

**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 Farmers and Merchants Bank, Huron, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of April 8, 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 has consistently maintained a high loan-to-deposit ratio since the last evaluation. Second, based on an analysis of the bank's loans, the bank lends to borrowers of many different income levels and to small businesses and farms. Third, the bank has made a substantial portion of its loans within its assessment area.

The following table indicates the performance level of Farmers and Merchants Bank, Huron, South Dakota, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FARMERS AND MERCHANTS BANK, HURON, SOUTH DAKOTA PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different 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. According to the bank's December 31, 1995, Report of Condition ("ROC"), its total assets are approximately \$153.6 million. Since June 30, 1994, the bank's total assets have increased approximately \$6.7 million. The bank's volume of loans and deposits have remained stable since the previous evaluation. 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 December 31, 1995, ROC, agricultural loans comprise 38% of the bank's portfolio. The remainder of the portfolio includes 22% commercial, 20% residential real estate, 17% consumer, and 3% other loans.

The bank offers many different types of loan products that serve local residents' credit needs. Its agricultural products include farm real estate, agricultural subordination and participation loans, South Dakota Department of Agriculture VALU loans, and Rural Economic and Community Development loans. Commercial customers may obtain conventional loans for start-up funds, inventory financing, and real estate purposes. In addition to its agricultural and commercial products, the bank provides a variety of real estate loan products, a number of which serve lower-income borrowers. For example, the bank offers Federal Housing Administration, Department of Veterans Affairs, and conventional mortgage loans, as well as South Dakota Housing Development Authority home improvement loans. The bank also has an active consumer lending program. The bank's loan products appear appropriate for its community's credit needs.

### **DESCRIPTION OF ASSESSMENT AREA**

The bank defines its assessment area as Beadle, Spink, Clark, Kingsbury, Sanborn, and Jerauld counties in South Dakota. The bank's main office and one of its branches are located in Huron, which is in Beadle County. A second branch is located approximately 20 miles northwest of Huron in Hitchcock, also in Beadle County. Approximately 40 miles north of Huron in Doland, located in Spink County, is a third branch. The fourth branch is located approximately 30 miles east of Huron in De Smet, a Kingsbury County community. Based on 1990 census data, the bank's assessment area has a population of 41,820.

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, the categorization of a borrower's or block numbering 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.

BNAs are classified using similar categories based on the level of the median family income in the geography.

The bank's assessment area includes 18 BNAs, 17 of which are designated as middle income. The remaining BNA is designated as upper income. According to 1990 census data, the assessment area's median family income is \$25,737, while the median family income for nonmetropolitan areas in South Dakota is \$25,547.

Of the 16,400 total households in the assessment area, approximately 23% are low income, 17% are moderate income, 19% are middle income, and 41% are upper income. Approximately 15% of the households have incomes below the poverty level.

Agriculture is a primary factor in the assessment area's economy. According

to community contacts and bank employees, cattle ranching is one of the region's primary agricultural activities. Recent low cattle prices have had a negative effect on the region's cattle industry. However, other sectors of the economy have experienced significant growth in recent years. Beadle County, in particular, has seen an increase in its population, industry, and sales tax revenues since 1991.

Community contacts and bank staff noted that housing, particularly in the \$50,000 to \$70,000 range, is in short supply. This problem should be remedied somewhat with the construction of the Windsor Square Housing Development, a single-family home community being developed with the help of a community development block grant from the U.S. Department of Housing and Urban Development. This development has designated 13 single-family homes for low- and moderate-income individuals. An additional 30 to 50 homes will be added by the time the three-year project is complete.

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

#### **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 loan-to-deposit ratio exceeds the standards for satisfactory performance based on its consistently high loan-to-deposit ratio, its secondary market real estate lending, and its community development loans. Since the previous evaluation, the quarterly average of the bank's loan-to-deposit ratio is 72%. The following chart, based on quarterly ROC data, shows that the bank's ratio has been consistently high since the last evaluation.

Date	Gross Loans (In thousands)	Deposits (In thousands)	Loan-to- Deposit Ratio
December 31, 1995	\$91,812	\$125,980	73%
September 30, 1995	\$91,694	\$123,258	74%
June 30, 1995	\$89,737	\$121,763	74%
March 31, 1995	\$88,315	\$122,273	72%
December 31, 1994	\$87,348	\$124,427	70%
September 30, 1994	\$85,775	\$121,034	71%
June 30, 1994	\$84,924	\$122,890	69%

Not included in the bank's loan-to-deposit ratio is a significant number of real estate loans that were sold to the secondary market in 1995.

The bank's loan-to-deposit ratio is consistent with that of its three main competitors in the assessment area. Those competitors had quarterly loan-to-deposit ratios in 1995 of 88%, 78%, and 72%.

The bank made several significant community development loans since the last evaluation. First, the bank financed construction of a housing facility for senior citizens. Second, the bank financed subcontractors working on a low-income housing project. Third, the bank supplied a line of credit to a debt-counseling service. Finally, the bank provided funds to build a home for a low-income individual or family.

#### Lending in the Assessment Area

According to a statistical review of loan originations within at least the last six months, the bank made a substantial majority of its loans within its assessment area. This high concentration of lending within its assessment area exceeds standards for satisfactory performance. The percentage of loans within the assessment area varied by loan type. For example, 95% of the number and 93% of the total dollar amount of the bank's real estate loans were made in the assessment area. Similarly, 93% of the total number and 95% of the total dollar amount of commercial and agricultural loans were made in the assessment area. The percentages decreased somewhat for consumer loans, with 85% of the total number and 81% of the total dollar amount of those loans being made within the assessment area.

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

The bank's record of lending to borrowers of different income levels is very good and, as such, exceeds the standards for satisfactory performance. The bank provides consumer and consumer real estate loans to individuals of all different income categories, as shown in the following chart.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low Income	Moderate Income	Middle Income	Upper Income
CONSUMER REAL ESTATE				
Total Number of Loans	15%	10%	23%	53%
Total Amount of Loans	16%	5%	13%	66%
CONSUMER				
Total Number of Loans	34%	31%	20%	14%
Total Amount of Loans	40%	17%	20%	24%

\*Income level based on South Dakota's 1995 median family income of \$30,100.

As shown above, the bank made almost two-thirds of its consumer loans to low- and moderate-income borrowers. In addition, the bank made 25% of its consumer real estate loans to low- and moderate-income borrowers. As previously discussed under the Description of Institution section, real estate loans comprise 20% and consumer loans comprise 17% of the bank's total loan portfolio. Low- and moderate-income households account for 40% of the assessment area's population. The bank's consumer lending to low- and moderate-income individuals exceeds the percentage of these individuals living in the assessment area. While the remaining consumer loans are evenly distributed between the middle- and upper-income categories, the remaining real estate loans were primarily made to upper-income borrowers. This seems reasonable given that both bank staff and community contacts stated that there is a shortage of affordable housing for low- and moderate-income residents in the area.

Most of the bank's commercial and agricultural borrowers are small businesses. In fact, all the commercial and agricultural loans sampled went to borrowers with gross annual revenues of \$1 million or less. The size and volume of the loans appear reasonable. Based on the CRA loan sample, 97% of the commercial and agricultural loans had amounts less than or equal to \$100,000. The remaining 3% of such loans had amounts between \$100,000 and \$250,000. No commercial or agricultural loan had an amount that exceeded \$250,000. Census data for 1990 indicates that 98% of the businesses in the assessment area employ 49 employees or fewer. 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 17 middle-income and one upper-income BNA. Approximately 87% of the assessment area's population resides in the 17 middle-income BNAs. As the following chart indicates, the bank has the majority of its loans in the middle-income BNAs.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL</b>		
<b>Loan Type</b>	<b>Middle-Income BNA</b>	<b>Upper-Income BNA</b>
<b>COMMERCIAL AND AGRICULTURAL</b>		
Total Number of Loans	100%	0%
Total Amount of Loans	100%	0%
<b>CONSUMER REAL ESTATE</b>		
Total Number of Loans	70%	30%
Total Amount of Loans	72%	28%
<b>CONSUMER</b>		
Total Number of Loans	80%	20%
Total Amount of Loans	81%	19%

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 complaints since the previous evaluation.

## **PUBLIC DISCLOSURE**

April 8, 1996  
Date of Evaluation

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## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Farmers and Merchants Bank  
Name of Depository Institution

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094607400000  
Identification Number of Institution

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Huron, South Dakota  
Address of Institution

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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.