

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 Security State Bank of Edgeley, Edgeley, North Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of July 14, 1997. 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 rating. First, based on an analysis of the bank’s loans, the bank lends to borrowers of many different income levels and to small businesses. Second, the bank has a significant number of loans within its assessment area. Finally, the bank maintains a reasonable loan-to-deposit ratio.

DESCRIPTION OF INSTITUTION

Considering its size and financial condition, the bank is able to meet the credit needs of the communities in its assessment area effectively. The bank was rated outstanding in meeting community credit needs at its previous CRA evaluation. The bank operates a full-service office in Edgeley, North Dakota, which is open from 8:30 a.m. to 4:00 p.m. Monday through Friday. The bank's drive-up teller is open from 8:30 a.m. to 4:30 p.m. Monday through Friday and 9:00 a.m. to noon on Saturday. The bank also operates a 24-hour automated teller machine ("ATM") located at the Cenex store in Edgeley. The ATM does not take deposits. The bank has not opened or closed any offices since the last evaluation.

According to the March 31, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$18.1 million. The bank's asset size has decreased by approximately \$1.3 million since March 31, 1996. During that same time period, the bank's agriculture and farmland real estate loans decreased by approximately \$600,000. The fluctuations and current decrease in the agricultural loan demand reflect the bank's dependency on the agricultural industry. As of March 31, 1997, the bank's loan portfolio consisted of 60% agriculture-related loans. Also during that time period, deposits decreased by approximately \$525,000. The deposit slippage can be attributed largely to two accounts that paid out significant funds which were accumulated for a specific purpose. The bank's quarterly average loan-to-deposit ratio over the previous six quarters is 60%. The quarterly average loan-to-deposit ratio over the four quarters since the previous evaluation is 62%. The March 31, 1997, loan-to-deposit ratio, which is typically the bank's low quarter ratio, is 57%. The bank's loan portfolio is composed of approximately 60% agriculture, 21% commercial, and 19% consumer and consumer real estate. The composition of the loan portfolio has remained relatively stable since the last evaluation. The bank's loan mix reflects the demand for specific types of loans requested by residents of the assessment area.

The bank offers a variety of agricultural, commercial, and consumer loan products that serve the credit needs of residents and businesses within its assessment area.

DESCRIPTION OF SECURITY STATE BANK OF EDGELEY ASSESSMENT AREA

The bank's assessment area is defined as all of LaMoure County, North Dakota, and Dickey County, North Dakota, west of the James River. This area is further defined as block numbering areas ("BNA") 9733 and 9734 in Dickey County and BNAs 9721, 9722, and 9723 in LaMoure County. All of the BNAs are designated middle income. The bank is located in BNA 9722 in central LaMoure County. The city of Edgeley is a small, rural community of approximately 690 residents located 40 miles south of Jamestown, North Dakota.

CRA divides income 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 person as one with an income of 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 are classified using similar categories based on the level of the median family income in the geography.

As mentioned previously, all five BNAs in the bank's assessment area are classified as middle income. As a percentage of statewide nonmetropolitan median family income, these BNAs range from 81.3% to 100.7%. According to 1990 U.S. Census data, the median family income of the assessment area is \$22,964. As a comparison, the nonmetropolitan median family income for the state of North Dakota is \$26,195 as of the 1990 census. The assessment area's median household income is \$19,504, which is below the North Dakota statewide nonmetropolitan median household income of \$21,406. Of the 3,490 households in the assessment area, 25.6% are low income, 18.1% are moderate income, 21.9% are middle income, and 34.4% are upper income. In the assessment area, 18.4% of the households and 15.3% of the families have incomes below the poverty level.

Examiners contacted a government official and a community member who are familiar with the economic characteristics and credit needs of the assessment area. Information obtained from these individuals and bank management was used in evaluating the bank's CRA performance.

The economy of the assessment area depends heavily on agriculture. The manufacturing and service sectors of the assessment area tend to support agriculture. One of the contacts indicated farm incomes will be significantly smaller this year due to the previous severe winter. Approximately 20% of the crop land was not seeded this spring, and cattle losses were substantial last winter. On a more positive note, the contact stated beef prices are increasing and there has been some population growth noted in towns around the area. Another person contacted indicated the city of Edgeley is active for its size and has a lot of potential for growth and development. The local development corporation is constantly seeking opportunities to attract businesses to the area and is receptive to all ideas that would promote community development.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done an effective job of meeting the credit needs of its assessment area and meets the standards for satisfactory performance. Much of the analysis on the following pages was based on a statistical sample of 43 consumer loans and 56 small farm loans the bank originated during the six months preceding the evaluation. In assigning the overall rating, greatest emphasis was placed on the fact that the bank lends to borrowers of many different income levels and to small businesses. Second, the bank has a significant number of loans within its assessment area and maintains a reasonable loan-to-deposit ratio. The criteria discussed below were reviewed in determining the rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio meets the standards for satisfactory performance. According to the March 31, 1997, ROC, the bank's loan-to-deposit ratio was 56%. According to the March 31, 1997, Uniform Bank Performance Report ("UBPR"), the bank's March 31, 1997, loan-to-deposit ratio is in the 39th percentile of its peer group. The quarterly average loan-to-deposit ratio over the previous four quarters since the last evaluation is 62%, which is slightly higher than the current peer average of 60%. The first quarter, ending March 31, is typically the lowest demand period for agricultural loans. Due to a late spring with cold and wet weather, fewer crops were planted than in an average season, further decreasing loan demand. However, bank management is optimistic as loan demand has increased in the past few weeks, and the second quarter ratio should be near 70%. Bank management also indicated they have increased their target maximum loan-to-deposit ratio from 65% to 75%, which they believe is obtainable.

The following chart, based on quarterly ROC data, shows how the bank's net loan-to-deposit ratio has fluctuated over the previous four quarters due mainly to the seasonal needs of the agricultural borrowers.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO- DEPOSIT RATIO
March 31, 1997	\$8,788	\$15,805	56%
December 31, 1996	\$9,613	\$14,794	65%
September 30, 1996	\$9,885	\$15,595	63%
June 30, 1996	\$9,812	\$15,777	62%

Bank management also indicated that there is significant competition with other banks within its assessment area. In addition, large retail banks located in Jamestown present additional competition for the bank.

The following chart shows the average net loan-to-deposit ratio over the previous four quarters for the bank and its main local competitors.

BANK	TOTAL ASSETS (In thousands)	QUARTERLY AVERAGE NET LOAN-TO- DEPOSIT RATIO
Security State Bank of Edgeley Edgeley, North Dakota	\$18,063	62%
First State Bank of Gackle Gackle, North Dakota	\$24,093	56%
The First State Bank of LaMoure LaMoure, North Dakota	\$53,913	92%
Kulm State Bank Kulm, North Dakota	\$12,975	38%

As shown above, the bank's quarterly average net loan-to-deposit ratio is greater than all but one of its main local competitors. Bank management indicated that loan demand has increased significantly, although competition continues to be strong from the area banks. The small size of the bank and the resultant low lending limit detracts from the bank's ability to fund large agricultural operations. A review of the March 31, 1997, UBPR shows that bank's average net loans-to-assets ratio is 54.01%. A comparison of the statewide average net loans-to-assets ratio of 52.01% for banks with assets of up to \$25 million shows that the bank devotes a slightly higher percentage of its assets to loans than other similar size banks. Based on the level of the loan-to-deposit ratio since the previous evaluation, comparisons to competitors, and the lack of any identified unmet credit needs, the ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of the statistical sample of loans originated by the bank in the six months preceding the evaluation reveals that a significant majority of the loans were made inside the assessment area. The following table

shows the percentage of loans in and out of the assessment area, including the number of loans and the dollar amount of each of the two categories sampled.

DISTRIBUTION OF LOANS IN/OUT OF ASSESSMENT AREA								
Loan Type	IN				OUT			
	# of Loans	%	Amt of Loans	%	# of Loans	%	Amt of Loans	%
Consumer (43)	35	81	\$.2MM	69	8	19	\$79M	31
Small Farm (56)	56	100	\$2.7MM	100	0	0	0	0
Totals (99)	91	92	\$2.9MM	97	8	8	\$79M	3

As the table shows, a significant majority of the bank's loans in the statistical sample were made within the bank's assessment area. Based on the high concentration of lending within the assessment area, the bank exceeds the standards for satisfactory performance in this category.

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

The bank's level of lending to individuals of different income levels and to small businesses of different sizes exceeds the standards for satisfactory performance. As previously mentioned, CRA groups income levels into four categories: low, moderate, middle, and upper. The following table illustrates the distribution of the consumer loans in the CRA sample by borrower income level.

DISTRIBUTION OF CONSUMER LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*					
	Low-income borrowers	Moderate-income borrowers	Middle-income borrowers	Upper-income borrowers	Total
Total number of loans	7 20%	10 29%	17 48%	1 3%	35 100%
Total amount of loans	\$30,283 17%	\$60,333 34%	\$70,945 39%	\$18,678 10%	\$180,239 100%
*Income level is based on North Dakota 1997 median family income of \$34,000.					

The data in the table indicate that the bank originated 49% of its consumer loans in the sample to low- and moderate-income borrowers. In addition, over half of the total amount of the bank's consumer loans were made to low- and moderate-income borrowers. This distribution compares favorably with the population of low- and moderate-income borrowers in the assessment area. As previously mentioned in the Description of Assessment Area section, approximately 44% of the households in the bank's assessment area are classified low and moderate income based on the 1990 census figures. Community contacts indicated that there were no unmet credit needs. In addition, because of bank competition in the assessment area, people are able to bank in a variety of locations. The fact that this bank has originated a high level of consumer loans to low- and moderate-income people is commendable.

All of the loans in the small farm loan sample were to borrowers with gross annual revenues of \$1 million or less. Of these loans, 88% were made in amounts under \$100,000. All of the remaining loans were made in amounts ranging from \$100,000 to \$250,000. The loans were reasonably distributed throughout the

assessment area. The bank's emphasis on lending to small businesses and small farms together with its above-average 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

As previously mentioned, based on the 1990 census data, all BNAs in the bank's assessment area are classified as middle income. As previously mentioned, as a percentage of statewide nonmetropolitan median family income, these BNAs range from 81.3% to 100.7%. According to 1990 census data, the median family income of the assessment area is \$22,964. The income range for each BNA in the assessment area is \$21,296 to \$26,378. A review of the lending activity by BNA location showed that 86% of the consumer loans in the sample and 79% of the agricultural loans in the sample were originated in middle-income BNA 9733. This BNA has 21% of the assessment area's population and is located due south of BNA 9722, where the bank is located. According to bank management, people who reside in this BNA shop and bank in Edgeley. Therefore, the concentration of lending does not seem unreasonable. One of the community contacts indicated that low- and moderate-income individuals are not concentrated in any specific area but are dispersed throughout the assessment area. Accordingly, the geographic distribution of lending is reasonable.

GENERAL

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

PUBLIC DISCLOSURE

July 14, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Security State Bank of Edgeley

Name of Depository Institution

093803400000

Identification Number of Institution

Edgeley, North 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.