

# **PUBLIC DISCLOSURE**

**June 15, 2004**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First State Bank of Gackle  
Certificate Number 09419**

**325 Main Street  
P. O. Box 374  
Gackle, North Dakota 58442-0374**

**Federal Deposit Insurance Corporation  
2345 Grand Boulevard, Suite 1200  
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.

**TABLE OF CONTENTS**

I. General Information.....1

II. Institution Rating .....1

III. Description of Institution.....2

IV. Description of Assessment Area .....2

V. Conclusions with Respect to Performance Criteria .....4

## 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 Gackle, Gackle, North Dakota, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of June 15, 2004. 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.

First State Bank of Gackle has demonstrated a satisfactory commitment to community reinvestment that is supported by the following conclusions.

- A substantial majority of the agricultural loans originated by the bank are within the bank's assessment area, reflecting an excellent commitment to meeting the credit needs of the assessment area.
- An analysis of agricultural loans revealed an adequate distribution of loans among farms of different sizes.
- The bank's average net loan-to-deposit ratio reflects an adequate willingness to provide credit given the institution's size, financial condition, and community credit needs.

## DESCRIPTION OF INSTITUTION

First State Bank of Gackle’s main office is located in Gackle, North Dakota, and its full service branch facility is located in Jud, North Dakota. As of March 31, 2004, the institution’s total assets equaled \$27,651,000, of which total loans represented \$12,439,000. The bank’s largest loan product by dollar volume is agricultural loans (including agricultural real estate and agricultural production loans), which represents 87 percent of total loans. The primary business focus of the bank is agricultural lending. This appears commensurate with the credit needs of the local area, which is heavily dependent on agriculture.

The bank is owned by Hunter Holding Company, Hunter, North Dakota, a three-bank holding company. The institution is not subject to any financial or legal impediments that would limit its ability to help meet the credit needs of its assessment area. The bank sells participations to other financial institutions; however, the volume of loan participations sold does not impact this evaluation. The bank was rated Satisfactory at the previous CRA Performance Evaluation dated July 12, 1999.

## DESCRIPTION OF ASSESSMENT AREA

The bank’s assessment area includes all of Logan County and portions of La Moure and Stutsman Counties, North Dakota. The assessment area contains three census tracts. The census tracts are classified as non-metropolitan areas of North Dakota. The bank is located in census tract 9725 in Logan County, and the Jud branch is located in census tract 9722 in La Moure County. The assessment area is primarily a rural, agricultural area, which encompasses several small towns, including Gackle, Streeter, Jud, Napoleon, Medina, and Edgeley.

The three census tracts in the assessment area are classified as middle-income census tracts. Census tract designations are based on the 2000 U.S. Census median family income (MFI) for the non-metropolitan area of North Dakota, which is \$39,663. A breakdown of income levels for the census tracts within the non-metropolitan area of North Dakota is presented in Table 1.

<i>Table 1 – Census Tract Income Levels</i>		
<i>Census Tract Income Level</i>	<i>Percent of MFI</i>	<i>Non-metropolitan North Dakota MFI</i>
<i>Low</i>	< 50%	< \$19,832
<i>Moderate</i>	50% to < 80%	\$19,832 to < \$31,730
<i>Middle</i>	80% to < 120%	\$31,730 to < \$47,596
<i>Upper</i>	120% and over	\$47,596 and over

*Source: 2000 U.S. Census.*

Based on information from the 2000 U.S. Census, the populations in Logan, La Moure, and Stutsman Counties are steadily declining. These populations have declined 18.9 percent, 12.7 percent, and 1.5 percent, respectively, since the previous 1990 U.S. Census.

According to the 2002 Census of Agriculture, the average farm size in Logan, La Moure, and Stutsman Counties is 1,206 acres, which is comparable to the statewide average of 1,283 acres. The nationwide average farm size is 441 acres. The United States Department of Agriculture reported in 2000 that the average farm size in North Dakota was increasing in acreage while the total number of farms was decreasing, which indicates that many farms are consolidating. There are 2,054 total farms in Logan, La Moure, and Stutsman Counties. Of these, 71 percent had gross annual revenues of less than \$100,000.

The North Dakota Agricultural Statistics Service revealed the primary crops in the Logan, La Moure, and Stutsman Counties are wheat, soybeans, and sunflower as of May 2004. The highest yielding crops in the area are canola, corn, soybeans, and sunflower. Prices have increased for all crops between May 2003 and May 2004 and are expected to remain high.

Management stated that the bank's primary competitors include State Bank of Streeter, Streeter, North Dakota; Northland Financial, Medora, North Dakota, a branch of Steele, North Dakota; First Community Credit Union, Jamestown, North Dakota; Security State Bank of North Dakota, Jamestown, North Dakota, a branch of Hannaford, North Dakota; and Stutsman County State Bank, Jamestown, North Dakota. First State Bank of Gackle is the only financial institution located in either Gackle or Jud.

Examiners contacted a representative of the local community (community contact) to obtain a profile of the community, identify community development opportunities and general credit needs, and assess opportunities for participation by local financial institutions. The community contact discussed the general economic conditions for farms in the assessment area and indicated that the economy for local agriculture has been depressed as a result of several years of low prices and poor crops. However, with current prices for livestock on the rise, the outlook for this year is hopeful as 60-70% of farms are running livestock or a combination of livestock and some crop. The contact further stated that as an aging farmer population is selling off land, there has been a recent trend of buyers to convert the land from farm to recreational uses. The contact felt that the credit needs of farmers in the area are being met and was not aware of any discriminatory practices by area financial institutions.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Conclusions with respect to the following performance criteria, *Lending in Assessment Area* and *Lending among Farms of Different Sizes*, are based on review of the institution’s loan portfolio. Examiners reviewed agricultural loans (including agricultural real estate and agricultural production loans), which comprise 87 percent of the loan portfolio. During the evaluation, examiners sampled loan transactions originated over the past 12 months to determine the bank’s performance. The agricultural loan sample for the assessment area consisted of 37 loans with an original balance of \$1,793,931, from a universe of 201 loans totaling \$8,956,929.

### a) Lending in Assessment Area

A substantial majority of the agricultural loans originated by the bank are within the bank’s assessment area, reflecting an excellent commitment to meeting the credit needs of the assessment area.

Of the 37 agricultural loans reviewed, 34, or 92 percent, were originated within the assessment area. The 34 loans inside the assessment area represent 90 percent of the dollar volume of loans.

### b) Lending Among Farms of Different Sizes

An analysis of agricultural loans revealed an adequate distribution of loans among farms of different sizes. Only loans originated within the assessment area are included in the analysis.

Table 2 shows the distribution of the agricultural loan sample among farms of varying sizes based on gross farm revenue levels. Table 2 also shows the number and percentage of farms, by gross farm revenue, located in Logan, La Moure, and Stutsman Counties based on the 2002 Census of Agriculture. As noted under *Description of Assessment Area*, the bank’s assessment area includes all or portions of these counties. However, agriculture census data is only available on a county level; therefore, the number of farms shown in Table 2 will be higher than the number of farms actually within the assessment area.

<i>Table 2 – Distribution of Farm Loans by Gross Annual Farm Revenue</i>						
<i>Size (Gross Annual Revenue of the Farm)</i>	<i>Number and Percentage of Farms in Logan, La Moure, and Stutsman Counties by Sales Volume</i>		<i>Number of Loans</i>	<i>Percent of Total Number of Loans</i>	<i>Dollar Amount of Loans</i>	<i>Percent of Dollar Amount of Loans</i>
<i>&lt; \$100,000</i>	1,461	71%	12	35%	\$223,427	14%
<i>\$100,000 to &lt; \$250,000</i>	335	16%	13	38%	\$667,164	41%
<i>\$250,000 to &lt; \$500,000</i>	162	8%	7	21%	\$284,840	18%
<i>≥ \$500,000</i>	96	5%	2	6%	\$446,500	27%
<i>TOTALS</i>	2,054	100%	34	100%	\$1,621,931	100%

*Source: 2002 Census of Agriculture and bank data.*

The bank achieved an adequate loan penetration among farms of different sizes. The 2002 Census of Agriculture indicates that 48 percent of all farms in Logan, La Moure, and Stutsman Counties did not report any interest expense, which increased from the previous 1997 Census of Agriculture, which was 34 percent. These statistics demonstrate that there is an increasing trend in farm operations with little or no credit needs.

The 2002 Census of Agriculture also shows that 444 farms, or 22 percent, in Logan, La Moure, and Stutsman Counties worked less than 150 days, indicating that many farmers are hobby or part-time farmers and have very small farm operations. Management stated that a majority of the bank's lending is to smaller farm operations, but that there is an increasing trend in farm consolidation and growth. Management also indicated that many farms with total gross farm revenues of \$100,000 or less are part-time or hobby farmers who have little or no borrowing needs, which is reflective of Census of Agriculture statistics.

#### **c) Loan-to-Deposit Ratio**

The bank's average net loan-to-deposit ratio (ratio) reflects an adequate willingness to provide credit given the bank's size, financial condition, and community credit needs. The bank's ratio, based on 19 quarters since the previous evaluation, is 65 percent. During the period, the ratio has been as low as 50 percent on March 31, 2004, and as high as 80 percent on September 30, 2002. Management indicated that these variances are due to the cyclical borrowing needs of agricultural borrowers.

#### **d) Geographic Distribution of Loans**

This performance criterion was not analyzed since all three of the tracts representing the bank's assessment area are middle-income geographies, which are homogenous in nature, and would not be meaningful to this evaluation.

#### **e) Response to CRA-Related Complaints**

Neither the bank, nor the Federal Deposit Insurance Corporation, has received any CRA-related complaints since the last evaluation.

#### **f) 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.