

## **PUBLIC DISCLOSURE**

February 11, 2013

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

American State Bank of Pierre  
700 East Sioux Avenue  
Pierre, South Dakota 57501  
RSSD 600651

**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.

**TABLE OF CONTENTS**

Institution’s CRA Rating ..... 1

Scope of Evaluation ..... 1

Description of Institution ..... 2

Description of Assessment Area ..... 2

Conclusions with Respect to Performance Criteria ..... 6

Fair Lending or Other Illegal Credit Practices Review..... 11

Appendix A..... 12

*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 "Satisfactory."

The Community Reinvestment Act (CRA) performance of American State Bank of Pierre, Pierre, South Dakota, is satisfactory. The bank's CRA performance was evaluated using the Small Bank CRA Examination Procedures. Based on its asset size and financial condition, the bank effectively meets the credit needs of residents in its assessment area.

Several factors support the bank's satisfactory rating.

- The bank's lending to borrowers of different income levels and to businesses and farms of different sizes is reasonable. The bank extended a majority of its consumer loans to low- and moderate-income borrowers. Similarly, it extended the majority of its small business and small farm loans to entities with gross annual revenues of \$1 million or less.
- The bank originated a majority of its loans in its assessment area.
- The geographic distribution of loans in the assessment area is reasonable.
- The bank's net loan-to-deposit ratio is reasonable.

**SCOPE OF EVALUATION**

This evaluation is based on a statistical sample of consumer, small business, and small farm loans. Examiners selected these loan products because they represent the bank's major product lines. Table 1 shows the number of loans and dollar amount of loans originated by the bank from January 1, 2011, to December 31, 2011.

<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	527	55.9%	\$2,720,389	5.1%
Residential Real Estate	56	5.9%	7,854,207	14.6%
Home Equity Line of Credit	15	1.6%	442,355	0.8%
Small Business (≤ \$1 million)	134	14.2%	10,097,042	18.7%
Small Farm (≤ \$500,000)	194	20.6%	19,423,472	36.0%
Agriculture (> \$500,000)	12	1.3%	12,626,375	23.4%
Construction/Land Development	5	0.5%	736,400	1.4%
<b>Total</b>	<b>943</b>	<b>100.0%</b>	<b>\$53,900,240</b>	<b>100.0%</b>

The statistical sample includes 108 consumer loans, 54 small business loans, and 54 small farm loans originated between May 1, 2012, and October 31, 2012.

To determine the bank's CRA rating, examiners analyzed the following criteria:

- Lending to borrowers of different income levels and to businesses and farms of different sizes,
- Geographic distribution of loans,
- Lending inside the assessment area,

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

- Net loan-to-deposit ratio, and
- Record of responding to complaints about the bank's CRA performance.

For the evaluation criteria, examiners placed the greatest weight on the bank's lending to borrowers of different income levels and to businesses and farms of different sizes, followed by the bank's geographic distribution of loans. Examiners weighted the remaining criteria equally. Examiners also weighted the three loan types equally. Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints.

## **DESCRIPTION OF INSTITUTION**

*Office.* The bank has one full-service office in Pierre, South Dakota. Lobby and drive-up hours at the main office in Pierre are 7:30 a.m. to 5:30 p.m. Monday through Friday, and 9:00 a.m. to noon on Saturday. The bank provides check-cashing services twice a month at an independent living facility in Pierre. According to the December 31, 2012, Report of Condition (ROC), the bank's assets totaled \$177.3 million, an increase of approximately 54.8% since the previous evaluation.

*Alternative delivery methods.* The bank operates seven cash-dispensing-only automated teller machines (ATM) in local businesses in Pierre and Fort Pierre, and one deposit-taking ATM at the bank's office. The bank ceased operation of three ATMs since the previous examination; the businesses where the ATMs were located later purchased their own ATMs. The bank also offers telephone and Internet banking. Internet banking customers can review account information, transfer funds, use bill-payment services, apply for mortgage loans, and apply for all deposit accounts or open certain ones.

*Loan portfolio.* According to the ROC data, the bank's loan portfolio totals approximately \$66.0 million, a decline of approximately 16.5% since the previous evaluation. The loan portfolio consists of approximately 46.9% commercial loans, 40.3% agricultural loans, 5.7% residential real estate loans, and 5.0% consumer loans. All other loans represent approximately 2.1% of the portfolio.

*Credit products.* The bank is primarily a commercial and agricultural lender but continues to offer other traditional credit products including consumer and real estate loans to serve the credit needs of the assessment area. Consumer loan products include personal lines of credit, vehicle-secured closed-end loans, unsecured closed-end loans, home equity lines of credit, and other consumer loans. The bank offers a variety of residential real estate loans including conventional mortgages, home improvement loans, mobile home loans, construction, temporary financing, and first-time homebuyer loans through the South Dakota Housing Development Authority. The bank also offers mortgage loans through the U.S. Department of Agriculture Rural Development. Long-term real estate loans are generally sold to secondary market investors. Commercial credit products include a variety of short- and long-term loans, including U.S. Small Business Administration loans. The bank also offers a variety of agricultural loans.

*Community contacts.* In addition to having discussions with bank management, examiners contacted several members of the community familiar with economic issues and demographic characteristics in the assessment area. Information from the contacts and bank management was used in the evaluation of the bank's CRA performance.

## **DESCRIPTION OF ASSESSMENT AREA**

*Assessment area.* The bank has defined one assessment area for CRA purposes. The assessment area includes nine counties: Ziebach, Dewey, Sully, Hyde, Haakon, Stanley, Hughes, Jones, and Lyman. Most of these counties are sparsely populated. The assessment area includes three Indian reservations:

Cheyenne River, Lower Brule, and Crow Creek. The Cheyenne River Reservation primarily consists of Dewey and Ziebach counties. This reservation is approximately 90 miles northwest of Pierre. Several banks are located within the boundaries of the Cheyenne River Reservation. The Lower Brule and Crow Creek Indian Reservations are both about 50 miles southeast of Pierre and cover smaller land areas. The Lower Brule Reservation is located in parts of Lyman and Stanley counties. Part of the Crow Creek Reservation is located Hughes and Hyde counties. Bank management noted that the Lower Brule and Crow Creek reservations are relatively close to Chamberlain, South Dakota, and that residents on these reservations generally do business with financial institutions and businesses in that community.

As illustrated in Table 2, the assessment area currently consists of 14 census tracts. The bank's office is located in middle-income census tract 9779 in Hughes County.

<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
<i>County</i>	<i>Census Tract</i>	<i>County</i>	<i>Census Tract</i>	<i>County</i>	<i>Census Tract</i>	<i>County</i>	<i>Census Tract</i>
Dewey	9415	Lyman	9401	Haakon	9601	Hughes	9777
Ziebach	9416			Hughes	9778	Hughes	9780
				Hughes	9779		
				Hyde	9767		
				Jones	916		
				Lyman	9726		
				Stanley	9601		
				Sully	9791		
				Dewey	9417		

The number of census tracts in the bank's assessment area decreased from 27 to 14 since the previous evaluation. These changes were due to census tract boundary changes based on 2010 U.S. Census data. In five counties, census tracts merged into existing census tracts. The number of census tracts in Dewey County was reduced from eight to two, Ziebach from five to one, Hughes from five to four, Hyde from two to one, and Stanley from two to one. The number of census tracts in Haakon, Jones, Lyman, and Sully counties remains the same.

The income classifications of the census tracts in the assessment area at the time of the previous evaluation were based on the 2000 census. Dewey County consisted of three moderate-income, two low-income, and three unknown income census tracts, which are now combined into two census tracts, one moderate income and one middle income. Ziebach County consisted of three low-income census tracts, one moderate-income census tract, and one unknown census tract, which were combined into one low-income census tract. Hughes County consisted of one moderate-income census tract, one middle-income census tract, and three upper-income census tracts, which were combined into four census tracts, two moderate income and two middle income. Hyde County consisted of one moderate-income census tract and one middle-income census tract, which were combined into one middle-income census tract. Stanley County consisted of two middle-income census tracts, which were combined into one middle-income census tract. The four census tracts that had been classified as unknown income were very small tracts on county borders. One tract had a population of 10; the rest had no population.

In 2012, the following census tracts were classified as distressed and underserved: 9417 in Dewey County, 9601 in Haakon County, 9767 in Hyde County, 916 in Jones County, and 9791 in Sully County.

Table 3 illustrates the demographic characteristics of the bank's assessment area based on 2010 census data and 2011 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	2	14.3	1,096	11.3	400	36.5	2,224	22.9
Moderate Income	1	7.1	345	3.6	125	36.2	1,342	13.8
Middle Income	9	64.3	5,967	61.4	622	10.4	1,952	20.1
Upper Income	2	14.3	2,307	23.7	53	2.3	4,197	43.2
<b>Total Assessment Area</b>	<b>14</b>	<b>100.0</b>	<b>9,715</b>	<b>100.0</b>	<b>1,200</b>	<b>12.4</b>	<b>9,715</b>	<b>100.0</b>
<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	1,765	670	6.7	38.0	782	44.3	313	17.7
Moderate Income	451	111	1.1	24.6	305	67.6	35	7.8
Middle Income	10,776	6,513	65.6	60.4	2,663	24.7	1,600	14.8
Upper Income	3,748	2,634	26.5	70.3	926	24.7	188	5.0
<b>Total Assessment Area</b>	<b>16,740</b>	<b>9,928</b>	<b>100.0</b>	<b>59.3</b>	<b>4,676</b>	<b>100.0</b>	<b>2,136</b>	<b>100.0</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>	<i>#</i>	<i>%</i>
Low Income	151	5.6	132	5.6	10	6.2	9	5.4
Moderate Income	188	7.0	161	6.8	18	11.1	9	5.4
Middle Income	1,437	53.5	1,259	53.4	94	58.0	84	50.6
Upper Income	910	33.9	806	34.2	40	24.7	64	38.6
<b>Total Assessment Area</b>	<b>2,686</b>	<b>100.0</b>	<b>2,358</b>	<b>100.0</b>	<b>162</b>	<b>100.0</b>	<b>166</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>87.8</b>		<b>6.0</b>		<b>6.2</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>	<i>#</i>	<i>%</i>
Low Income	58	7.3	56	7.3	0	0.0	2	13.3
Moderate Income	70	8.9	67	8.7	2	33.3	1	6.7
Middle Income	527	66.7	513	66.7	3	50.0	11	73.3
Upper Income	135	17.1	133	17.3	1	16.7	1	6.7
<b>Total Assessment Area</b>	<b>790</b>	<b>100.0</b>	<b>769</b>	<b>100.0</b>	<b>6</b>	<b>100.0</b>	<b>15</b>	<b>100.0</b>
<b>Percentage of Total Farms:</b>				<b>97.3</b>		<b>0.8</b>		<b>1.9</b>

\*2011 Dun & Bradstreet small business and small farm data is based on 2000 U.S. Census tract boundaries.

*Income.* For the purpose of classifying borrowers by income level, this evaluation uses the Federal Financial Institutions Examination Council's (FFIEC) estimated median family income. For borrowers residing in nonmetropolitan areas of South Dakota, the estimated median family income is \$56,400 for 2012. For the purpose of classifying census tracts by income level, this evaluation uses the 2010 census median family income of \$55,116 for nonmetropolitan areas of South Dakota.

*Population.* According to 2010 census data, the population of the bank's assessment area is 37,581, which is a 1.8% decrease from the 2000 census. Of the 14,604 households in the assessment area, 21.1% are low income and 16.9% are moderate income. The percentages of low- and moderate-income households in the assessment area are similar to the percentage for the state of South Dakota. The percentages of households (14.3%) and families (12.3%) below the poverty level in the assessment area are slightly higher than the percentages for the state.

The most populous county in the assessment area is Hughes County, with a population of 17,022. Almost half of the population in the assessment area, 45.3%, resides in this county. The largest city in Hughes County is Pierre, the state capital, with a population of 13,646 according to the 2010 census. Pierre's population declined by 1.7% since the 2000 census.

*Economy.* Community contacts and bank management describe the area's economic conditions as stable. Pierre serves as a regional trade center for central South Dakota, and government and health care are the primary economic sectors. Because Pierre is the capital of South Dakota, federal and state government agencies have offices here, along with city government offices. Federal, state, and city government entities are the city's largest employers. Community contacts noted that approximately 24% of the work force is in public administration and about 20% is in health care and education. Having government as the city's primary industry stabilizes the local economy, including demand for housing. It also provides higher-paying jobs. Since the previous evaluation, a software services company came to Pierre, which added jobs. Pierre has few empty storefronts. Bank management stated that wages in Pierre are higher than in other areas of the state. They said that hourly wages range from \$10 to \$15 and as high as \$20. According to bank management, recovery after the major flood in 2011 has had positive effects on the city's economy, although housing has been a challenge.

According to community contacts, other major sectors of the economy are tourism and agriculture. Hunting, fishing, and other recreational activities tied to the Missouri River bring tourists to the area. The game farms in the area have also benefited many farmers, who supplement their income by selling some of their harvests as feed to the game farms. Bank management also said the agricultural economy has been doing very well. Farmers made record incomes in recent years. Management said that 2012 was a good year for calf producers. Cattle prices were as high as \$900 per head, a record high. According to bank management, farmers had good hay crops and exported hay to areas of the country affected by drought. Farmers also saw record corn prices. Bank management said that as a result, many of the bank's agricultural customers need minimal financing for their operations.

Community contacts and bank management describe the Pierre area's unemployment as low. Compared to the nation, the unemployment rate in South Dakota is very low. According to the Bureau of Labor Statistics (BLS), the December 2012 nonseasonally adjusted unemployment rate for South Dakota was 4.5%, compared to 7.6% for the nation. Table 4 shows the December 2012 nonseasonally adjusted unemployment rate for the counties in the assessment area.

<i>County</i>	<i>Rate</i>	<i>County</i>	<i>Rate</i>
Dewey	12.8%	Lyman	5.2%
Haakon	3.6%	Stanley	3.1%
Hughes	3.4%	Sully	2.6%
Hyde	4.3%	Ziebach	6.8%
Jones	3.9%		

\*Data are from the Bureau of Labor Statistics.

Community contacts familiar with the Cheyenne River Indian Reservation, which consists of Dewey and Ziebach counties, indicated that unemployment, a water shortage, and housing are major issues on the reservation. The primary employers on the reservation are the tribal government and federal government.

Bank management commented that competition is high; a number of financial institutions operate within the assessment area, including credit unions. Bank management stated that overall loan demand has declined. According to the June 30, 2012, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks second among the seven banks that have offices in Pierre and holds 20.7% of the market's deposits. Of the 17 FDIC-insured financial institutions with offices in the bank's assessment area, the bank ranks fourth with 9.3% of the market's deposits.

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

The bank's performance in meeting the credit needs of consumers, businesses, and farms in the assessment area is satisfactory based on several factors. The bank's lending to borrowers of different incomes and to businesses and farms of different sizes is reasonable. The geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending. The bank originated a majority of its loans in the assessment area. Finally, the loan-to-deposit ratio is reasonable. Lending to borrowers of different income levels and to businesses and farms of different sizes received the most weight among the performance criteria.

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

Overall, the bank's lending to borrowers of different income levels and to businesses and farms of different sizes is reasonable. The bank's consumer lending to low- and moderate-income borrowers is excellent and, by number and dollar amount, exceeds the percentages of low- and moderate-income households in the assessment area. Further, the bank originated a majority of its small business loans and small farm loans to small businesses and small farms; lending to businesses and farms of different sizes is reasonable.

*Consumer lending.* The bank's lending to low- and moderate-income borrowers is excellent. Table 5 shows the percentages of consumer loans made to borrowers of different income levels.

**TABLE 5**  
**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>Income Unknown</i>	
	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>	<i>#</i>	<i>\$</i>
Consumer	40.0%	20.6%	26.3%	30.1%	13.7%	20.8%	16.8%	23.8%	3.2%	4.8%
Percentage of Households In Assessment Area**	21.1%		16.9%		15.7%		46.4%		N/A	
*The FFIEC median family income for the nonmetropolitan areas of South Dakota is \$56,400 for 2012.										
**According to 2010 U.S. Census data.										

The percentage of consumer loans made to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income households in the assessment area. As indicated in Table 5, the bank originated 40.0% of its consumer loans to low-income borrowers, and 21.1% of the households in the assessment area are low income. The bank originated 26.3% of consumer loans to moderate-income borrowers, and 16.8% of the households in the assessment area are moderate income. The loans categorized as unknown income reflect consumer loans for which the bank did not consider income in the credit decision.

The bank's commitment to offer small-dollar loans enhances its ability to serve the community, especially low- and moderate-income borrowers. Of the consumer loans in the sample, the bank originated approximately 42.6% for \$3,000 or less. Of these loans, the bank originated 82.6% to low- and moderate-income borrowers. Bank management indicated that most of the bank's small-dollar loans are for basic necessities. Overall, the level of consumer lending is excellent and demonstrates the bank's commitment to meeting the credit needs of borrowers of different income levels, including low- and moderate-income borrowers.

*Small business lending.* The bank's lending to small businesses is reasonable. Table 6 shows the bank's distribution of small business loans by dollar amount in the assessment area in 2012.

**TABLE 6**  
**Small Business Lending**

<i>Small Business Loan Originations</i>	<i>≤ \$100,000</i>	<i>&gt; \$100,000 to ≤ \$250,000</i>	<i>&gt; \$250,000 to ≤ \$1,000,000</i>	<i>&gt; \$1,000,000</i>	<i>Total Originations</i>
Percentage of Small Business Loans	75.0%	16.7%	6.3%	2.1	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	79.1%	14.0%	4.7%	2.3%	89.6%

According to 2011 Dun & Bradstreet data, 87.8% of businesses in the assessment area have gross annual revenues of \$1 million or less. As Table 6 indicates, in 2012, the bank originated 89.6% of its small business loans to entities with gross annual revenues of \$1 million or less, which compares well to the percentage of small businesses in the assessment area. In addition, the bank originated 79.1% of its loans to small businesses in amounts of \$100,000 or less. The bank's origination of these smaller loans indicates its willingness to meet the credit needs of smaller businesses.

*Small farm lending.* The bank's lending to small farms is reasonable. Table 7 shows the bank's distribution of small farm loans by dollar amount in the assessment area in 2012.

<i>Small Farm Loan 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	78.3%	15.2%	6.5%	100.0%
Percentage of Loans to Farms with Revenues of \$1 Million or Less	78.3%	15.2%	6.5%	100.0%

According to 2011 Dun & Bradstreet data, 97.3% of farms in the assessment area have gross annual revenues of \$1 million or less. As Table 7 indicates, the bank originated 100.0% of its small farm loans to entities with gross annual revenues of \$1 million or less, which compares well to the percentage of small farms in the assessment area. In addition, the bank originated 78.3% of its small farm loans in amounts of \$100,000 or less. The bank’s origination of these smaller loans indicates its willingness to meet the credit needs of smaller farms.

Overall, the bank’s lending to borrowers of different income levels and to businesses and farms of different sizes is reasonable. The bank originated the majority of the consumer loans to low- and moderate-income borrowers and made small-dollar loans to low- and moderate-income borrowers, which is excellent. In addition, the bank originated most of its small business loans and all of its small farm loans to entities with gross annual revenues of \$1 million or less. The bank demonstrates reasonable responsiveness to the credit needs of the residents, businesses, and farms in its assessment area.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution and dispersion of the bank’s loans in the assessment area are reasonable and do not reveal any unexplained gaps in lending. Of the 14 census tracts in the bank’s assessment area, two are low income, one is moderate income, nine are middle income, and two are upper income.

*Consumer lending.* The bank’s geographic distribution and dispersion of consumer loans are reasonable. Table 8 shows the geographic distribution of consumer loans in the census tracts.

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Consumer	1.1%	3.2%	1.1%	1.1%	75.8%	74.9%	22.1%	20.8%
<b><i>Demographic Data</i></b>								
Percentage of Households	9.9%		2.9%		62.8%		24.4%	
*Income classification of census tracts is based on 2010 U.S. Census data.								

The bank extended 1.1% of its consumer loans in the low-income census tracts, which is lower than the 9.9% of low-income households in these census tracts. The bank also extended 1.1% of its consumer loans in the moderate-income census tract, which is lower than the 2.9% of moderate-income households in this tract. The bank did not originate consumer loans in low-income census tract 9415 in Dewey County and middle-income census tracts 9601 in Haakon County and 916 in Jones County. The low level of lending in the low-income census tracts is not unreasonable. Low-income tract 9415 is the town of Eagle Butte, which has a bank. The other low-income tract is Ziebach County. Eagle Butte is closer to

many of the Ziebach County residents. In addition, there are other banks that are more convenient than driving 90 miles to Pierre. The low level of lending in the moderate-income census tract is also reasonable. As mentioned, census tracts boundaries in the assessment area were redrawn because of the demographic changes in the 2010 census. The number of moderate-income census tracts decreased from seven to one. The remaining moderate-income tract is in Lyman County, which is some distance from the bank and is served by banks in Chamberlain and Presho. The two middle-income tracts without loans are also served by financial institutions in their counties. The geographic distribution of consumer loans in the assessment area, including the lack of lending in certain census tracts, is reasonable given competition and the size of the assessment area.

*Small business lending.* The bank's distribution and dispersion of small business loans are reasonable. Table 9 shows the bank's distribution of small business loans in the assessment area.

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Small Business	2.1%	3.6%	0.0%	0.0%	72.9%	82.3%	25.0%	14.1%
<b>Demographic Data</b>								
Percentage of Small Businesses	5.6%		7.0%		53.5%		33.9%	
*Income classification of census tracts is based on 2010 U.S. Census data.								

The bank extended 2.1% of small business loans in the low-income census tracts, which is lower than the percentage of small businesses, 5.6%, in these census tracts. The bank did not extend any small business loans in moderate-income census tract 9401 in Lyman County and four middle-income census tracts in the assessment area. As mentioned for the geographic distribution of consumer loans, many factors support the reasonableness of the bank's small business lending in the low- and moderate-income census tracts. The limited lending in the low-income census tracts and lack of lending in the only moderate-income tract and certain middle-income census tracts is reasonable given competition and the size of the assessment area. Overall, the bank's distribution and dispersion of small business loans are reasonable given the assessment area's characteristics.

*Small farm lending.* The bank's distribution and dispersion of small farm loans are reasonable. Table 10 shows the bank's distribution of small farm loans in the assessment area.

<i>Loan Type</i>	<i>Low Income</i>		<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	#	\$	#	\$	#	\$	#	\$
Small Farm	2.2%	2.2%	10.9%	1.4%	56.5%	63.5%	30.4%	32.9%
<b>Demographic Data</b>								
Percentage of Small Farms	7.3%		8.9%		66.7%		17.1%	
*Income classification of census tracts is based on 2010 U.S. Census data.								

The bank extended 2.2% of small farm loans in the low-income census tracts, which is lower than the percentage of small farms, 7.3%, in these census tracts. The bank also extended 10.9% of small farm loans in the moderate-income census tract, which is higher than the percentage of small farms, 8.9%, in this tract. The bank did not originate small farm loans in census tract 9779 in Hughes County, tract 9416 in Ziebach County, and tract 9767 in Hyde County. Census tract 9779 is within the city limits of Pierre, which explains the lack of small farm lending in this tract. The other tracts are sparsely populated and some distance from the bank. Other financial institutions, including credit unions, operating in the assessment area create strong competition for available loans in these tracts. In addition, farming has been very profitable recently. Most farmers have sufficient cash to fund operations and, as a result, less need for loans. The bank's distribution of small farm loans is reasonable given these factors and the size of the assessment area.

Overall, the bank actively originates all types of loans in a majority of the census tracts in the assessment area. The geographic distribution and dispersion of the bank's loans are reasonable given assessment area characteristics.

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

Overall, the bank originated the majority of its loans, 87.5% by number and 73.1% by dollar amount, in the assessment area. The bank also originated a majority of its loans in the assessment area for all loan categories. Table 11 shows the percentages of consumer, small business, and small farm loans that the bank extended in the assessment area. The lower percentage of small farm loans by dollar amount is skewed by a few large loans made to small farms outside the assessment area.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Total Amount of Loans</i>
Consumer	88.0%	93.3%
Small Business	88.9%	81.2%
Small Farm	85.2%	58.9%

#### LOAN-TO-DEPOSIT RATIO ANALYSIS

Given the bank's asset size and financial condition and the assessment area's performance context, the bank's net loan-to-deposit ratio is reasonable. Table 12 displays the 17-quarter average net loan-to-deposit ratios for the bank and three competitors.

<i>Bank Name and Location</i>	<i>Assets as of December 31, 2012 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
American State Bank of Pierre, Pierre, South Dakota	\$177,316	56.5%
First National Bank, Fort Pierre, South Dakota	\$736,736	90.7%
Dakota Prairie Bank, Fort Pierre, South Dakota	\$ 69,022	72.3%
State Bank of Eagle Butte, Eagle Butte, South Dakota	\$ 46,948	67.4%

The bank's 17-quarter average net loan-to-deposit ratio of 56.5% is lower than the 17-quarter average net loan-to-deposit ratios of three competitor banks in the assessment area and the 66.3% average net loan-to-deposit ratio for the bank's peer group. The local competitors differ from the bank in asset size and branch structure; the evaluation identified no banks similarly situated to American State Bank of Pierre in its assessment area.

The December 31, 2012, Uniform Bank Performance Report shows that the bank's net loan-to-deposit ratio of 41.7% is below its national peer group's net loan-to-deposit ratio of 60.1%. The national peer group consists of all insured commercial banks having assets between \$100 million and \$300 million in a nonmetropolitan area with two or fewer full-service offices.

Since the previous evaluation, the bank's quarterly net loan-to-deposit ratio has ranged from 41.7% to 73.8%. The bank's 17-quarter average net loan-to-deposit ratio of 56.5% is lower than the 17-quarter average net loan-to-deposit ratio of 83.6% at the previous evaluation. Deposits have steadily increased over the period, from \$106.9 million in December 2008 to \$158.3 million in December 2012. Lending activity has not been able to keep pace with the large increase in deposits. Bank management noted that some customers have very large deposit balances with funds that cannot be used for lending. As mentioned, loan demand has decreased particularly for agricultural customers because they are able to self-finance their operations as a result of high prices received for livestock and commodities. A number of financial institutions operate in the assessment area, and competition is strong for all credit products. Given these factors as well as the bank's asset size, the bank's net loan-to-deposit ratio is reasonable.

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

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

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

The evaluation 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:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; 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; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and Federal Deposit Insurance Corporation (the Agencies) have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Agencies based on:
  - a. Rates of poverty, unemployment, and population loss or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help meet essential community needs, including the needs of low- and moderate-income individuals.

**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.

**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 (e.g., approved, denied, and 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 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 metropolitan area. 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 metropolitan area, 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 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.

**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.)