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Summary of Findings

1. The information provides a list of active commercial lenders that offer small business loans (< \$1 million) and business microloans (<\$100,000). This list can be used to identify banks as partners/competitors in the twenty-two county and five county areas.
2. The household economy is presented using credit card information. Debt and utilization rates are presented which can be used to segment households.
3. Population growth patterns (+/-) shows the twenty-two county area in decline and the five county area on a population increase.
4. Lending markets can be broken down several ways. There are areas of lending and types of loans. In one NESDEC model, partnering with banks uses the bank as marketer. Targeted increase in establishing those relationships will increase deal flow.
5. Overall sector lending will focus on retail, construction, health care, accommodations and food service.
6. Types of loan will be: start-up capital, business expansion, lines of credit and guarantor.
7. There seems to be little agreement on the impact of oil and food prices on loan demand. None of the individuals we interviewed predicted a loan meltdown, but most are uncertain regarding an increase on loan demand in the next 12-24 months. There is some agreement that the increase in food prices would be good for the agricultural economy and good for lenders in this sector.
8. Microloans may require NESDEC to identify the business opportunity for the borrower through increased customer awareness.
9. We provide a May 29, 2008 *Employer Report* for each county, listing the largest employers in the county, new businesses and additional information on these businesses. This information comes from the South Dakota's Governor's Office of Economic Development. For instance, in Beadle County the report lists 31 businesses, ranging from three to 435 employees.

Secondary Research

1. The 2000-2007 state population growth rate is 5.5% . The growth rate of the 22 county area is -5.6%. In the 22 county area only Buffalo County (3.9%) and Codington County (1.8%) show a positive growth rate.
2. In the proposed 5 county area, the growth rate is 1.6%. Three of the 5 counties show a positive population growth.
3. If NESDEC is to look at credit card activity as a weak surrogate for business activity: the county with the highest percentage of the population with a credit card is Lake. The county with the lowest percentage of the population with a credit card is Deuel. The counties with the most accounts per holder are: Hyde and Buffalo. The counties with the fewest accounts per holder are: Sanborn and Kingsbury.
4. In the 22 county area, the average credit card utilization rate is 20.8%. In the 5 county area, the average credit card utilization rate is 21.4%.
5. in the 22 county area, Brown and Codington have the most fringe financial services. Eighteen counties show no fringe financial services. In the 5 county area, Brookings has the most fringe financial services, while Deuel, Hamlin and Moody have none.
6. Of the top 108 banks in the U.S. engaging in small business and microloans for businesses, none list their headquarters state or territory as South Dakota.
7. For 2006, the SBA lists 36 banks as having a presence in the 27 county area. For these banks:
 - loans to small business (\$):
mean: \$22,143,806
median \$5,532,500
 - total loans to small business (#):
mean: 276
median: 97
 - micro business loans to small business (\$):
mean \$5,758,441
median: \$1,589,500
 - total micro business loans to small business (#):
mean: 201
median 68

8. Business establishments: *22 county area*
All sectors: total # businesses: 247
All sectors:
mean # employees: 2,452
median # employees: 1,031

5 county area
All sectors: total # businesses: 247
All sectors:
mean # employees: 282
median # employees: 3,935
9. The industry sectors where the majority of establishments operate and employees are working, generally are: retail trade, construction, and other services.
10. **Appendix One** provides findings based on twenty interviews we conducted.

Interviews

1. Not all interviewees indicated that there are lending gaps. If gaps exist, there is a perceived lending gap for microloans, however one defines these. Bankers particularly failed to see many lending gaps. One gap that was identified was longer term start-up financing.
2. Of equal importance is the need for technical assistance for all types of small businesses, as a prelude to capital infusion, be it debt or equity. The research indicates that small businesses comprise the majority of existing businesses in both the 22 county and the 5 county areas. As such, there is a general consensus that many of these businesses know their business niche, but not the basics of running a business.
3. The SBA is not highly regarded. Their programs are seen as cumbersome and bureaucratic.
4. There is a sense from the interviews that there will be growth in businesses supporting the local economy (compared to businesses exporting their products). Additionally, most of the individuals we interviewed pointed to a perceived demand for start-up capital, but little unmet demand for other types of lending.
- 5.
6. The typical size of commercial loans for the bankers we spoke with was \$100,000.
7. Bankers in the proposed five county area are very receptive to working with NESDEC.

8. Nonprofit partners we spoke with do not anticipate a change in their lending patterns in the next 12-24 months.
9. NESDEC is seen by nonprofits, banks and state officials as highly competent, creative and responsive. It is perceived as the type of organization to emulate.
10. Much of the bank lending is agricultural-related. Most bankers acknowledge that their sphere of industry expertise ends with this sector; hence, they often have a difficult time addressing the capital and debt requirements of non-agricultural business because they don't know the industry.
11. The national credit crunch appears to have had little impact on lending from the perspective of the banks. There is a general consensus that because crop prices are climbing, agricultural loan demand will not be adversely impacted, nor will capital availability.

Background

We were asked by the North East South Dakota Economic Corporation (NESDEC) to conduct a market analysis for the twenty-two counties in their current service area and for an additional five counties – areas in which NESDEC may have an interest in expanding. The research items are:

- amount of Federal dollars coming into the counties that are used by intermediaries for loans
- levels and types of current and projected commercial banking (and other loan/equity types if available) activity, by county and service area, if available
- business organization numbers (types, employees, spheres of operation), both current and trended
- extent and types of “fringe” financial services in the target (areas)
- credit card activity
- what types of businesses would benefit most from NESDEC lending – where are the opportunities and where are the existing gaps?
- available expert opinions on economic outlook for service area and projected new area.

Demographics

Population

In this report, we divide the twenty-seven counties into two groups: the twenty-two counties in the existing service area and the five counties in the proposed service area.

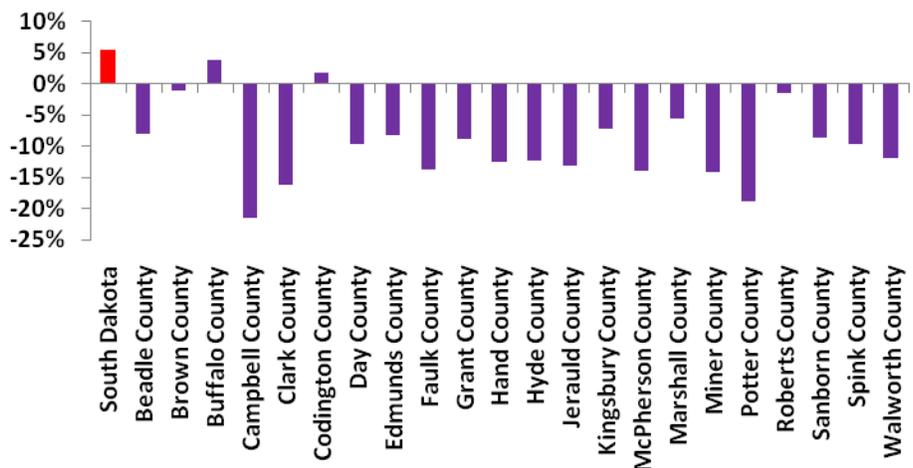
Attachment One at the end of this report provides the names of the counties.

Attachment Two at the end of this report shows actual population numbers and estimates.

We produce a chart that shows growth rates in each county from 2000-2007.

- the state had a 5.5% growth rate
- the growth rate of 22 counties is -5.6%
- in the 22 county area only Buffalo County (3.9%) and Codington County (1.8%) show a positive growth rate

Population Change (2000-2007)



- the growth of the 5 county area is 1.6%
- in the 5 county area, 3 of the 5 counties show a positive growth rate: Brookings County (3.6%), Lake County (2.2%) and Hamlin County (1.5%).

Credit Card Activity

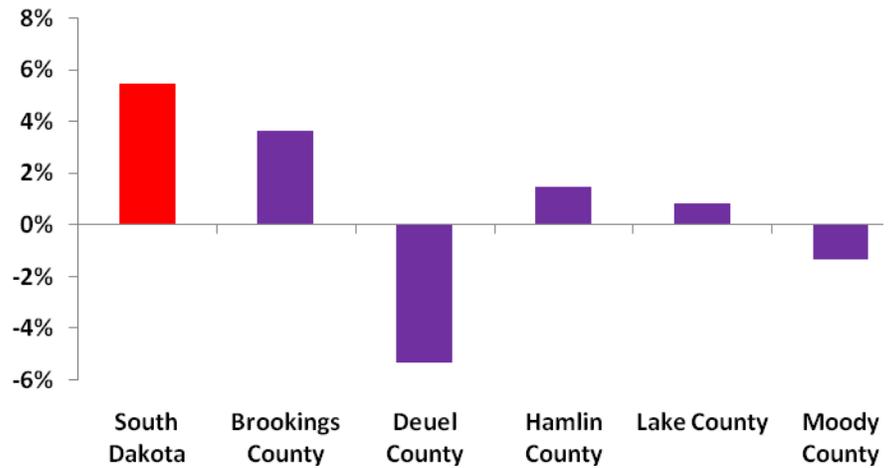
Axcion Express provided raw credit card data¹. We look at several aspects of this data.

First, we look at unique individuals within a county who have at least one credit card account and divide this number by the total county population in order to get a rough per capita credit card allocation. The charts below show this information.

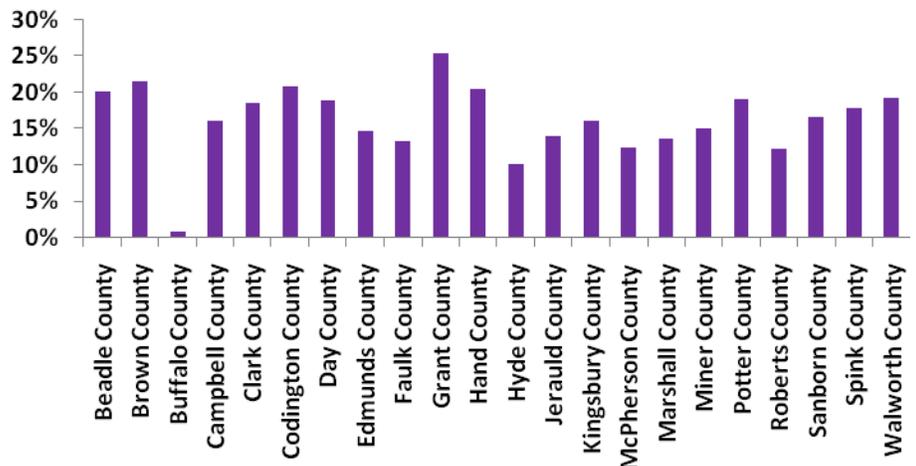
Attachment Three provides the specific numbers.

- the percentage of all individuals in the 22 county area with a credit card is 18.7%
- the counties with the highest percentage of the population with a credit card are Grant and Brown
- the counties with the lowest percentage of the population with a credit card are Hyde and Buffalo

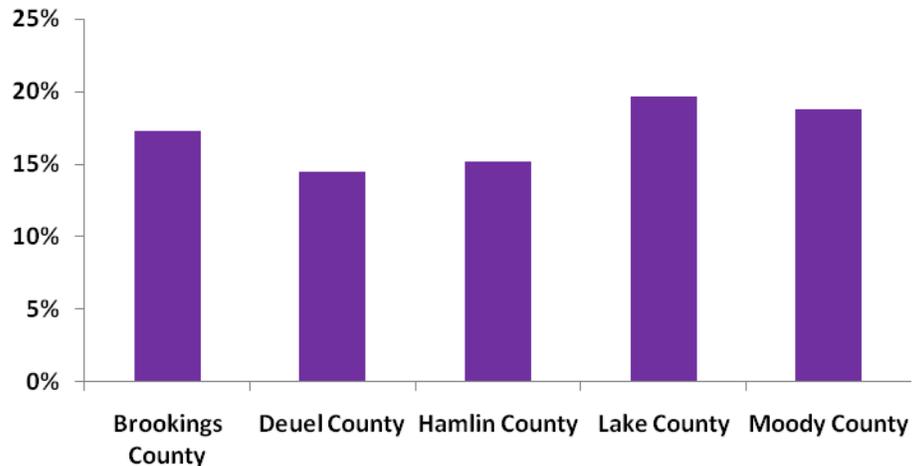
Population Change (2000-2007)



Credit Card Users Per Capita



Credit Card Users Per Capita



- the average percentage of the population with a credit card in the 5 county area is 17.5%
- the county with the highest percentage of the population with a credit card is Lake
- the county with the lowest percentage of the population with a credit card is Deuel.

The next table shows the average number of credit card accounts held by individuals holding at least one credit card account (22 counties).

number of credit cards per account holder

Beadle County	2.7	Hyde County	7.8
Brown County	2.8	Jerauld County	2.4
Buffalo County	3.1	Kingsbury County	2.1
Campbell County	2.6	McPherson County	2.2
Clark County	2.5	Marshall County	2.4
Codington County	2.6	Miner County	2.1
Day County	2.6	Potter County	2.7
Edmunds County	2.2	Roberts County	2.5
Faulk County	2.1	Sanborn County	2.0
Grant County	2.6	Spink County	2.5
Hand County	2.6	Walworth County	2.7

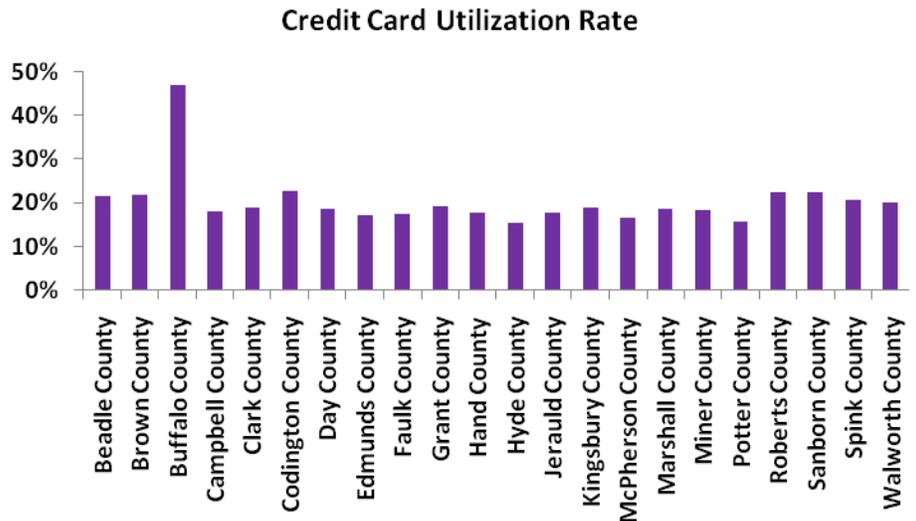
- the average number of credit cards held by those with cards in all 22 counties is 2.6
- the counties with the most accounts per holder are: Hyde and Buffalo
- the counties with the fewest accounts per holder are: Sanborn and Kingsbury.

number of credit cards per account holder

Brookings County	2.8
Deuel County	2.5
Hamlin County	2.4
Lake County	2.7
Moody County	2.5

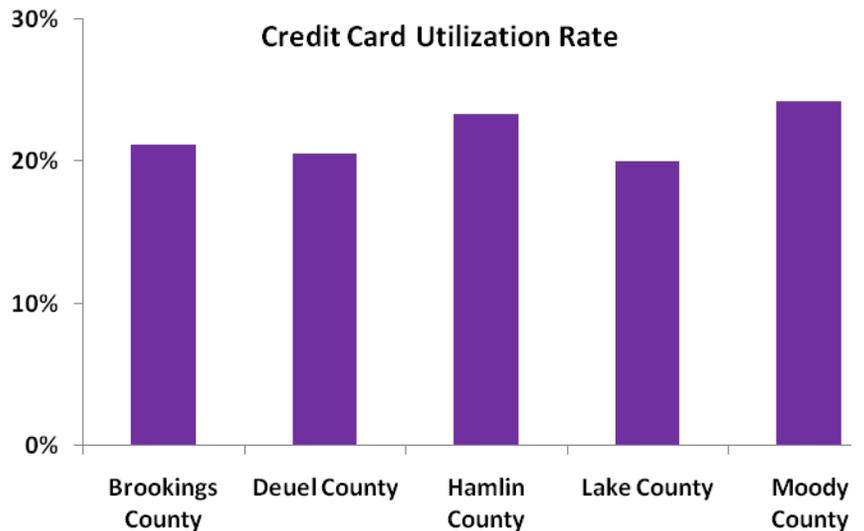
- the average number of credit cards held by those with cards in all 5 counties is 2.7
- the county with the most accounts per holder is Brookings
- the county with the fewest accounts per holder is Hamlin.

Next, we look at credit card utilization². **Attachment Four** provides the numbers. The utilization rate is the percentage of overall credit limits utilized on the household's bankcards. We will assume a few things:



1. that counties where utilization rates are high will indicate a population that is going to be closer to being maxxed out on credit card debt.
2. these individuals might be markets for consolidation loans or microloans to help with debt
3. those counties with the lowest utilization rate will indicate a population with some credit or debt “reserve” and may be markets for switching accounts and other financial products.

In the 22 county area, the average utilization rate is 20.8%.



- the counties with the highest credit card utilization rate are Buffalo, Codington and Sanborn
- the counties with the lowest credit card utilization rate are Hyde and Potter
- in the 5 county area, the average credit card utilization rate is 21.4%
- the counties with the highest credit card utilization rate are Moody and Hamlin
- the counties with the lowest credit card utilization rate are Lake and Deuel.

Next, we look at balances. In the chart below, the dollar values assigned to the category label are listed as:

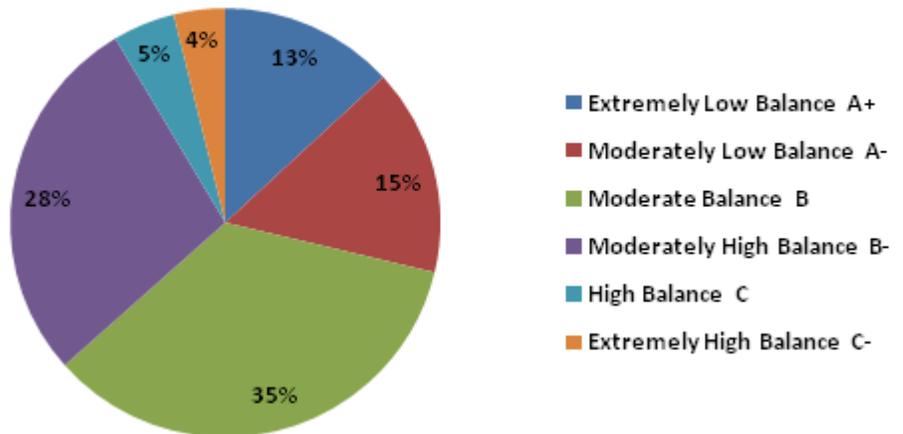
- extremely low (A+) \$0-999
- moderately low (A) \$1,000-1,999
- moderate (B) \$2,000-3,999
- moderately high (B-) \$4,000-7,499
- high (C) \$7,500-9,999
- extremely high (C-) \$10,000+

As above, we will be looking at those counties with both the extremely low balances (A+) and the extremely high balances (C-).

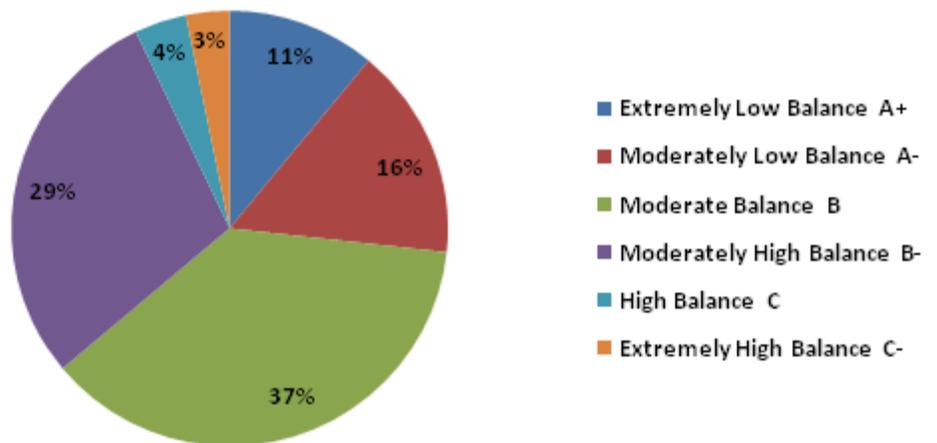
Attachment Five provides the actual numbers.

- of the 22 counties, the counties with the highest percentage of *Extremely Low* and *Moderately Low* (combined) balances are Potter and Sanborn
- of the 22 counties, the counties with the lowest percentage of *Extremely High* and *High* balance (combined) are Campbell and Roberts
- of the 5 counties, the county with the highest percentage of *Extremely Low* and *Moderately Low* (combined) balances is Lake

22 County Credit Card Balances



5 County Credit Card Balances



- of the 5 counties, the county with the highest percentage of *Extremely High* and *High* balances (combined) is Hamlin.

Fringe Financial Services³

In this section we look at fringe financial services. We define these services as including the following types of businesses:

- check casher
- payday lender
- rent to own
- pawn shop
- finance company.

Attachment Six at the end of the report lists the towns in each county that were used as the central point. The information shows that, overall, there is not much of an onsite presence for fringe services.

- in the 22 county area, Brown and Codington have the most fringe services. Eighteen counties show no fringe services
- in the 5 county area, Brookings has the most services, while Deuel, Hamlin and Moody have none.

The table below shows the names of the most common fringe lenders we found in the 27 county area.

	<i>freq.</i>
Direct Check	11
Dollar Loan Center	4
Advance America	3
Check Into Cash	3
Check n' Go	3
Money Lenders	3
Gentry Finance	3

Banking Activity

Next, we look at the banks that are doing the commercial and microloan business lending in the 22 county area. This information comes from the U.S. Small Business Administration, Office of Advocacy, from Call Report data. Note that the data are from 2004-2005. Small business loans are defined as business loans under \$1 million. Micro business loans are defined as business loans under \$100,000.

- of the top 108 banks in the U.S. engaging in small business loans and microloans for businesses, none list their headquarters state or territory as South Dakota

- of the 79 large institutions listed, the average number of states they operate in is 26.9, with a median of 24 and a standard deviation of 16.9

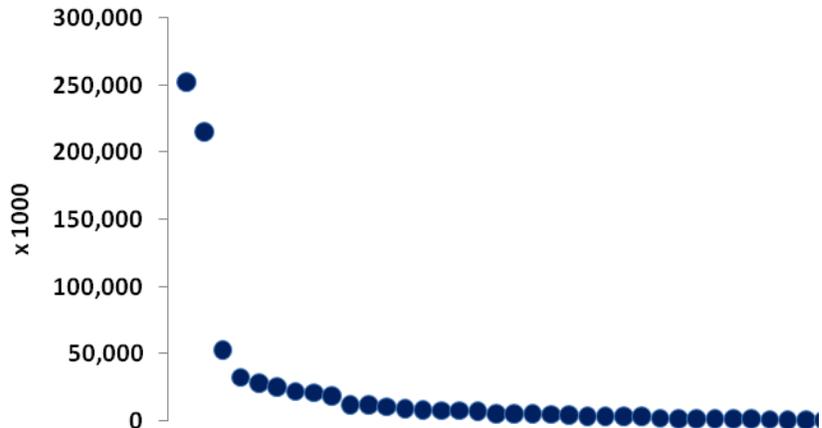
- Table 3a of the SBA report lists the top South Dakota banks engaged in small business lending.

Attachment Seven provides this list.

- Table 3b of the SBA report lists the top South Dakota banks engaged in microloans for businesses.

Attachment Eight provides this list.

Small Business Lending (<\$1M) 27 County Area by Bank



Below, we show those banks whose headquarters are in the service area and are ranked by the SBA for small business lending and microloans to businesses.

In the 22 county area - small business loans

- Brown: Dacotah Bank
- Kingsbury: Peoples State Bank

Small Business Lending (<\$1M) 27 County Area # Loans by Bank



Microloans

- Edmunds: First State Bank of Roscoe
- Kingsbury: Peoples State Bank

In the 5 county area: none

Attachment Nine provides the list of the all small business lenders in the state, whether they are headquartered there or

not. **Attachment Ten** provides this information for business microloans. With both of these attachments, we include only those institutions that are listed by the SBA as being in the 22 or 5 county region.

Of note in these attachments:

1. Total banks reported: 36

These banks have a presence in the 27 county area. The specific county coverage of each bank may differ. If the bank is located in one of the 27 counties, we include this bank as one of the 36

2. Loans to small business/total assets

mean: 12.7%

median 11.5%

standard deviation:

6.3%

3. Loans to small

business/total

business loans:

mean: 87.9%

median 100%

standard deviation:

19.4%

4. Loans to small

business (\$):

mean: \$22,143,806

median \$5,532,500

standard deviation:

\$53,443,933

5. Total loans to small business (#):

mean: 276

median: 97

standard deviation:

633

In both charts above, note the 2 outliers: they are Dacotah Bank and Great Western Bank.

Micro Business Loans

1. Micro business

loans to small

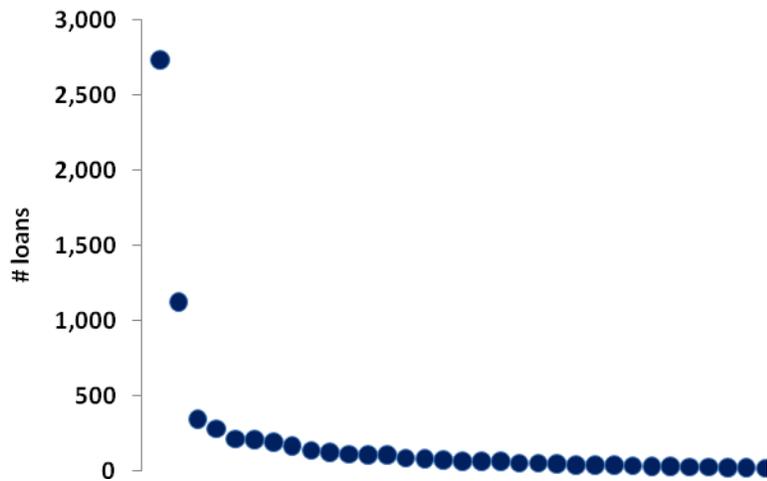
business/total assets

mean: 5.4%

median 3.3%

standard deviation: 6.2%

Micro Business Loans (<\$100k) 27 County Area



Micro Business Lending (<\$100k) 27 County Area by Bank



2. Micro business loans to small business/total business loans:
mean: 42.9%
median: 28.7%
standard deviation: 36.6%

3. Micro business loans to small business (\$)
mean \$5,758,441
median: \$1,589,500
standard deviation: \$12,289,779

4. Total micro business loans to small business
mean: 201
median 68
standard deviation: 488

Note the two outliers above for micro business loans are the same as for the small business loans: Dacotah Bank and Great Western Bank.

Federal Funds

Attachment Eleven shows the amount of federal funds coming into South Dakota in FY 2006. Note that there is no specific segmenting based on loan dollars coming into the state. Indeed, some of the federal money winds up with the state and the state may turn this into loan funds.

Business Establishments⁴

Below we provide some highlights from this data.

22 county area

All sectors: total # businesses: 247

All sectors:

mean # employees: 2,452

median # employees: 1,031

standard deviation # employees: 4,170

Top 3 sectors based on # businesses by county:

<i>county</i>	<i>#1</i>	<i>#2</i>	<i>#3</i>
Beadle	retail trade	other services ⁵	construction
Brown	retail trade	construction	health care & social assistance
Buffalo	health care & social assistance	retail trade	administrative & support & waste management & remediation service
Campbell	retail trade	accommodation and food services	construction
Clark	construction	retail trade	other services
Codington	retail trade	construction	other services
Day	retail trade	health care & social assistance	other services
Edmunds	retail trade	other services	construction
Faulk	other services	retail trade	construction
Grant	wholesale trade	accommodation and food services	utilities
Hand	wholesale trade	accommodation and food services	arts, entertainment, & recreation
Hyde	other services	professional, scientific, & technical services	construction
Jerauld	retail trade	other services	construction
Kingsbury	retail trade	construction	other services & accommodation and food services
McPherson	retail trade	other services	construction
Marshall	retail trade	construction	professional, scientific, & technical services & other services
Miner	mining	accommodation and food services	health care & social assistance
Potter	retail trade	health care & social assistance	other services
Roberts	retail trade	other services	accommodation and food services
Sanborn	construction	other services	professional, scientific, & technical services
Spink	retail trade	other services	health care & social assistance & finance and insurance
Walworth	retail trade	other services	accommodation and food services

5 county area

All sectors: total # businesses: 247

All sectors:

mean # employees: 282

median # employees: 3,935

standard deviation # employees: 282

Top 3 sectors based on # businesses by county:

	#1	#2	#3
Brookings	retail trade	construction	health care & social assistance & accommodation and food services
Deuel	construction	retail trade	other services
Hamlin	construction	retail trade	other services
Lake	construction	accommodation and food services	other services
Moody	retail trade	construction	other services

Other Available Data

1. In the summer of 2007, South Dakota Rural Enterprise, Inc. conducted a multi-sector, statewide analysis of development finance, community development and technical assistance activity. While this report does not deal exclusively with the existing and proposed NESDEC service area, the information is useful in assessing finance demand potential. We are including this report as **Appendix Two**⁶.
2. The Governor's Office of Economic Development published county summary reports. For each county, we provide the *Summary Report* and the *Employer Report*. We include these reports in **Appendix Three**⁷.

List of Attachments

Attachment One	List of Counties
Attachment Two	Population and Growth
Attachment Three	Credit Card Accounts
Attachment Four	Credit Card Utilization Rates
Attachment Five	Credit Card Balances
Attachment Six	Fringe Financial Services
Attachment Seven	Top South Dakota Banks Engaged in Small Business Lending
Attachment Eight	Top South Dakota Banks Engaged in Business Microloans
Attachment Nine	South Dakota Small Business Lenders
Attachment Ten	South Dakota Business Microloan Lenders
Attachment Eleven	Federal Funds
Appendix One	Interviews
Appendix Two	27 County <i>Summary Reports</i> and <i>Employer Reports</i>
Appendix Three	Governor's Office of Economic Development <i>Summary Report</i> and the <i>Employer Report</i>

Endnotes

¹ From Sherri Wambault, Account Manager, Acxiom Express, Fort Meyers, FL33907.

² We calculate average utilization in the following manner: data is supplied with the number of accounts within a utilization bracket, e.g., 0%-10%, 10% - 20%. We take the middle point, e.g., 5%, 15%, 25% of each bracket, multiply this by the number of accounts within the category to get a weighted number. All weighted numbers are summed up and divided by the total number of accounts for that county.

³ Our methodology: we looked at each county and picked the largest and most central city in the county (geographically). From this point, we go out a radius of at least 50 miles and searched under yellowpages.com for "loan". From this list we included only companies that were the types listed. From this list we verified that the listing was in fact located within the county.

⁴ Source: US Census:

http://factfinder.census.gov/servlet/GQRGeoSearchByListServlet?ds_name=CB0500A1&_lang=en&_ts=229011269260

⁵ Except *public administration*.

⁶ This file is included as **Appendix Two** electronically.

⁷ These files are included as **Appendix Three**, electronically, in 27 pdf files, one for each county. Additionally, the files are available zipped.