

PUBLIC DISCLOSURE

June 15, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**State Bank of Streeter
Certificate Number 15040**

**101 North Florence Street
P. O. Box 157
Streeter, North Dakota 58483-0157**

**Federal Deposit Insurance Corporation
2345 Grand Boulevard, Suite 1200
Kansas City, North Dakota 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 Streeter, Streeter, 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.

State Bank of Streeter, Streeter, North Dakota, has demonstrated a satisfactory commitment to community reinvestment that is supported by the following conclusions.

- All of the farm 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 sampled farm loans reveals a reasonable distribution of loans among farms of different sizes.
- The geographic distribution analysis of lending reflects a good dispersion of farm loans among the census tracts within the assessment area.
- The bank's average net loan-to-deposit ratio (ratio) reflects a reasonable willingness to provide credit given the bank's size, financial condition, and community credit needs.

DESCRIPTION OF INSTITUTION

State Bank of Streeter's sole office is located at 101 North Florence Street, Streeter, North Dakota. As of March 31, 2004, the institution's total assets equaled \$8,082,000 of which total loans represented \$5,100,000. The bank's largest loan products by dollar volume are agricultural loans (agricultural real estate and agricultural production), which represents 78 percent of total loans. Bank management indicated that the bank's primary credit focus continues to be agricultural lending. A distribution of the bank's entire loan portfolio is reflected in Table 1.

<i>Table 1 – Loan Distribution as of March 31, 2004</i>		
<i>Loan Type</i>	<i>Dollar Amount (000s)</i>	<i>Percent of Total Loans (%)</i>
<i>Construction and Land Development</i>	\$ 0	0%
<i>Secured by Farmland</i>	\$ 1,541	30%
<i>1-4 Family Residential Real Estate</i>	\$ 33	1%
<i>Multifamily (5 or more) Residential</i>	\$ 16	0%
<i>Commercial Real Estate</i>	\$ 0	0%
<i>Commercial and Industrial</i>	\$ 641	13%
<i>Agriculture</i>	\$ 2,472	48%
<i>Consumer</i>	\$ 397	8%
<i>All Other</i>	\$ 0	0%
<i>Total Loans Net of Unearned Income</i>	\$ 5,100	100%

Source: March 31, 2004, Report of Condition.

The bank is wholly owned by Streeter Insurance Agency, Inc., Streeter, North Dakota, a one-bank holding company. The bank does sell and purchase loan participations; however, these loans did not significantly impact the overall findings of this evaluation. The institution is not subject to any financial or legal impediments that would impede its ability to help meet the credit needs of its assessment area. The bank was rated Outstanding at the previous CRA Performance Evaluation dated July 6, 1998.

DESCRIPTION OF ASSESSMENT AREA

The bank has defined its assessment area as comprising all of Logan County, the southern half of Kidder County, and the south-west quarter of Stutsman County. The assessment area consists of census tracts 9725, 9667, and 9672, hereafter also referred to as tracts or geographies. The assessment area is part of the non-Metropolitan Statistical Area (non-MSA) of North Dakota. Based on the 2000 U.S. Census, the bank facility is located in census tract 9672, which comprises all of Streeter. The assessment area is rural with an agricultural-based economy and encompasses many small towns widely dispersed across the three counties, including Gackle, Medina, Napoleon and Tappen. According to the 2000 Census, Napoleon has the largest concentration of population (857) in the assessment area.

Production of agriculture is the primary industry within the bank's assessment area and the industry continues to undergo consolidation with larger farms remaining. According to the 2002 Census of Agriculture, the average size of a farm located in Logan, Kidder, and Stutsman Counties increased in size from 1,275 acres to 1,296 acres from 1997 to 2002.

The agricultural industry in the assessment area is divided between row crop farming (soybeans, corn, and wheat) and livestock production (mostly cow/calf operations). According to management, the current agriculture economy continues to be depressed; however, the value of farm real estate has been increasing. Although bank management believes that land values have peaked, management also believes the increased values will be sustained. Management stated that the bank has few competitors for agricultural loans, as there is very little movement among customers, and the other banks in the assessment area do not actively seek loan customers outside their local areas. Farm Services Agency also takes an active role in agricultural lending in the area, however, bank management does not view them as a competitor, as the bank participates in the guarantee loan program of the Farms Services Agency (FSA) and currently has 18 FSA guaranteed loans outstanding in the amount of \$1,527,732.

Using 2000 Census data, the bank's assessment area has one moderate-income tract and two middle-income geographies. These classifications are based on the 2000 U.S. Census median family income (MFI) for non-metropolitan North Dakota, which is \$39,663. Unless otherwise stated, all demographic information presented is from the 2000 U.S. Census. A breakdown of income levels for the census tracts within the non-MSA are presented in Table 2.

<i>Table 2 – 2000 Census Tract Income Levels</i>		
<i>Geography 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

Data Source: 2000 U.S. Census.

The assessment area population is 6,969 and comprises 2,002 families. Of the families in the assessment area, 23 percent are low-income families, 21 percent are moderate-income families, 24 percent are middle-income families, and 32 percent are upper-income families.

Other Demographic Information

During the evaluation, examiners contacted a representative from the assessment area (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 is depressed following 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 to 70 percent of the farms are running livestock or a combination of livestock and some crop. The contact indicated that it is very difficult to make a living without some off-farm income and that at least 50 to 60 percent of the farmers have some sort of off-farm income. The contact further stated that it is no longer possible to make “a go” of farming with less than 1,300 acres, making it difficult for young farmers to enter the market as the price of land has risen to a new high. As a result, the area is losing younger people and the average age of farmers is increasing. The contact further stated that as an aging farmer population is selling off their 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 are being met. The contact 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, Lending among Farms of Different Sizes, and Geographic Distribution of Loans* are based on review of the institution's loan portfolio. Examiners reviewed agricultural loans (including agricultural real estate and agricultural production loans), comprising 78 percent of the loan portfolio. All loans were analyzed using 2000 U.S. Census data.

Examiners sampled loan transactions originated during the six months preceding the evaluation to determine the bank's performance. The agricultural loan universe consisted of 89 loans totaling \$2,779,413. The agricultural loan sample consisted of 29 loans with an original balance of \$672,813.

a) Lending in Assessment Area

All 29 of the farm 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.

b) Lending among Farms of Different Sizes.

An analysis of sampled farm loans reveals a reasonable distribution of loans among farms of different sizes.

Table 3 shows the distribution of the agricultural loan sample among farms of varying sizes based on gross annual farm revenue levels. Table 3 also shows the percentage of farms, by annual gross farm revenue, located in Kidder, Logan and Stutsman Counties based on the 2002 Census of Agriculture data.

<i>Table 3 – Distribution of Farm Loans by Gross Annual Farm Revenue</i>					
<i>Gross Annual Revenue of the Farm</i>	<i>Percentage of Farms in Kidder, Logan 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>< \$100,000</i>	<i>75%</i>	<i>10</i>	<i>35%</i>	<i>\$ 148,693</i>	<i>22%</i>
<i>\$100,000 to < \$250,000</i>	<i>15%</i>	<i>16</i>	<i>55%</i>	<i>\$ 406,612</i>	<i>60%</i>
<i>\$250,000 to < \$500,000</i>	<i>7%</i>	<i>3</i>	<i>10%</i>	<i>\$ 117,508</i>	<i>18%</i>
<i>≥ \$500,000</i>	<i>3%</i>	<i>0</i>	<i>0%</i>	<i>\$ 0</i>	<i>0%</i>
<i>TOTALS</i>	<i>100%</i>	<i>29</i>	<i>100%</i>	<i>\$ 672,813</i>	<i>100%</i>

Source: 2002 Census of Agriculture and bank data.

The bank achieved a reasonable loan penetration among farms of different sizes. The bank originated only 35 percent of its agricultural loans to farms with gross annual farm revenue of

less than \$100,000, which is considerably less than the percentage of farms in that revenue category. However, as noted under *Description of Assessment Area*, the bank’s assessment area includes portions of two of the three counties, while the 2002 Census of Agriculture data is only available on a county level. Therefore, the number of farms used to arrive at the percentage of farms by sales volume in Table 3 is greater than the actual number of farms within the bank’s assessment area. In addition, the 2002 Census of Agriculture indicates that 48 percent of farm operations with sales of less than \$100,000 did not report any farm interest expense for the three counties, indicating limited borrowing needs. Furthermore, 79 percent of the farms in the three counties receive some sort of government payments, with payments averaging \$10,951 per farm, also limiting borrowing needs. Overall, the bank is meeting the borrowing needs of small farm operations.

c) Geographic Distribution of Loans

Table 4 shows the distribution of agricultural loans among geographies of different income levels. In addition, the table includes the percentage of assessment area farms within each income level according to 2000 U.S. Census boundaries. Table 4 also shows the percentage of farms located in the assessment area based on the 2003 D&B business demographic data.

<i>Table 4 – Distribution of Agricultural Loans by Geography Income Category</i>					
<i>Geography Income Category</i>	<i>Percent of Assessment Area Farms</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>Low</i>	<i>0%</i>	<i>0</i>	<i>0%</i>	<i>\$0</i>	<i>0%</i>
<i>Moderate</i>	<i>16%</i>	<i>9</i>	<i>31%</i>	<i>\$202,359</i>	<i>30%</i>
<i>Middle</i>	<i>84%</i>	<i>20</i>	<i>69%</i>	<i>\$470,454</i>	<i>70%</i>
<i>Upper</i>	<i>0%</i>	<i>0</i>	<i>0%</i>	<i>\$0</i>	<i>0%</i>
<i>TOTALS</i>	<i>100%</i>	<i>29</i>	<i>100%</i>	<i>\$672,813</i>	<i>100%</i>

Source: 2003 D&B business demographic data based on 2000 Census boundaries & bank data.

The geographic distribution analysis of lending reflects a good dispersion of farm loans among the census tracts within the assessment area, considering demographic information and the location of the bank’s office within the assessment area. Agricultural census data is not available on an individual census tract level. Therefore, examiners were not able to compare the bank’s lending to the number or percent of farms located in each census tract.

According to 2000 Census boundaries, the bank’s office is located in census tract 9672, one of the two middle-income census tracts in the assessment area. The third census tract in the assessment area is classified as moderate-income. The bank’s percentage of loans made to borrowers in moderate-income geographies significantly exceeds the percent of moderate-income tracts within the bank’s assessment area. The bank’s agricultural lending reflects a good dispersion among the census tracts within the bank’s assessment area.

d) Loan-to-Deposit Ratio

The bank's average net loan-to-deposit ratio (ratio) reflects a reasonable willingness to provide credit given the bank's size, financial condition, and community credit needs. The bank's ratio, based on 23 quarters since the previous evaluation, is 76 percent. During that period, the bank's ratio fluctuated from a low of 76 percent as of March 31, 2004, to a high of 103 percent as of June 30, 2001.

e) Response to CRA-Related Complaints

Neither the bank, nor the Federal Deposit Insurance Corporation, has received a CRA-related complaint 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.