



STRATEGIC PLAN

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 7, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Department Stores National Bank
Charter Number: 24622

701 East 60th Street North
Sioux Falls, SD 57104

Office of the Comptroller of the Currency
Large Bank Supervision
250 E Street, SW
Washington, DC 20219

NOTE: This document is an evaluation of this 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. 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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INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated Outstanding. This rating is based on the following factors:

- The bank exceeded its goals for originating community development investments, grants, and services during the evaluation period of 2007.
- The bank works effectively with the community groups that support community development investments and services targeting affordable housing, education, and social services for low- and moderate-income individuals and services for small businesses.

DESCRIPTION OF INSTITUTION

Department Stores National Bank (DSNB) is the credit card issuer of Visa and retail private label accounts for Citibank's relationship with Macy's, Inc. (formerly known as Federated Department Stores, Inc.). Cards issued by DSNB bear the marks of Macy's, Inc. store brands such as Bloomingdale's and Macy's. DSNB is a subsidiary of Citibank (South Dakota), National Association (CBSD) and does not have any employees or any branch banking offices. All servicing of the bank's accounts is currently provided by affiliates and third parties pursuant to contract. As DSNB does not have any employees, CRA activities are allocated to DSNB from the bank's affiliates, primarily from CBSD, Citi Community Capital, and the Citigroup Foundation (The Foundation).

DSNB was chartered in 2005 under the Competitive Equality Banking Act (CEBA) of 1987. A CEBA bank is not a "bank" for purposes of the Bank Holding Company Act if it engages "only in credit card operations" and does not: (1) accept demand deposits or other checking accounts; (2) accept savings or time deposits of less than \$100,000, unless for collateral on a loan; (3) maintain more than one office that accepts deposits; or (4) engage in the business of making commercial loans. These statutory provisions reflect a legislative policy of restricting the ability of CEBA credit card banks to compete with retail banks by limiting the institution's deposit taking and lending activities.

Since this is a CEBA bank, it cannot make commercial loans. Therefore, the Strategic Plan was developed to address investments and services, not lending. Other than the restriction on lending, there are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its assessment area. This is DSNB's first CRA evaluation.

Selected financial information for the institution follows:

Financial Information (\$000s)	Year-end 2006	Year-end 2007
Tier 1 Capital	\$33,726	\$38,762
Total Income	\$23,812	\$31,936
Net Operating Income	\$5,481	\$7,791
Total Assets	\$581,439	\$416,002
Pass-Through Receivables	\$82,037	\$91,684

Average assets of \$423,016,000 were used to determine the Strategic Plan performance goals. This number was calculated using total assets for fourth quarter 2006, first quarter 2007, second quarter 2007 and third quarter 2007, based on the guidance in the Strategic Plan.

DESCRIPTION OF THE ASSESSMENT AREA

DSNB’s assessment area is the entire Sioux Falls metropolitan statistical area (MSA) #43620. It consists of four counties in the southeast corner of South Dakota: Lincoln, McCook, Minnehaha, and Turner.

The Sioux Falls MSA is the largest urbanized area in South Dakota with a population of 187,093 (2000 census). The majority of the population lives in the city of Sioux Falls, which is the state’s most populous city with a population of 123,975 (2000 census). Outside of the Sioux Falls city limits the area is predominately rural land with small farm communities. The city of Brandon in Minnehaha county is the second largest city in the Sioux Falls MSA with a population of 5,693 (2000 census). Thirty-five percent of the families in the area have low- or moderate-incomes with seven percent of all households living below poverty (2000 census). The Department of Housing and Urban Development estimates the area’s median family income at \$61,700 for the year 2007.

The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The Sioux Falls MSA contains no low-income tracts. Five of the area’s seven moderate-income census tracts are located in the city of Sioux Falls in Minnehaha County. McCook and Turner Counties both have one moderate-income census tract, which roughly covers the southern half of each county.

The following table summarizes additional select demographics for the Sioux Falls MSA:

Table 2: Sioux Falls MSA Demographics

	Number	Low	Moderate	Middle	Upper
Tracts	37	0.0%	18.9%	67.6%	13.5%
Families by Income Level	48,663	15.3%	19.6%	28.6%	36.5%
Businesses	15,714	0.0%	22.1%	69.6%	8.3%

Source: Demographic Data - 2000 U.S. Census, 2007 Dun & Bradstreet Data.

The Sioux Falls economy remains healthy but has lost momentum in the latter half of 2007, although not to the extent seen nationally. The area is experiencing population growth (21.9% percent increase from 1990 to 2000). The employment base is broadly diversified including employment in education and health services (17.7%), retail trade (12.5%), and financial services (12.2%). Sioux Falls is a regional provider of medical and retail services.

The Sioux Falls unemployment rate is low and ranks fifth lowest for all MSAs in the United States. As of February 2008, the unemployment rate for the Sioux Falls MSA was 2.7% (Department of Labor, not seasonally adjusted, preliminary), compared to the national average of 5.2%.

The banking environment is highly competitive. There are 34 FDIC-insured financial institutions with branches in the MSA. South Dakota has liberal usury laws and is the corporate headquarters for four credit card banks with limited purpose CRA designations including CBSD; DSNB; Wells Fargo

Financial Bank; and Target National Bank. Sioux Falls is also the corporate headquarters for Wells Fargo Bank, N.A. These institutions provide strong competition for community development activities, particularly qualified investment opportunities.

Over the evaluation period, OCC representatives met with several community contacts including one city official, an affordable housing organization, a public housing authority, and a statewide economic development organization. We also reviewed a representative sample of public evaluations for other local banks. These community contacts generally considered the financial institutions headquartered in Sioux Falls or having branches in the MSA as highly responsive to community development needs in Sioux Falls. They also generally considered the financial institutions as adequately responsive to the credit needs of low- and moderate-income individuals.

These contacts identified ongoing needs for:

- Affordable housing and rental stock to accommodate a growing employment base
- Funding to rehabilitate substandard housing
- Small business loans to encourage economic growth in rural areas
- Financial educational for homebuyers, small business owners, and youth
- Training and support services to improve the employability of unemployed individuals
- Social services for economically disadvantaged individuals
- Permanent supportive housing for homeless persons

In the course of our performance context research, we did not identify any adverse comments regarding local banks' responsiveness to area credit needs or participation with community development initiatives.

SCOPE OF EXAMINATION

The bank's Community Reinvestment Act performance was compared to the goals set in the bank's Strategic Plan, dated January 1, 2007. The Strategic Plan covers the period of January 1, 2007 to December 31, 2009. For this performance evaluation, we reviewed community development activities from January 1, 2007 through December 31, 2007. We compared the level and nature of qualified investments, grants, and services to the goals set forth in the Strategic Plan.

CONCLUSIONS

Community Development Investments and Grants

DSNB exceeded the outstanding level of its investment goals for 2007. The following table compares actual performance in 2007 to the outstanding and satisfactory performance goals established for total new investments, grants, and contributions. For each year of the Strategic Plan, the annual goal for achieving satisfactory performance equals a ratio of the total new investments to average total assets of 0.35%, and 0.50% for outstanding performance. Additionally, although the Strategic Plan goals are based on the ratio of total new investments to average total assets, DSNB commits to maintaining the ratio of total investments (including the value of prior period investments) to 0.75% or higher throughout the Strategic Plan period. The average total assets for the Strategic Plan period were \$423,016,000. The bank's investment activity was centered in a \$2.2 million low income housing tax credit (LIHTC). Grants, totaling \$151 thousand, focused on affordable housing and education for low- and moderate-income people as well as small businesses. Investments for the evaluation period, including prior period investments of \$1.4 million, totaled \$3.7 million representing 0.88% of average assets.

Strategic Plan versus Performance
Qualified Investments and Grants – 2007 (\$000's)

	2007 Satisfactory Goal	2007 Satisfactory Goal (\$)	2007 Outstanding Goal	2007 Outstanding Goal (\$)	2007 Actual %	2007 Actual (\$)
TOTAL INVESTMENTS, GRANTS, & CONTRIBUTIONS	0.35%	\$1,481	0.50%	\$2,115	0.56%	\$2,351

The Strategic Plan established a goal of slightly over \$2.1 million in new investments for the first year in the Strategic Plan for an outstanding rating, which the bank accomplished. The \$2.2 million investment was used to assist in the construction of a 32-unit multi-family housing development located in Brandon, South Dakota in Minnehaha County. All the units are restricted to families who earn less than 60 percent of area median income.

In 2007 through The Foundation and CBSD, DSNB distributed \$151 thousand in grants to eight organizations within the assessment area. The bank's contribution plan is focused around helping the community with affordable housing for low- and moderate-income families, financial education, and small businesses.

One of the grants, involving a nearby Native American Reservation, funded a research project that will address the gap in available business information such as: the types of products and services needed on the Reservation; the potential customer base; and the projected sales volumes of various business activities. The research project will use the findings to help promote private business expansion on the Reservation. The community organization anticipates the project will result in the start up and expansion of fifteen businesses that will impact thirty jobs for primarily low- and moderate-income individuals. Another grant was used to fund a staff position for a business outreach program to provide technical assistance at no charge to entrepreneurs on managing a small business. Technical topics include budget projections, inventory control, and debt management.

Community Development Services

DSNB demonstrated an outstanding commitment to strengthen its communities through employee involvement. By leveraging the staff of CBSD, the bank achieved the Strategic Plan goals through the delivery of financial education to children, as well as by providing technical assistance, leadership, and financial expertise for organizations that promote community development.

As outlined below, the bank exceeded the goals established for 2007 to reach an Outstanding rating.

Community Development Services Strategic Plan Goals	Goals to Achieve a Satisfactory Rating	Goals to Achieve an Outstanding Rating	2007 Actual Performance
<p>Provide technical assistance and direct involvement with organizations whose primary purpose is to meet community or economic development needs.</p>	<p>1 employee will provide technical assistance to a qualifying organization by meeting with the organization a minimum of 3 times per year.</p>	<p>2 employees will provide technical assistance to 2 qualifying organizations by meeting with each organization a minimum of 3 times per year.</p>	<p>1 employee provided assistance with a tenant education program. (5 meetings)</p> <p>1 employee provided technical assistance with financial allocations specifically to low- and moderate-income individuals for the local United Way. (4 meetings)</p> <p>1 employee provided technical assistance with low- and moderate-income housing partnership.</p> <p>15 employees provided financial education to low- and moderate-income children.</p>
<p>Serve on Board of Directors, Loan Committee and/or Advisory Board for a non-profit organization whose primary purpose is to meet community or economic development needs.</p>	<p>2007 1 position</p>	<p>2007 2 positions</p>	<p>Bank staff served in 3 positions at a local community college serving nontraditional, low- and moderate-income young adults.</p> <p>Bank staff served in 2 positions with the Downtown Economic Development Incentive Fund.</p> <p>Bank staff served in 1 position with Main Street Sioux Falls Organization.</p>

To achieve their goals, the CBSD officers and staff actively partnered with a number of local

community groups and businesses to develop key relationships and meet the needs of the community. Below are examples of these partnerships.

- In 2007, a bank officer served in an advisory capacity for a tenant education program. This program assists low- and moderate-income families with poor rental and credit histories. Through case management services and tenant education services, the program gives renters the opportunity to live in safe and affordable homes. In addition to educating and changing the behavior of tenants, the program also recognizes the need to provide a financial safety net for property owners. As a result, a fund was created with contributions from various business groups. A participating property owner can request reimbursement from the fund to cover any property damage caused by tenants enrolled in the program. The bank helps to manage the fund.
- One bank officer participated and contributed her expertise as a member and secretary of the local housing partnership Board of Directors and the Executive and Finance Committees. In 2007, the bank and the housing partnership jointly developed a program to assist rural communities with populations of less than 5,000 to provide low- and moderate-income families with affordable housing. The bank officer took a leadership roll in the creation of the program, providing assistance with compiling financial resources and contacts for housing solutions, providing expertise on assessing community needs, and completing and documenting key implementation steps.
- Fifteen bank employees participated in the nationally known Teach Children to Save (TCTS) program. In April 2007, the employees visited six classrooms at a local elementary school where students are primarily low- and moderate-income. One hundred and fifty students in the fourth and fifth grades benefited from the bank employees' structured instruction on basic money skills.

Additionally, the bank reported the participation of three individuals who provide their services as members of a Board or as officers of Board committees.

- One bank officer holds three positions on the board of a local community college. This college is integral to the community, offering post-secondary education and workforce development training to a student population of non-traditional, low- and moderate-income young adults. The population is comprised of mostly female students and single mothers. The majority of the students also receive financial aid to attend the school. The college has also been instrumental in helping to prepare immigrants new to the area bridge the gap between their existing skills and the skills required for college level work.
- Another bank officer, a Vice President with the Finance Department, holds positions with two organizations. He has served as a member of the Board of Directors for the Main Street Sioux Falls Organization since 2006 and as a member of the Downtown Economic Development Incentive Fund Committee since 1998. The primary purpose of these organizations is to meet the community's need for economic development within the low- and moderate-income portions of the assessment area. A third officer and Vice President of the bank also serves as a member of the Downtown Economic Development Incentive Fund Loan Review Committee. He has served on the committee as a member since 2002.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.