

PUBLIC DISCLOSURE

August 17, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First State Bank of Sinai
Certificate Number: 498**

Main Avenue

**P.O. Box 38
Sinai, South Dakota 57061**

**Federal Deposit Insurance Corporation
2345 Grand Avenue, Suite 1500
Kansas City, Missouri 64108**

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.

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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 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 Community Reinvestment Act (CRA) performance of **First State Bank of Sinai** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **August 17, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

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

The bank's CRA performance depicts an outstanding practice of providing for the credit needs of its assessment area. This rating is supported by the following:

- An analysis of loan originations reveals a good penetration among agricultural borrowers of different revenues.
- A significant majority of loan originations since the last evaluation are within the bank's assessment area.
- The average net loan-to-deposit ratio reflects an excellent responsiveness to community credit needs.

DESCRIPTION OF INSTITUTION

First State Bank of Sinai is a commercial bank with \$12,218,000 in gross loans and \$14,345,000 in total assets as of the June 30, 1998, Report of Condition ("Call Report"). The bank's primary business focus is agricultural lending. Agricultural loans, including farmland real estate loans, comprise 90 percent of gross loans.

The bank's only office is located in Sinai, which is in Brookings County, South Dakota.

No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is approximately the western half of Brookings County and the northern and western portions of Lake County. This area is rural and consists of two block numbering areas (BNAs), both of which are classified as middle-income geographies. According to the 1990 Census, the population of the assessment area is 6,602. The area's population has grown somewhat over the years, largely due to the growth of the nearby city of Brookings.

The bank has several competitors in and near its assessment area. The area's economy is historically and still primarily agricultural; its crops consist largely of corn and soybeans. Livestock raised is mainly cattle and hogs. The 1992 agricultural census reports 653 farms with revenues over \$10,000 in Brookings County and 451 in Lake County.

According to the Bureau of Labor Statistics, the unemployment rate for Brookings County was 1.9 percent at the end of the first quarter of 1998, which is the same as the county's unemployment rate a year before. The Lake County unemployment rate decreased from 3.1 to 3.0 percent in the same period. Both counties have rates comparable to the South Dakota statewide rate of 2.7 percent, and both are fairly stable while the statewide rate is falling.

There are approximately 3,000 housing units in the assessment area of which 62 percent are owner-occupied. The median, owner-occupied home value in the area is approximately \$41,000 and the median age of the housing stock is 51 years. Approximately 13 percent of the assessment area's population is aged 65 and over, compared to 15 percent statewide.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The evaluation of the bank's lending performance is based upon the review of a sample of agricultural loans originated in the six months prior to the evaluation. The sample consisted of 38 loans totaling \$1,102,336 from a potential universe of 219 loans totaling \$4,619,196.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank has achieved a good penetration among agricultural borrowers of different sizes. The 1992 agricultural census information for Brookings and Lake counties was used for borrower distribution analysis. Farms with revenues below \$10,000 were considered "hobby" farms and were not included in the analysis. Table 1 provides information on how each revenue level is distributed in the two counties.

Table 1—Distribution by Farm's Revenue—Brookings and Lake Counties

Gross Revenue	Number	Percentage
\$10 – <\$25	264	23.9%
\$25 – <\$50	228	20.7%
\$50 – <\$100	240	21.7%
\$100 – <\$250	264	23.9%
\$250 – <\$500	65	5.9%
\$500+	43	3.9%
TOTALS	1,104	100.0%

Source: 1992 Agriculture Census Data.

Table 2 reflects the lending distribution of the agricultural loan sample reviewed. The analysis only includes the sampled loans which were originated within the assessment area.

Table 2—Loan Distribution by Borrower’s Revenue—Agricultural Loans

Gross Revenue	Number	Percentage	Dollar Volume	Percentage
\$10 – <\$25	2	5.5%	\$12	1.1%
\$25 – <\$50	6	16.7%	\$50	4.6%
\$50 – <\$100	6	16.7%	\$33	3.0%
\$100 – <\$250	17	47.2%	\$505	46.4%
\$250 – <\$500	2	5.6%	\$246	22.6%
\$500+	3	8.3%	\$243	22.3%
TOTALS	36	100.0%	\$1,089	100.0%

Source: FDIC sample from computer-generated loan trial balance. Dollars in 000s.

Lending in Assessment Area

The bank originates a significant majority of its loans within the assessment area. Specifically, 95 percent of the number and 99 percent of the dollar volume of sampled loans were made within the assessment area. This is reflective of the bank’s dedication to meeting the needs of its local community.

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio indicates an excellent responsiveness to area credit needs. The bank’s average loan-to-deposit ratio, based on 11 quarters since the last evaluation, is approximately 93 percent. The bank’s ratio has historically been at about that level and appears stable considering seasonal fluctuations. The bank uses FSA guaranteed loan programs for farmers who might not otherwise qualify for credit. While the bank does not originate loans to purchase residential real estate, the bank does assist their customers in obtaining such credit elsewhere.

Of the local competitors, six are similar to the bank in terms of size, asset structure, and loan products. The averages of these six institutions for the same quarters were 57 percent, 63 percent, 69 percent, 72 percent, 77 percent, and 84 percent. This demonstrates that the bank’s lending compares favorably to similarly situated lenders.

Geographic Distribution of Loans

The bank's assessment area is homogenous and contains no block numbering areas classified as low- or moderate-income geographies. Therefore, a geographic analysis of lending was not considered relevant and was not performed.

Response to Complaints

The bank has not received any CRA-related complaints since the last evaluation.

Compliance with Anti-discrimination Laws and Regulations

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.