

# **PUBLIC DISCLOSURE**

**January 19, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**State Bank of Moorhead  
34349**

**403 8th Street South  
Moorhead, Minnesota 56560**

**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 **State Bank of Moorhead, Moorhead, Minnesota**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **January 19, 1999**. 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 Satisfactory.

The State Bank of Moorhead has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

- \* The high loan-to-deposit ratio evidences the bank's responsiveness to the credit needs of the area.
- \* A majority of the sampled loans have been originated to borrowers residing within the boundaries of the assessment area.
- \* The loan sample revealed a reasonable penetration of credit to borrowers with low or moderate incomes and farms of different sizes.
- \* Evaluation findings indicate that credit is distributed throughout the various geographies in a manner consistent with the demographics of the area.

## DESCRIPTION OF INSTITUTION

The State Bank of Moorhead (SBM) is a commercial bank located in Moorhead, Minnesota. SBM opened for business on November 2, 1996. The sole office is located at 403 8th Street South in Moorhead. The bank also maintains a cash-dispensing automatic teller machine at the same location.

As of the September 30, 1998, Report of Condition, SBM had total assets of \$46,201,000 and total loans of \$42,147,000. The institution's loan portfolio appears commensurate with the orientation of the local community and is comprised of the following general product distribution: 57 percent agricultural loans, 22 percent commercial loans, 11 percent residential real estate loans, and 10 percent consumer loans. Aside from the statutory lending limit, the bank does not have any legal impediments that restrict its ability to meet the credit needs of the assessment area.

## DESCRIPTION OF STATE BANK OF MOORHEAD'S ASSESSMENT AREA

*Definition of Assessment Area: An area delineated by the financial institution that includes the geographies in which the bank has its main office, its branches, and other deposit taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The assessment area always consists of one or more whole census tracts (CTs) or block numbering areas (BNAs), which are subdivisions of counties in metropolitan and non-metropolitan areas, respectively.*

The bank's assessment area is comprised of the Fargo, ND/Moorhead, MN Metropolitan Statistical Area (MSA). The area includes Clay County in western Minnesota and Cass County in eastern North Dakota. The Fargo/Moorhead MSA contains 36 CTs. One CT (3.00) is considered a low-income area; 7 CTs (202.01, 202.02, 203.00, 5.00, 6.00, 7.00, and 101.03) are considered moderate-income areas; 24 CTs are listed as middle-income areas; and 4 CTs are considered upper-income areas.<sup>1</sup>

Census tract 3.00 primarily consists of the North Dakota State University campus and a small, older industrial area of Fargo. The moderate-income CTs in Moorhead (202.01, 202.02, and 203.00) are located in the downtown area. These CTs contain Moorhead's business district and some older residential areas. The bank's office is located in CT 203.00. Three of the moderate-income CTs located in Fargo (5.00, 6.00, and 7.00) are located in the downtown area which also consists of the business district and older residential areas. Census tract 101.03 is located on the

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<sup>1</sup>A geography's income is based on a percentage of the median family income (MFI) for the MSA. The breakdown is as follows: low income - less than 50 percent of the MFI; moderate income - 50 to 79.9 percent of the MFI; middle income - 80 to 119.9 percent of the MFI; upper income - 120 percent or more of the MFI. According to the 1990 Census, the MFI for the MSA was \$33,819.

west side of Fargo, and contains the West Acres Shopping Center retail area, the Fargo industrial park and landfill, several manufacturing businesses, and some single family and multi-family housing.

The MSA, while located in an agricultural dependent region, is somewhat diverse with many industries not related to agriculture. The area has two universities, one college, and one vocational college; three medical centers; central office for Blue Cross/Blue Shield of North Dakota; and is considered a major retail shopping area for the region.

The 1990 Census lists the total population of the MSA at 118,693. Unemployment is considered low. However, several sources, including previous community contacts made in the MSA, indicated that underemployment is more of a problem than unemployment. With the several secondary education institutions in the area, many graduates are forced to take positions outside their major or field of study in order to stay in the area. This has led to the underemployment problem.

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

Five criteria are utilized in evaluating a bank's effectiveness in meeting the financial needs of consumers and commercial entities located within the assessment area. Four of the criteria relate to lending performance and one addresses the bank's responsiveness to consumer complaints. The findings for each criterion are evaluated and result in an overall rating for Community Reinvestment Act performance. Comments supporting the conclusions for each performance criterion are detailed below.

### **I. Loan-to-Deposit Ratio**

To gauge the level of lending taking place at SBM, examiners reviewed the percent of deposits that have been reinvested as loans. To determine the reasonableness of this ratio, local demographic and economic data was reviewed, comparisons were made with similarly situated lenders, and the bank's financial capacity and constraints were determined.<sup>2</sup>

The bank's average net loan-to-deposit ratio from December 31, 1996, to September 30, 1998, was 93 percent. As of September 30, 1998, the bank's ratio was 99 percent. Since SBM opened,

total deposits have increased by 319 percent and total loans have increased by 327 percent. The

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<sup>2</sup>Similarly situated lenders were chosen based on similarities in the market served, product offering, ownership structure, asset size, and number of offices.

table below compares SBM to similarly situated lenders.<sup>3</sup>

<b>BANK CITY, STATE</b>	<b>TOTAL ASSETS</b>	<b>NET LOAN-TO-DEPOSIT RATIO</b>
State Bank of Moorhead Moorhead, Minnesota	\$46,201,000	93%
Union State Bank of Fargo Fargo, North Dakota	\$19,305,000	63%
Harwood State Bank Harwood, North Dakota	\$16,041,000	78%
First National Bank Hawley, Minnesota	\$37,405,000	86%
State Bank of Hawley Hawley, Minnesota	\$45,692,000	64%
The Northwestern State Bank of Ulen Ulen, Minnesota	\$54,470,000	81%
State Bank of West Fargo West Fargo, North Dakota	\$67,708,000	69%

SBM's high loan-to-deposit ratio is indicative of management's strong desire to reinvest depositor funds into loans that meet the legitimate credit needs of the assessment area.

## **II. Lending Within the Assessment Area**

The percentage of lending taking place within the assessment area was reviewed to determine the number and dollar volume of loans being reinvested locally. Examiners reviewed two types of loans for this analysis: agricultural loans and consumer loans. The agricultural loan review consisted of a sample of 41 loans totaling \$3,019,000 that were originated since December 31, 1997, while the consumer loan sample included 41 loans totaling \$466,433 originated during the same time period.<sup>4</sup> The table on the following page shows the findings of this analysis.

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<sup>3</sup>Source for all financial data: Statements of Report of Condition, December 31, 1996, to September 30, 1998. Total assets are from the September 30, 1998, Report of Condition.

<sup>4</sup>Conclusions drawn for this assessment criteria were based on statistical sampling procedures. Sample sizes are based on a 90 percent confidence interval, with a plus or minus 15 percent level of precision. In other words, there is a 90 percent chance that the results from the sample will be within 15 percent of the true population.

Loan Type	Location	Percent by Number	Percent by Dollar Amount
Agricultural Loans	IN	88%	87%
	OUT	12%	13%
Consumer Loans	IN	93%	96%
	OUT	7%	4%

As the table demonstrates, SBM's lending activities are concentrated within the assessment area. Overall, this level of performance speaks well of management's commitment to the communities that it serves.

### III. Lending to Borrowers of Different Incomes and Farms of Different Sizes

A review of the gross annual revenue of sampled agricultural borrowers, who were determined to be inside the assessment area, was conducted to ascertain whether the bank is extending credit to farms of all sizes. Examiners categorized each agricultural borrower based on their gross annual revenue and compared the findings to available demographic data from the 1992 Agricultural Census.<sup>5</sup> The table below shows the results of this analysis.

Annual Gross Revenue from Farming Operations	State Bank of Moorhead		1992 Agricultural Census	
	Percent by Number	Percent by Dollar	Cass County	Clay County
\$0M-\$99M	33%	26%	49%	61%
\$100M-\$249M	28%	13%	31%	23%
\$250M-\$499M	20%	23%	14%	11%
\$500M+	19%	38%	6%	5%

M=1,000

The above table reveals a reasonable pattern of lending to farms of all sizes. Approximately 61 percent by number and 39 percent by dollar volume of sampled loans were extended to farms having annual gross revenues below \$250,000. The 1992 Agriculture Census discloses that approximately 80 and 84 percent of the agricultural operations in Cass and Clay Counties, respectively, had annual gross revenues below \$250,000. It is likely that a number of those small farms either would not have required or would not have qualified for financing. Overall, SBM's level of lending to small farm operations appears to be reasonable. Examiners also reviewed the distribution of consumer loans among borrowers of different income

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<sup>5</sup>Borrower annual gross revenue figures were either obtained from loan file information or from management's estimates.

levels.<sup>6</sup> Of the 38 loans in the assessment area, 42 percent (by number) were originated to low- or moderate-income borrowers.

The table below contains additional information used to analyze the bank’s performance under this assessment criteria. Specifically, examiners compared the bank’s lending distribution to available demographic data for the assessment area.

<b>State Bank of Moorhead</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
Percent by Number	26%	16%	26%	32%
Percent by Dollar	12%	12%	19%	57%
<b>1990 Census: Families by Income Category</b>	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
Percent by Number	18%	18%	26%	38%

As the table above shows, SBM’s performance in lending to consumers of various income levels reasonably compares to the 1990 Census.

#### **IV. Geographic Distribution**

Examiners also reviewed the geographic distribution of the bank’s agricultural and consumer loans to ensure that credit products are penetrating the low- and moderate-income CTs of the assessment area.

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<sup>6</sup>The income level of a borrower is based on their gross income as a percent of the 1998 MFI for the MSA. The breakdown is as follows: low income - less than 50 percent of the MFI; moderate income - 50 to 79.9 percent of the MFI; middle income - 80 to 119.9 percent of the MFI; upper income - 120 percent or more of the MFI. In 1998, the U.S. Department of Housing and Urban Development estimated the MFI of the Fargo/Moorhead MSA at \$46,400.

	Low- Income CTs	Moderate- Income CTs	Middle- Income CTs	Upper- Income CTs
ASSESSMENT AREA: Population by Percent	3%	19%	67%	11%
CONSUMER LOANS:				
Percent by Number	NA	14%	70%	16%
Percent by Dollar	NA	8%	60%	32%
AGRICULTURAL LOANS:				
Percent by Number	NA	NA	92%	8%
Percent by Dollar	NA	NA	91%	9%

SBM has a reasonable geographic distribution of agricultural and consumer loans to areas of different income levels given the demographics of the area. The lack of agricultural lending in the low- and moderate-income CTs is not a concern as these CTs are all located within the city limits of Fargo/Moorhead. As previously stated, the bank's office is located in CT 203, which is a moderate-income area.

#### **V. Response to CRA Complaints**

No CRA-related complaints have been received.

#### **Compliance with Antidiscrimination Laws**

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.