

## **PUBLIC DISCLOSURE**

August 22, 2016

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

State Bank of Alcester  
190 Iowa Street  
P.O. Box 168  
Alcester, South Dakota 57001  
RSSD 271154

**Federal Reserve Bank of Minneapolis**  
**90 Hennepin Avenue, P.O. Box 291**  
**Minneapolis, MN 55480-0291**

NOTE: This document is an evaluation of this 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. 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.

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*Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.*

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

Examiners evaluated the Community Reinvestment Act (CRA) performance of State Bank of Alcester, Alcester, South Dakota, using the Small Bank CRA Examination Procedures. Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of the small farms and residents in its assessment area.

Several factors support the bank's Outstanding rating:

- The bank's lending to borrowers of different income levels is excellent and to farms of different sizes is reasonable.
- The bank's net loan-to-deposit ratio is more than reasonable given the bank's size and financial condition as well as the credit needs of the assessment area. The bank's community development loans supplement the bank's lending performance.
- The bank originated a majority of its loans within the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank's qualified investments (bonds and donations) and community development services enhance credit availability in the bank's assessment area.

The bank received an Outstanding rating at its previous CRA performance evaluation, conducted April 25, 2011.

## SCOPE OF EVALUATION

The scope of the evaluation covers the bank's major product lines. Examiners based the evaluation on a statistical sample of 91 consumer loans originated between July 1, 2015, and December 31, 2015, and 84 small farm loans originated between January 1, 2015, and December 31, 2015. Table 1 displays the bank's loan origination activity from January 1, 2015, to December 31, 2015.

<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Consumer	266	48.5	2,528,054	8.7
Residential Real Estate	56	10.2	6,050,311	20.8
Home Equity Line of Credit	4	0.7	60,718	0.2
Small Business (≤ \$1 million)	73	13.3	4,087,657	14.1
Small Farm (≤ \$500,000)	144	26.2	12,287,350	42.3
Agricultural (>\$500,000)	6	1.1	4,024,294	13.9
<b>Total</b>	<b>549</b>	<b>100.0</b>	<b>29,038,384</b>	<b>100.0</b>

In addition, examiners analyzed Home Mortgage Disclosure Act (HMDA) data to understand the residential real estate mortgage market in the bank's assessment area and the bank's performance in this market. The bank is required to report HMDA data because it operates an office in the Sioux City, IA-NE-SD metropolitan statistical area (Sioux City MSA). This evaluation includes the bank's home purchase, refinance, home improvement, and multifamily loans originated in 2013, 2014, and 2015.

<sup>1</sup>Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

Examiners reviewed the bank's 2011 and 2012 HMDA data for consistency with 2013, 2014, and 2015 data but did not include these years of HMDA data in the evaluation. Examiners also reviewed HMDA data reported by aggregate lenders to better assess the bank's HMDA lending performance in the assessment area. The evaluation refers to this loan information as aggregate lending data.

Examiners analyzed the following performance criteria to determine the bank's CRA rating:

- Lending to farms of different sizes and to borrowers of different income levels.
- Net loan-to-deposit ratio.
- Lending inside the assessment area.
- Geographic distribution of loans.
- Record of responding to complaints about the bank's CRA performance.

Of the five core criteria, examiners placed the greatest weight on the bank's lending to farms of different sizes and to borrowers of different income levels, followed by the net loan-to-deposit ratio. Examiners weighted the remaining criteria equally. Finally, the bank has not received any CRA-related complaints since the previous evaluation.

At the option of bank management, and in accordance with the Small Bank CRA Examination Procedures, examiners reviewed the bank's qualified investments and community development services. Examiners also reviewed the bank's community development loans. The bank's high level of community development activities enhances the overall CRA rating. The evaluation period for community development activities is from April 25, 2011, through August 19, 2016.

The evaluation is based in part on discussions with bank management and interviews with members of the community familiar with economic issues and demographic characteristics of the assessment area. Examiners used information from these sources to evaluate the bank's CRA performance.

## **DESCRIPTION OF INSTITUTION**

*Offices.* State Bank of Alcester has one full-service office in Alcester. Lobby hours are 8:30 a.m. to 4:30 p.m. Monday through Friday and 8:30 a.m. to noon on Saturday. The bank has not opened or closed any offices since the previous evaluation. The bank's current hours are appropriate for the community it serves. The bank also operates two cash-dispensing-only automated teller machines in its assessment area, one in Alcester and one in Beresford, South Dakota.

*Alternative Delivery Methods.* The bank offers online, mobile, and telephone banking, as well as a bill-payment service. Through these banking channels, customers are able to review account information, transfer funds, make payments, and view periodic statements, for example. Customers can also apply for consumer loans and deposit products online.

*Loan Portfolio.* According to the June 30, 2016, Report of Condition, the bank's assets total \$117.1 million. The bank's \$85.2 million loan portfolio consists of 68.1% agricultural, 14.7% residential real estate, 10.0% commercial, 7.1% consumer, and 0.1% other loans. The overall composition of the loan portfolio has not changed significantly since the previous evaluation. Agricultural lending continues to be the bank's focus, according to bank management.

*Credit Products.* The bank continues to offer loan products designed to serve the credit needs of the residents, farms, and businesses in the assessment area. In addition to a variety of conventional loan products, the bank offers U.S. Small Business Administration, U.S. Department of Agriculture Farm Service Agency (FSA), U.S. Department of Agriculture Rural Development, and U.S. Department of

Veterans Affairs government-sponsored loan programs. The bank also offers loans through the South Dakota Housing Development Authority’s first-time homebuyer and home improvement programs.

*Deposit Market Share.* According to the June 30, 2015, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks second out of six FDIC-insured institutions with offices in Union County, with 18.8% of the county’s deposits.

**DESCRIPTION OF ASSESSMENT AREA**

*Bank Information and Assessment Area.* The bank operates one full-service office, located in a middle-income census tract, in Union County, South Dakota. The bank has defined one assessment area for CRA purposes. The bank has not changed its assessment area since the previous evaluation. The assessment area includes portions of Union and Lincoln counties in southeastern South Dakota and portions of Plymouth and Sioux counties in northwestern Iowa. The majority of the bank’s activities are in Union County. The assessment area includes five census tracts: four middle income and one upper income. One census tract (Sioux County) in the bank’s assessment area was classified as underserved for 2014 and 2015. The bank’s assessment area does not include any census tracts that are classified as distressed.

The Sioux City MSA consists of five counties, including Union County, South Dakota, and Plymouth County, Iowa. As mentioned, the bank’s assessment area includes portions of these counties. Plymouth County was added to the Sioux City MSA in 2014 as the result of Office of Management and Budget changes. The bank does not have any offices in Nebraska or Iowa. The Sioux Falls, SD MSA (Sioux Falls MSA) consists of four counties, including Lincoln County. As noted, the bank’s assessment area includes a portion of this county.

Table 2 shows the demographic characteristics of the assessment area based on the 2015 Federal Financial Institutions Examination Council (FFIEC) adjusted census data<sup>2</sup> and 2015 Dun & Bradstreet data.

<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families &lt; Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0.0	0	0.0	0	0.0	752	15.8
Moderate Income	0	0.0	0	0.0	0	0.0	948	20.0
Middle Income	4	80.0	4,021	84.7	163	4.1	1,212	25.5
Upper Income	1	20.0	724	15.3	25	3.5	1,833	38.6
<b>Total Assessment Area</b>	<b>5</b>	<b>100.0</b>	<b>4,745</b>	<b>100.0</b>	<b>188</b>	<b>4.0</b>	<b>4,745</b>	<b>100.0</b>

<sup>2</sup>The FFIEC adjusted census data is based on the 2010 U.S. Census data and American Community Survey five-year estimate data, and it also reflects changes in the 2013 Office of Management and Budget revised metropolitan statistical area delineations.

**TABLE 2**  
**Assessment Area Demographics**

<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>		<i>Rental</i>		<i>Vacant</i>		
		<i>#</i>	<i>%</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	0	0	0.0	0.0	0	0.0	0	0.0
Middle Income	6,202	4,579	85.5	73.8	1,020	16.4	603	9.7
Upper Income	1,133	777	14.5	68.6	283	25.0	73	6.4
<b>Total Assessment Area</b>	<b>7,335</b>	<b>5,356</b>	<b>100.0</b>	<b>73.0</b>	<b>1,303</b>	<b>17.8</b>	<b>676</b>	<b>9.2</b>
<i>Income Categories</i>	<i>Total Businesses by Tract</i>	<i>Businesses by Tract and Revenue Size</i>						
		<i>≤\$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>		
		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	867	87.3	794	87.7	60	83.3	13	81.3
Upper Income	126	12.7	111	12.3	12	16.7	3	18.8
<b>Total Assessment Area</b>	<b>993</b>	<b>100.0</b>	<b>905</b>	<b>100.0</b>	<b>72</b>	<b>100.0</b>	<b>16</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>91.1</b>		<b>7.3</b>		<b>1.6</b>
<i>Income Categories</i>	<i>Total Farms by Tract</i>	<i>Farms by Tract and Revenue Size</i>						
		<i>≤\$1 Million</i>		<i>&gt; \$1 Million</i>		<i>Revenue Not Reported</i>		
		<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>	
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	0	0.0	0	0.0	0	0.0	0	0.0
Middle Income	457	92.9	456	92.9	1	100	0	0.0
Upper Income	35	7.1	35	7.1	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>492</b>	<b>100.0</b>	<b>491</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>	<b>0</b>	<b>100.0</b>
<b>Percentage of Total Farms:</b>				<b>99.8</b>		<b>0.2</b>		<b>0.0</b>

*Income.* For purposes of classifying borrowers by income level, this evaluation uses the FFIEC's estimated median family income for the relevant area. For borrowers in the Sioux City MSA, this figure is \$63,000 for 2015, \$62,500 for 2014, and \$59,700 for 2013. For borrowers in the Sioux Falls MSA, this figure is \$71,000 for 2015, \$72,200 for 2014, and \$69,800 for 2013. For borrowers located in nonmetropolitan Iowa, this figure is \$62,000 for 2015, \$60,700 for 2014, and \$59,800 for 2013.

For purposes of classifying census tracts by income level for 2013, this evaluation relies on the median family income from the 2010 census, which was \$56,468 for the Sioux City MSA, \$66,496 for the Sioux Falls MSA, and \$56,767 for nonmetropolitan Iowa. Because of changes in the metropolitan statistical delineations that became effective in 2014, examiners used the FFIEC's adjusted census data median family income to classify census tracts in 2014 and 2015. For the Sioux City MSA, this figure for both years was \$58,510. For the Sioux Falls MSA, this figure was \$66,496 for both years. For nonmetropolitan Iowa, this figure was \$56,190 for both years.

*Population.* According to 2015 FFIEC adjusted census data, the population of the bank's assessment area is 16,853, which is a 2.6% increase from the 2000 census. Alcester is a small community located approximately 45 miles south of Sioux Falls and 50 miles northwest of Sioux City. The 2015 estimated population for Alcester is 761. A community contact and bank management stated that the population in Alcester and surrounding areas is aging.

*Economy.* According to bank management and community contacts, the overall economy of Alcester and surrounding areas continues to be stable. Agriculture, including crops, cattle, and hog farming, is the foundation of the local economy. Area farmers grow corn, soybeans, wheat, and alfalfa. Agricultural conditions have been down recently because prices have declined. However, a community contact indicated that hog farming has expanded in the area because farmers are seeing stronger returns. Land values have been stable and similar to past years. Major non-agricultural employers in the area include health care facilities, the school district, and manufacturers. A few area businesses have reduced hours or experienced layoffs. However, bank management indicated that unemployment is low. According to the Bureau of Labor Statistics, the 2015 annual average unemployment rate was 3.4% for Union County, which is slightly higher than the statewide South Dakota annual average rate of 3.1% for the same period.

The bank operates in a competitive banking environment. Community contacts did not identify any unmet credit needs.

*Housing.* According to 2015 FFIEC adjusted census data, this assessment area has 7,335 housing units: 73.0% are owner-occupied, 17.8% are rental, and 9.2% are vacant units. According to a community contact, affordable housing is a concern in the area; there is a two-year waiting list to receive government housing assistance. The community contact also indicated that new construction has increased in the area, with home values of approximately \$300,000 for a 2,000 to 3,000 square-foot home. Bank management indicated that local home prices are stable and are approximately 40% lower than the price of homes in the Sioux Falls area.

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

The bank's performance in meeting the credit needs of its assessment area is rated Outstanding. The bank's lending to low- and moderate-income borrowers is excellent and to small farms is reasonable. The bank's net loan-to-deposit ratio is more than reasonable; the bank's community development lending supplements the bank's lending performance. The geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending. The bank originated the majority of its loans within its assessment area. Finally, the bank's qualified investments (bonds and donations) and services enhance credit availability in the assessment area, as well as the bank's overall CRA rating.

### **LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO FARMS OF DIFFERENT SIZES**

The bank's lending to low- and moderate-income borrowers is excellent and to small farms is reasonable.

*Consumer Lending.* The bank's consumer lending to low- and moderate-income borrowers is excellent. As shown in Table 3, 20.8% of the households in the assessment area are low income and 16.3% are moderate income. The bank originated 44.1% of its consumer loans to low-income borrowers, which far exceeds the number of low-income households in the assessment area. The bank originated 33.9% of its consumer loans to moderate-income borrowers, which also exceeds the number of moderate-income households in the assessment area. Overall, the bank extended 78.0% of its loans to low- and moderate-income borrowers, compared to demographics of 37.1%.

**TABLE 3**  
**Distribution of Consumer Loans in the Assessment Area by Borrower Income Levels\***

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>		<i>Unknown Income</i>	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	44.1%	34.0%	33.9%	37.3%	8.5%	9.4%	6.8%	9.1%	6.8%	10.2%
Percentage of Households by Income Levels**	20.8%		16.3%		20.4%		42.5%		NA	

\*2015 FFIEC median family income is \$63,000 for the Sioux City MSA, \$71,000 for the Sioux Falls MSA, and \$62,000 for nonmetropolitan Iowa.  
\*\*Based on 2015 FFIEC census data.

The bank serves the needs of low- and moderate-income borrowers by providing small-dollar consumer loans. While some of these loans are for day-to-day expenses, the bank also provides small-dollar holiday loans. Of the loans in the sample, 42.4% were for amounts of \$3,000 or less. Of these small-dollar loans, and where the bank relied on borrower income, 87.5% were to low- and moderate-income borrowers. The bank does not require a minimum loan amount and charges minimal fees for consumer loans. Bank management discussed the importance of providing small-dollar loans in the community.

*HMDA Lending.* The bank's HMDA lending to low- and moderate-income borrowers in the assessment area is excellent. Table 4 shows the bank's HMDA lending by borrower income level.

**TABLE 4**  
**2015 HMDA Loans by Income Level of Borrower**

<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	5	20.8	7	29.2	7	29.2	4	16.7	1	4.2
Refinance	3	18.8	5	31.3	4	25.0	4	25.0	0	0.0
Home Improvement	1	25.0	2	50.0	0	0.0	1	25.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total 2015 HMDA Loans</b>	<b>9</b>	<b>20.5</b>	<b>14</b>	<b>31.8</b>	<b>12</b>	<b>25.0</b>	<b>9</b>	<b>20.5</b>	<b>1</b>	<b>2.3</b>

**2014 HMDA Loans by Income Level of Borrower**

<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	6	42.9	5	35.7	2	14.3	1	7.1	0	0.0
Refinance	0	0.0	3	37.5	2	25.0	3	37.5	0	0.0
Home Improvement	0	0.0	0	0.0	1	100.0	0	0.0	0	0.0
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total 2014 HMDA Loans</b>	<b>6</b>	<b>26.1</b>	<b>8</b>	<b>34.8</b>	<b>5</b>	<b>21.7</b>	<b>4</b>	<b>17.4</b>	<b>0</b>	<b>0.0</b>

**2013 HMDA Loans by Income Level of Borrower**

<i>Income Level of Borrower</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>		<i>Unknown</i>	
<i>Loan Type</i>	#	%	#	%	#	%	#	%	#	%
Home Purchase	2	9.5	8	38.1	4	19.0	4	19.0	3	14.3
Refinance	3	13.6	3	13.6	1	4.5	12	54.5	3	13.6
Home Improvement	2	33.3	0	0.0	0	0.0	3	50.0	1	16.7
Multifamily	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total 2013 HMDA Loans</b>	<b>7</b>	<b>14.3</b>	<b>11</b>	<b>22.4</b>	<b>5</b>	<b>10.2</b>	<b>19</b>	<b>38.8</b>	<b>7</b>	<b>14.3</b>

The bank originated 44 HMDA loans in the assessment area in 2015, 23 in 2014, and 49 in 2013. In 2015 and 2013, the bank ranked second out of 85 lenders that reported HMDA loans in the assessment area. In 2014, the bank ranked eighth out of 76 lenders that reported HMDA loans in the assessment area. The largest reporter each year was a large, nationally chartered financial institution.

In 2015, 2014, and 2013, the bank originated 20.5%, 26.1%, and 14.3% of its HMDA loans to low-income borrowers, respectively. Demographic data for 2015 indicates that 15.9% of families in the assessment area are low income. The bank's lending to low-income borrowers exceeds demographics for each year except 2013, where the bank's performance was generally consistent with demographics. The bank's performance exceeds aggregate lender performance. Specifically, in 2015, 2014, and 2013, aggregate lenders originated 8.0%, 12.8%, and 7.6% of HMDA loans to low-income borrowers, respectively.

In 2015, 2014, and 2013, the bank originated 31.8%, 34.8%, and 22.4% of its HMDA loans to moderate-income borrowers. Demographic data for 2015 indicates that 20.0% of families in the assessment area are moderate income. The bank's lending to moderate-income borrowers exceeds demographics, especially in 2015 and 2014. The bank's performance also exceeds aggregate lender performance. Specifically, in 2015, 2014, and 2013, aggregate lenders originated 22.1%, 15.8%, and 20.4% of HMDA loans to moderate-income borrowers.

Overall, the bank's lending to low- and moderate-income borrowers far exceeds aggregate lenders. In 2015, aggregate lenders extended 30.1% of HMDA loans to low- and moderate-income borrowers, compared to the bank's lending at 52.3%. In 2014, aggregate lenders extended 28.7% of HMDA loans to low- and moderate-income borrowers, compared to the bank's lending at 60.9%. In 2013, aggregate lenders extended 28.0% of HMDA loans to low- and moderate-income borrowers, compared to the bank's lending at 36.7%. For each year, the bank extended a higher percentage of home purchase, refinance, and home improvement loans to low- and moderate-income borrowers than aggregate lenders, except for 2014. In 2014, the bank exceeded aggregate lenders for home purchase and refinance loans.

Affordable housing is a concern in the assessment area, as previously mentioned. Using the assumption that a borrower can afford a home for approximately three times their annual income, based on 2015 FFIEC estimated median family income for the Sioux City MSA, an individual with the highest income in the low-income bracket (\$31,499) can afford a \$94,497 home. An individual with the highest income in the moderate-income bracket (\$50,399) can afford a \$151,197 home. Based on 2015 FFIEC census data, the median housing value in Union County is \$132,200. This value is higher than low-income borrowers can afford. Moderate-income borrowers may afford the median home values in Union County based on this information, which is reflected in the bank's higher lending levels to moderate-income borrowers.

Examiners also evaluated the bank's 2012 and 2011 HMDA lending activity and determined that the bank's performance was generally consistent with its performance in subsequent years. In 2012, the bank originated 37.8% of its HMDA loans to low- and moderate-income borrowers. In 2011, the bank originated 28.6% of its HMDA loans to low- and moderate-income borrowers. The bank's performance exceeded aggregate lending levels for both years.

Finally, the bank participates in flexible lending programs that help it meet the mortgage needs of low- and moderate-income individuals.

*Small Farm Lending.* The bank's small farm lending is reasonable. The bank extended 84.1% of its small farm loans in its assessment area to farms with gross annual revenues of \$1 million or less. According to 2015 Dun & Bradstreet data, 99.8% of farms in the assessment area had gross annual revenues of \$1 million or less. Bank management indicated that competition for agricultural loans is

strong in the assessment area and the bank competes with a specialized agricultural lender. The bank also competes with implement dealers for farm equipment. Table 5 shows the bank's small farm lending in the assessment area.

<i>Small Farm Originations</i>	<i>≤\$100,000</i>	<i>&gt;\$100,000 to ≤\$250,000</i>	<i>&gt;\$250,000 to ≤\$500,000</i>	<i>Total Originations</i>
Percentage of Small Farm Loans	79.4%	12.7%	7.9%	100.0%
Percentage of Loans to Farms with Revenues of \$1 Million or Less	88.7%	3.8%	7.5%	84.1%

The majority (88.7%) of small farm loans to small entities were for amounts of \$100,000 or less, which reflects a willingness to meet the credit needs of small farms. The bank also continues to offer FSA-guaranteed loans. Bank management indicated that gross revenues for farms have been down from previous years because of lower commodity prices.

#### LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is more than reasonable, given the bank's size and financial condition and the assessment area's credit needs. The bank's community development lending supplements the bank's lending performance and further illustrates the bank's commitment to meeting the credit needs of the assessment area.

As of June 30, 2016, the bank's net loan-to-deposit ratio was 89.6%, which compares favorably to the peer group net loan-to-deposit ratio of 79.4%. The bank's peer group includes insured commercial banks with assets between \$100 million and \$300 million with two or fewer full-service banking offices and located in a metropolitan statistical area.

The bank's average net loan-to-deposit ratio for the past 22 quarters is 98.2%. At the previous evaluation, the bank's average net loan-to-deposit ratio was 93.0%. Since then, the bank's quarterly net loan-to-deposit ratio has ranged from 85.0% to 106.9%. Considering seasonal variations of agricultural lending and changes in loan demand, this variation is not surprising, and it is similar to the range at the previous evaluation.

Table 6 shows the 22-quarter average net loan-to-deposit ratios for the bank and two other institutions operating in communities near the bank's assessment area.

<i>Bank and Location</i>	<i>Assets as of June 30, 2016 (in millions)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
State Bank of Alcester Alcester, South Dakota	\$117.1	98.2%
Security National Bank of South Dakota Dakota Dunes, South Dakota	\$183.0	44.2%
Security Savings Bank Canton, South Dakota	\$205.6	99.5%

As previously mentioned, bank management stated that competition is strong for agricultural loans in the assessment area. The bank faces competition from a specialized agricultural lender.

*Community Development Lending.* The bank originated two community development loans for approximately \$1.0 million since the previous evaluation. Proceeds from these loans funded the temporary and permanent financing of an affordable housing apartment complex in Alcester. The bank's involvement with this project demonstrates its responsiveness to area affordable housing needs.

### GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and does not reveal any unexplained gaps in the lending patterns. The bank originated loans in each census tract in the assessment area; by loan product, the bank originated consumer and HMDA loans in each tract and small farm loans in most tracts. There are no low- or moderate-income tracts in the bank's assessment area. The assessment area includes four middle-income tracts (one each in Union, Lincoln, Sioux, and Plymouth counties) and one upper-income tract in Union County. The bank's office is located in a middle-income tract in Union County; the bank originated the majority of its loans in this tract, which is reasonable.

### COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank originated the majority of its small farm, HMDA, and consumer loans inside its assessment area. By number, the bank originated 71.3% of the loans inside the assessment area. By loan dollar amount, the bank originated 71.1% of the loans inside the assessment area. Table 7 shows the bank's distribution of loans inside and outside its assessment area.

<i>Loan Type</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Consumer	59	64.8	474	62.9	32	35.2	280	37.2
HMDA	116	73.0	13,224	72.4	43	27.0	5,049	27.6
Small Farm	63	75.0	4,862	68.8	21	25.0	2,201	31.2
<b>Total</b>	<b>238</b>	<b>71.3</b>	<b>18,560</b>	<b>71.1</b>	<b>96</b>	<b>28.7</b>	<b>7,530</b>	<b>28.9</b>

Bank management stated that the bank has many loyal customers who maintain lending relationships even though they have moved away from the area. The bank also maintains lending relationships with borrowers just outside of the assessment area.

### QUALIFIED INVESTMENTS AND SERVICES

Since the previous evaluation, the bank has made qualified investments and services that enhance credit availability in its assessment area, as well as the bank's overall CRA rating. The bank's qualified investments received the greatest weight.

*Qualified Investments.* The level of qualified investments is significant and enhances the bank's CRA performance. The bank purchased one bond for \$450,000 during the evaluation period that provides financing to a statewide affordable housing organization. The bank holds a prior-period bond for \$503,621 that supports local affordable housing efforts. Finally, several prior-period bonds, mostly to

local school districts, matured during the evaluation period. The bank made qualified investments in the form of donations benefiting its assessment area that totaled approximately \$8,970 during the evaluation period, which is a significant increase from the previous evaluation when the bank made \$1,450 in donations. The bank's donations supported organizations or efforts that serve primarily low- and moderate-income individuals. Overall, the level of qualified investments for a financial institution of this bank's size is notable.

*Community Development Services.* The bank provided several community development services that enhance its CRA performance. Bank officers and employees typically provided these services throughout the duration of the evaluation period, which is notable.

- One senior bank officer served on the board and one bank employee served as the treasurer for an organization that provides affordable rental housing.
- One senior bank officer served as a board member of an affordable housing apartment complex. One bank employee also provided financial expertise to this organization.
- One senior bank officer/board member served on the board of directors of a nursing home that primarily serves low- and moderate-income individuals.

#### RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.

#### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B--Equal Credit Opportunity Act, Regulation C--Home Mortgage Disclosure Act, and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

## Appendix A

### Glossary of Common CRA Terms

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

**Census tract:** A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community development:** An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

**Consumer loan:** A loan to one or more individuals for household, family, or other personal expenditures. It does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Distressed nonmetropolitan middle-income census tract:** A middle-income, nonmetropolitan census tract will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% or more over the 5-year period preceding the most recent census.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**Full-scope review:** Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (i.e., approved, denied, or withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-scope review:** Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

**Low income:** Individual income that is less than 50 percent of the area median income or a median family income that is less than 50 percent, in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

**Metropolitan statistical area (MSA):** An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle income:** Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

**Moderate income:** Individual income that is at least 50 percent and less than 80 percent of the area median income or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated area:** A rated area is a state or multistate MSA. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate MSA, the institution will receive a rating for the multistate metropolitan area.

**Small loan to business:** A loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

**Small loan to farm:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

**Underserved middle-income census tract:** A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

**Upper income:** Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)