



## **PUBLIC DISCLOSURE**

November 30, 1998

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

The First National Bank of Freeman  
Charter Number 6181  
Fourth and Poplar Streets  
Freeman, South Dakota 57029

**Office of the Comptroller of the Currency  
Sioux Falls Field Office  
300 North Dakota Avenue, Suite 504  
Sioux Falls, South Dakota 57101**

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.

## GENERAL INFORMATION

*The Community Reinvestment Act 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 **The First National Bank of Freeman, Freeman, South Dakota**, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **November 30, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated “Satisfactory.”

- The First National Bank of Freeman meets the credit needs of the community, as demonstrated by its average loan-to-deposit ratio of 47% since the bank’s prior CRA examination. This ratio continues to steadily increase.
- A majority of agricultural loans by both number (85%) and dollar volume (89%) are located within the bank’s defined assessment area.
- The bank lends to farms of various sizes and to individuals of different income levels, including low- and moderate-income borrowers.

## DESCRIPTION OF INSTITUTION

The First National Bank of Freeman (FNB) is a \$50 million subsidiary of The First Freeman Corporation, a one-bank holding company. The bank's main office is a full-service facility located in downtown Freeman, South Dakota. The bank also has a cash dispensing automated teller machine located in a Freeman convenience store.

FNB's business focus is agricultural lending. Loans represent 47% of total assets. The bank's Report of Condition (Call Report) shows the following outstanding loans by dollar volume on September 30, 1998: agricultural (61%), commercial (18%), residential (11%) and consumer (10%).

FNB received a "Satisfactory" rating at its July 27, 1994, CRA examination. There are no legal impediments or other factors, including the financial condition of the bank, which limit its ability to perform in accordance with CRA regulations.

## DESCRIPTION OF ASSESSMENT AREA

FNB defined its assessment area as Turner County and the eastern one-half of Hutchinson County. The population of the assessment area is 12,275, according to 1990 U.S. Census Data. The assessment area includes the towns of Freeman, Menno, Dolton, Monroe, Marion, Parker, Chancellor, Turkey Ridge, Hurley, Clayton, Viborg, Centerville, and Davis. No part of the assessment area is located in a metropolitan statistical area (MSA).

The 1998 non-MSA median family income (MFI) is \$36,800 for South Dakota. Approximately 10% of families have income below the poverty level (< 30% of MFI). The following summarizes the income levels of individual block numbering areas (BNAs) and families located within the bank's assessment area:

	<u># BNAs</u>	<u>Percentage of Families</u>
Low Income (<50% Non-MSA MFI)	0	19%
Moderate Income (50-79%)	0	19%
Middle Income (80-119%)	3	26%
High Income (120+%)	0	36%

FNB's assessment area meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

Median housing value is \$24,204 according to 1990 U.S. Census Data. Owner occupied housing comprises 69% of all housing units, with 20% rental occupied. Building activity in Freeman has been minimal. From 1990 through 1996, the city issued only 10 permits for one- to two-family residences and two permits for multi-family residential properties.

Unemployment is low at 1.1% in Hutchinson County and 1.8% in Turner County as of October 1998. Major industries include agriculture, services, and light manufacturing. Large employers in Freeman include Freeman Hospital (130 employees), Freeman Public Schools (70), AMPI (50), Fensel's (50), and Wildcat Manufacturing (35).

Competition for loans in the Freeman area is strong. Financial institutions in Freeman include two banks and a branch of a Sioux Falls savings and loan. FNB also competes against governmental agencies (Farm Credit Services) and private finance companies (John Deere Credit, General Motors Acceptance Corp., etc.) for loans.

As part of our review, we contacted a local grain elevator and an economic development organization. Both community contacts indicated that low prices for agricultural products are affecting both farmers and local businesses this year. However, the farm economy has been relatively strong during the past few years, allowing most farmers to improve financially. The retail sector in Freeman continues to face heavy competition from neighboring Sioux Falls and Yankton. We did not identify any unmet credit needs in FNB's assessment area. Community contacts and other information indicate a relatively stable economy with financial institutions willing and able to provide all types of credit.

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

### Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average net loan-to-deposit ratio was 47.13% from September 30, 1994, through September 30, 1998. FNB's net loan-to-deposit ratio is on an increasing trend over the last 17 quarters, steadily increasing from 39% to 53% during that time period. Loan growth has averaged nearly 18% per year for the last five years.

FNB's net loan-to-deposit ratio is comparable to other community banks of similar asset size (\$25 to \$55 million) and business focus (agricultural) in the assessment area. Five other similarly-situated banks had quarterly average net loan-to-deposit ratios ranging from 42% to 86% and averaging 68% over the same time period.

### Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its assessment area. Of agricultural loans outstanding as of October 31, 1998, about 85% by number and 89% by dollar volume were made for farms and farm real estate located within the assessment area. Of consumer loans outstanding as of October 31, 1998, about 69% by number and 65% by dollar volume were made to individuals located within the assessment area.

We used bank-generated reports to determine the location of loan customers. We verified this data for accuracy using zip codes and county plat maps.

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, the distribution of borrowers reflects reasonable penetration among farms of different sizes and individuals of different income levels. We completed analysis on agricultural and consumer loans as they represent 58% and 31%, respectively, of the total number of loans originated since the prior CRA examination.

FNB lends to farms of all sizes. Examiners sampled 100% of the 207 current farm loan customers. It is the bank's policy that loans of less than \$50,000 do not require income information. Ninety-one (44%) of the 207 customers have farm debt of less than \$50,000. An additional 15 files did not have income information for various other reasons. The following table summarizes those farm loan customers providing income information by revenue size:

<u>Farm Annual Revenues</u>	<u>Farm Loans By Number</u>	<u>% of Farm Loans By Number</u>	<u>Agriculture Census (1992)</u>
<\$ 25,000	6	6%	30%
\$ 25,000-\$ 50,000	11	11%	19%
\$ 50,000-\$100,000	23	23%	23%
\$100,000-\$250,000	51	50%	22%
\$250,000-\$500,000	9	9%	4%
>\$500,000	1	1%	2%
Totals	101	100%	100%

The bank's percentages of loans to farms with revenues of less than \$50,000 (17%) is less than the demographics identified by the 1992 Agriculture Census for Hutchinson and Turner Counties (49%). By proxy, we estimated that the 91 customers with total farm debt of less than \$50,000 also have average annual revenues of less than \$50,000. Adding these customers to this revenue category increases the bank's percentage to 56%, which exceeds the assessment area demographics of 49%.

By proxy, the bank's consumer loans meet the credit needs of individuals with various income levels, including low- and moderate-income individuals. We noted numerous consumer loans with origination amounts of less than \$1,000. The average origination amount of the bank's consumer loans is \$5,200. We used loan size as a proxy of income because loan officers seldom obtain income information on consumer loans.

#### Geographic Distribution of Loans

Geographic distribution analysis is not meaningful as all BNAs are middle-income.

#### Response to Complaints

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

### **FAIR LENDING REVIEW**

Our review of automobile loan terms did not identify any substantive violations of antidiscrimination laws and regulations based on gender. Fair lending policies, practices, and training are adequate.