total households in the assessment area, approximately 23% are low income, 17% are moderate income, 21% are middle income, and 40% are upper income. Approximately 12% of the households have incomes below the poverty level.

Examiners contacted several members of the community as part of the bank's CRA evaluation, including a community development participant and a government official. Examiners used information from these contacts to evaluate the bank's CRA performance.

According to bank management and community contacts, agriculture, including many agriculture-related businesses, is the primary economic factor in the assessment area. Stable commodity prices have had a positive effect on the region's economic health. Despite the strong economic conditions, community leaders are seeking new industry to diversify the local economic base. Because Worthington is located on a major highway, the city is attempting to increase its tourist trade. In fact, Worthington is working with the Southwest Regional Development Commission to build an exposition center to draw tourists to the area. However, Worthington's ability to diversify the area's economy is limited. Impediments to economic diversification within the assessment area include an insufficient water supply to attract heavy industrial manufacturing and a lack of human resources to meet projected production requirements. Several food processing plants, the regional hospital, and the educational center are the major employers in the Worthington area.

Despite Nobles County's overall economic stability, the community of Rushmore has not experienced the same level of economic health. The population of Rushmore continues to decline, and the city must replace its sewer system and most of its unpaved city streets before any new growth can occur. In addition, Rushmore lacks adequate rental housing. Rushmore is home to elderly persons, farmers, and employees of Worthington-based companies. Rushmore recently completed a community development survey when it applied for community development funds. The survey shows that the majority of Rushmore's citizens are either low- or moderate-income individuals and that senior citizens represent a large segment of this population. The grain elevator and the bank are the primary employers in Rushmore.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

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

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's lending levels meet the standards for satisfactory performance. The quarterly average of the bank's net loan-to-deposit ratio is 67.25% since the previous evaluation. The following chart, based on quarterly ROC data, shows that the bank's net loan-to-deposit ratio ranges between 61% and 71%. Fluctuations primarily are due to agricultural loan line advances and paydowns. According to the March 31, 1996, Uniform Bank Performance Report,

the bank's net loan-to-deposit ratio is 61.28%, which places the institution in the 51st percentile of its peer group.

Date	Net Loans (in thousands)	Deposits (in thousands)	Loan-to-Deposit Ratio
September 30, 1994	\$29,903	\$42,053	71.11%
December 31, 1994	\$30,042	\$43,507	69.07%
March 31, 1995	\$28,662	\$42,468	67.49%
June 30, 1995	\$29,593	\$42,786	69.17%
September 30, 1995	\$30,714	\$46,223	66.45%
December 31, 1995	\$31,080	\$46,924	66.23%
March 31, 1996	\$29,431	\$48,031	61.28%

The bank experienced a significant increase in deposits in the second half of 1995. Management attributes this to a conscious decision to increase deposits.

In addition, the bank made several significant community development loans since the last evaluation. First, the bank financed construction of a housing facility for moderate-income senior citizens. Second, the bank supplied a line of credit to a community housing partnership working on a low-income housing project. Finally, the bank is an active SBA lender.

The following chart identifies the asset size and the net quarterly average loan-to-deposit ratios as of March 31, 1996, for the subject bank and its competitors.

Bank	Total Asset (in thousands)	Quarterly Average Loan-to-Deposit Ratios
Subject Bank	\$ 53,697	67.25%
Competitor A	\$313,156	76.05%
Competitor B	\$ 85,969	79.41%
Competitor C	\$ 26,296	26.16%
Competitor D	\$ 23,029	51.18%
Competitor E	\$ 22,975	71.48%

Despite intense competition for consumer loans and deposits, the bank's loan-to-deposit ratio is consistent with that of competitor banks. Worthington has six financial institutions, including a major regional bank to serve the credit needs of the community. In addition, community contacts indicate the bank's participation in several proposed community development projects is limited because of its asset size.

Based on the strong competition for loans and the bank's size relative to its direct competitors and the active participation in community development lending, the bank's loan-to-deposit ratio is reasonable.

LENDING IN THE 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 most were made inside the assessment area. The following table shows the percentages for the number and dollar volume of major loan products originated inside the bank's assessment area.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Major Loan Product Lines	Total Number of Loans	Total Amount of Loans
Farm and Business	81	84
Consumer Loans (Secured/Unsecured)	88	91

This level of concentration in the assessment area exceeds standards for satisfactory performance. As noted in the table, the vast majority of the bank's loans are within the assessment area. Further, many loans outside the bank's assessment area are to borrowers in communities neighboring Nobles County.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS 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 loans is determined based on the nonmetropolitan median family income for a family residing outside a Minnesota MSA. The bank's distribution of loans in its assessment area by income level is illustrated in the following chart.

DISTRIBUTION OF LOANS BY BORROWER INCOME LEVEL IN THE ASSESSMENT AREA*				
	Low Income	Moderate Income	Middle Income	Upper Income
Consumer:				
Percentage of Total Loans	37	22	23	18
Percentage of Total Loan Amounts	26	14	25	35
*Income level based on Minnesota's 1995 median family income of \$34,100.				

The data in the table indicate that the bank provided 59% of the consumer loans to low- and moderate-income individuals who live in the assessment area. As previously mentioned, approximately 40% of the assessment area's households are classified as low and moderate income. The bank's consumer lending to low- and moderate-income individuals exceeds the percentage of these individuals living in the assessment area. In addition, the bank made far fewer loans to upper-income borrowers (18%) compared to the percentage of upper-income households in the assessment area (40%). Such lending patterns seem reasonable given the number and size of several competing area financial institutions.

The bank also has a strong record of lending to small business and small farm borrowers. Based on the CRA loan sample, 81% of the bank's commercial and agricultural loans were provided to entities or individuals with gross annual revenues of less than \$1 million. This is significant considering that agricultural and commercial loans are 75% of the bank's loan portfolio. Seventy-one percent of the small business and agricultural loan amounts were less than \$100,000. Twenty-nine percent of these loans were in the \$100,000 to \$250,000 range. The bank is commended for extending loans greater than \$100,000 to small businesses and farms.

In conclusion, the bank's emphasis on small business lending, together with the high percentage of consumer loans to low- and moderate-income borrowers, demonstrates a strong commitment to meeting the credit needs of all segments of the community and exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout its assessment area is reasonable. As previously discussed, the bank's assessment area includes five middle-income and one upper-income BNA. Approximately 80% of the assessment area's population resides in the five middle-income BNAs. As the following chart indicates, the bank made most of its loans in the middle-income BNAs.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL		
Loan Type	Middle- Income BNA	Upper- Income BNA
COMMERCIAL AND AGRICULTURAL		
Percentage of Total Loans	95%	5%
Percentage of Total Loan Amounts	99%	1%
CONSUMER		
Percentage of Total Loans	76%	24%
Percentage of Total Loan Amounts	69%	31%

INVESTMENTS AND SERVICES

The bank has an excellent record of helping to meet the credit needs of its assessment area through its qualified investments and the banking services it provides that benefit low- and moderate-income individuals.

Investments

The bank is an active participant in all available investments that have community development as their primary purpose. The bank invests in securities that provide low- or moderate-income households with decent, safe, and affordable rental housing opportunities. Further, the bank contributes substantially to a local residential school for low- and moderate-income physically disabled persons. The school is seeking funding to build a larger facility. After all the corporate and personal contributions are received, the bank will participate in a loan to complete the project. The expected cost to build the facility is approximately \$1 million. Finally, the bank makes numerous contributions to organizations that provide community services targeted to low- or moderate-income individuals.

Services

The bank is very effective in delivering retail banking services to low- and moderate-income individuals while providing leadership in community development projects. Although the Worthington office processes most of the bank's business, the Rushmore office remains open to provide full banking services to customers residing in that community. As noted, a recent survey suggests that the majority of the citizens of Rushmore are low- or moderate-income individuals. Discussions with both bank officials and community contacts and a review of CRA data reveal that the bank provides banking services to a significant number of individuals residing in the Rushmore area. In addition, the bank is the only financial institution in the city that provides any banking services. The bank has not opened or closed any branches or closed any ATMs since the previous evaluation. As noted previously, the bank has installed a cash-dispensing ATM since the previous evaluation.

The bank also helps customers apply for loans under the Minnesota Housing Finance Agency First-Time Home Buyer, Minnesota Housing Finance Agency Home Improvement, and FHA programs. In addition to helping customers complete the loan application, the bank provides early disclosures and refers the loan to a bank that originates such loans. Several loans have been originated under these programs since the last evaluation. The bank does not receive a fee for this service. Finally, several bank directors and officers are members of the

fundraising board for the residential school previously mentioned under the Investment section. The board was instrumental in obtaining \$460,000 in business contributions during the fundraising period.

GENERAL

The evaluation did not reveal any substantive violations of fair lending laws and regulations. An isolated violation of the technical aspects of the Fair Credit Reporting Act was noted during the evaluation. Management promised prompt corrective action. In addition, the bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

May 28, 1996
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank of Rushmore
Name of Depository Institution

092752600000
Identification Number of Institution

Rushmore, Minnesota
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.