



Comptroller of the Currency
Administrator of National Banks

Midwestern District
2345 Grand Avenue, Suite 700
Kansas City, Missouri 64108

PUBLIC DISCLOSURE

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

April 10, 1997

**First National Bank South Dakota
Charter Number 22764
332 Broadway
Yankton, South Dakota 57078**

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, conclusions, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First National Bank South Dakota, Yankton, South Dakota** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **April 10, 1997**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. § 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, First National Bank South Dakota (FNBSD) is rated:

Satisfactory Record of Meeting Community Credit Needs.

The purpose of CRA is to ensure that financial institutions help meet the credit needs of its local communities. We rate this institution's CRA record as satisfactory because:

- FNBSD actively participates in government-related lending programs for small businesses, small farms, and residential real estate housing.
- The bank's geographic distribution of all originated loans to borrowers of different income levels is reasonable. Within its delineated community, the number of consumer loans originated to low- or moderate-income borrowers is strong and exceeds family income demographics.
- FNBSD's volume of originated residential mortgage, small business, and small farm loans supports its commitment to provide credit within its community. FNBSD originated 85% of its small business and small farm loans in amounts less than \$100 thousand to provide operating funds for local small businesses and farms.

Bank Profile

FNBSD is 100% owned by First National of Nebraska, Inc., a multi-bank holding company headquartered in Omaha, Nebraska. The bank is a full-service financial institution with agricultural, small business, residential real estate, and credit card lending as its primary business focus. As of December 31, 1996, FNBSD reported approximately \$258 million in total assets. The \$170 million loan portfolio is comprised of 16% loans secured by real estate, 9% agricultural loans, 8% commercial loans, and 7% consumer loans. Fifty-nine percent or \$100 million of the bank's loan portfolio is comprised of credit cards and related revolving credit plans. The credit card portfolio includes direct credit card loans and credit card loan participations purchased from an affiliate. The credit card loan participations represent pools of loans originated by the bank and serviced by an affiliate.

Community Profile

FNBSD has one delineated community which includes Clay and Yankton Counties and the eastern portion of Bon Homme County. The delineated community includes eight block numbering areas (BNAs). Seven BNAs are identified as middle-income, and one BNA is upper-income. The 1996 statewide nonmetropolitan median family income is \$32,800.

Eighteen percent of the households in the delineated community report annual income below the poverty level. The distribution of families by income-level is 18% low-, 17% moderate-, 23% middle-, and 42% upper-income. Unemployment rates are low at 2% based on the 1990 U.S. Census. The delineated community is primarily dependent on agriculture; however, light industry and medical services diversify the local employment base. The larger employers include the South Dakota Human Services Center, Dale Electronics, Alumax, and Sacred Heart Hospital.

The delineated community includes six banks with total assets ranging from \$15 million to \$265 million as of December 31, 1996. The average quarterly loan-to-deposit (LTD) ratios of these banks for the last seven quarters ranged from 46% to 84%. FNBSD ranked second highest in total asset size and had the highest LTD ratio. However, FNBSD's LTD ratio is influenced by purchased credit card loan participations and out-of-territory agricultural equipment loans from affiliated organizations. In addition to the six chartered banks, FNBSD's competition includes branches of national and state banks chartered outside of these counties, credit unions, savings banks, government agencies, and mortgage companies.

FNBSD has identified credit needs which include affordable housing and auto loans. Community contacts indicated a need for affordable and middle-income housing development and purchase money financing. A current local housing project includes affordable housing consisting of four six-unit townhomes. The Yankton City Commission did not support the original plan which included a 24-unit rental apartment complex.

Reasonableness of Delineated Community

FNBSD's delineated community is reasonable and does not arbitrarily exclude any LMI areas. The delineated community includes contiguous counties where the majority of the bank's deposit and loan volume excluding credit card loans is located.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- **Management maintains ongoing, meaningful contact with a wide range of individuals and groups representing various community interests.**

FNBSD conducts surveys and supports focus group meetings. FNBSD directly contacts individuals representing nonprofit organizations, housing services, small farms and businesses, community development initiatives, and government agencies to ascertain the credit needs of the community. Several bank employees are members governing boards and

committees of these organizations. The bank has an active call program to directly contact the community. This allows the bank to receive ongoing information on community credit needs as well as promote its available products and services.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- **The Board of Directors, senior management, and bank personnel participate and support the bank's program to meet the credit needs of its community.**

The Board and management address the CRA in the bank's two-year strategic plan. The strategic plan focuses on developing new products and services needed by customers. The bank has allocated resources to develop a CRA strategic plan which regulators would use to evaluate FNBSD's future CRA performance. The strategic plan has not yet been approved by the OCC.

The Board supports the CRA process through the designation of a CRA coordinator. The CRA coordinator prepares an annual analysis of the bank's geographic loan distribution. Quarterly analyses of the geographic distribution of denied applications are also prepared. The Board also supports bank employees' involvement in various organizations within the community.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- **FNBSD has implemented a sound marketing program designed to reach all segments of the community.**

Marketing strategies promote the bank's products and services throughout its community. FNBSD advertises specific products and services through newspaper, radio, television, direct mail, and occasionally billboards. The bank informs the community of its specific products during credit-related, educational seminars. In 1996, FNBSD offered the following seminars:

- Small Business Administration on Business Development Planning
- Farm Marketing: Putting the Profit in Your Pocket
- In-house Mobile Home Loan Program
- Succession and Estate Planning
- Financial Education Seminar
- Bad Check Seminar

- Emergency Disaster Loan Program
 - Home Financing Seminar
- FNBSD effectively reaches the Hispanic population within its community. A Spanish speaking employee provides assistance in completing loan applications and processing deposit and loan transactions.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- **FNBSD's volume of originated residential mortgage, small business, and small farm loans supports its commitment to provide credit within its community. FNBSD originated 85% of its small business and small farm loans in amounts less than \$100 thousand to provide operating funds for local small businesses and farms.**

FNBSD offers and originates a comprehensive array of loan products to meet community credit needs. Loan types are detailed in the bank's 1997 CRA Statement and include loans for housing, consumer, small business, and small farm needs.

FNBSD originates the majority of its residential real estate and consumer loans within its delineated community. From January 1, 1996 through March 17, 1997, FNBSD's residential real estate department originated 101 loans totaling \$5.7 million, as reported on the Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR). Approximately 84% of these loans were originated within the delineated community. FNBSD originated 57 fixed-rate, residential mortgages for \$4.2 million which were presold to investors and do not appear on the HMDA-LAR. The majority of these loans are within the delineated community; however, a precise geographic distribution is not available. The geographic distribution of consumer loans is reasonable as evidenced by the following table. An additional 8% of consumer loans by number are outside the delineated community in adjacent Cedar and Knox Counties in Nebraska.

Lending Within Delineated Community (HMDA and Consumer Loans)										
By number and dollar volume (\$000's)										
	Inside Delineated Community				Outside Delineated Community				Total	
	#	%	\$	%	#	%	\$	%	#	\$
Home Purchase	49	83%	3,539	83%	10	17%	736	17%	59	4,275
Home Improvement	17	85%	168	88%	3	15%	22	12%	20	190
Refinance	19	86%	968	89%	3	14%	124	11%	22	1,092
Total HMDA Loans	85	84%	4,675	84%	16	16%	882	16%	101	5,557
Consumer Loans	696	56%	5,523	53%	550	44%	4,886	47%	1,246	10,409

The bank originates a sizable volume of small dollar loans to small businesses and small farms. Examiners considered small business and small farm loan originations using the Consolidated Report of Condition definitions. By number, 85% of the loans to small businesses and small farms in the bank's delineated community were originated in amounts less than \$100,000 in 1996.

The majority of the bank's small business loans are within its delineated community. FNBSD originated or purchased 257 small business loans totaling \$17 million between January 1, 1996 and February 28, 1997. Of the small business loans, 70% by number and 57% by dollar volume are within the bank's delineated community. FNBSD originated or purchased 470 small farm loans totaling \$26 million during this same period. Of the small farm loans, 42% by number and 45% by dollar are within FNBSD's delineated community.

Management developed a mobile home loan product when community contacts revealed this credit need. In response, the bank offers in-house mobile home financing as well as financing through the Ford Consumer Finance Company Program (FCFCP). FNBSD originated seven loans totaling \$89 thousand since the last CRA examination. FNBSD did not have income information on the two FCFCP loans originated; however, income information from the in-house mobile home loans showed FNBSD made 40% of the loans to low-income borrowers, 40% to moderate-income borrowers, and 20% to middle-income borrowers.

FNBSD participates in the U.S. Department of Agriculture's Rural Development Program and the Mortgage Assistance Program offered through the South Dakota Housing Development Authority (SDHDA). Both programs require no or little downpayment on home purchases. Borrowers are able to finance closing costs through the programs in conjunction with the bank's purchase money financing. Both programs assist low- or moderate-income (LMI) individuals with the purchase of affordable homes. SDHDA also assists first-time home buyers.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

- **FNBSD actively participates in government-related lending programs for small farm, small businesses, and residential real estate housing.**

FNBSD originates a significant volume of Farm Services Administration (FSA) loans in its delineated community. Loan officers originated 15 FSA farm loans totaling \$940 thousand in 1995, 5 loans totaling \$305 thousand in 1996, and 2 loans totaling \$86 thousand in 1997. FNBSD originated 33% of all FSA farm loans originated in the delineated community between January 1, 1995 and February 28, 1997.

FNBSD's participation in government home lending programs is reasonable according to data collected on its HMDA-LAR. FNBSD originates Federal Housing Authority (FHA) and

Veteran's Administration (VA) home loans for sale on the secondary market. From 1995 through March 17, 1997, FNBSD originated 43 FHA loans totaling \$2.2 million. In 1995 and 1996, FNBSD originated four VA loans totaling \$337 thousand. Real estate loan officers also originate FSA residential housing loans. From 1995 through March 17, 1997, 10 FSA housing loans totaling \$487 thousand were originated. These government guaranteed loans are included in the bank's residential real estate lending discussed in Assessment Factor I.

FNBSD demonstrates reasonable support of the Small Business Administration (SBA) loan program and is a certified SBA lender. The bank originated two loans totaling \$455 thousand since the last CRA examination. All SBA loans are within the bank's delineated community. FNBSD originated 18% by number of all SBA loans originated within the delineated community during the SBA's fiscal year ending September 30, 1996. These small business loans are also included in the bank's loan volume discussed in Assessment Factor I.

FNBSD participates in the 203K loan program which the FHA offers through the Department of Housing and Urban Development. This program is designed to revitalize communities and expand home ownership opportunities through the rehabilitation and repair of single family properties. In 1996, FNBSD originated two of the sixteen loans made in the entire state of South Dakota.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- **FNBSD's geographic distribution of all originated loans to borrowers of different income levels is reasonable. Within its delineated community, the number of consumer loans originated to low- or moderate-income borrowers is strong.**

Real estate and consumer lending in the bank's delineated community shows reasonable penetration to borrowers of all income levels. Loans to LMI borrowers represent 43% of the number of consumer loans originated in 1996. Residential real estate lending to LMI borrowers represents 29% by number of originated loans reported on the HMDA-LAR. Although 35% of all families in the delineated community are categorized as LMI, 11% of these families report income below the poverty level. The following table summarizes the demographic distribution of the real estate and consumer loans originated by FNBSD and reported on its HMDA-LAR and CRA data collection reports.

Distribution of Real Estate & Consumer Loans: January 1, 1996 - March 17, 1997									
Within Delineated Community									
Income Level of Applicant	Home Purchase		Home Improvement		Refinance of Home Purchase or Improvement		Consumer*		Population Demographics
	#	%	#	%	#	%	#	%	%
Low	1	2%	2	12%	0	0%	113	19%	18%
Moderate	14	29%	3	18%	5	26%	140	24%	17%
Middle	15	31%	4	24%	3	16%	107	18%	23%
Upper	19	39%	8	47%	11	58%	98	17%	42%
Total	49	100%	17	100%	19	100%	582**	100%	100%

* Includes only consumer loans originated in 1996.

** Numbers and percentages do not foot to total due to number of borrowers with no income information available.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

- **FNBSD's offices and available services are readily accessible to all segments of the community.**

FNBSD operates one full service banking office in Yankton. This office includes an Express Bank with extended hours and one automated teller machine. The bank also operates four cash dispensing machines (CDMs) with three of the CDMs located in its delineated community.

FNBSD's hours and comprehensive banking services permit convenient accessibility to the community. The opening of the Express bank on February 12, 1997 lengthened full service banking hours and drive-up hours to 6 p.m. FNBSD offers half-day Saturday hours. The bank provides FirstAccess Line, a 24-hour telephone banking system, to assist consumers in deposit account transfers and balance inquiries and to provide information on deposit and loan products and rates.

FNBSD has not opened or closed any branches since the last CRA evaluation. However, FNBSD added its Express Bank and two CDMs since the last CRA evaluation. The bank's branch closing policy establishes criteria when opening and closing branches as well as reducing services provided or bank hours.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- **FNBSD's policies and practices are effective and ensure that applicants are not discouraged from applying for the credit products which it describes in its CRA Statement.**

The bank actively solicits applications from all segments of its community including LMI individuals. While corporate policies adequately set forth basic fair lending requirements, the bank's practices and procedures specifically address making credit available to all applicants. All lending personnel receive regular, comprehensive training on fair lending regulations and diversity issues. The bank annually evaluates underwriting decisions to ensure that applicants are treated fairly and equitably by performing a comparative analysis. In addition, auditors of an affiliate reviewed the bank's 1996 comparative analysis. The bank has an independent second review program for all loan application denials.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

- **FNBSD's comprehensive fair lending program promotes substantial compliance with all provisions of antidiscrimination laws and regulations.**

National bank examiners did not identify any instances in which the bank denied credit to similarly situated applicants based on the applicants' gender. Examiners verified the findings of management's internal fair lending review to draw this conclusion. Management reviewed indirect dealer loans originated between April 1, 1996 and October 21, 1996. The review compared denied loan applications received from individual female applicants with originated loan applications received from individual male applicants to ensure underwriting standards were consistently applied.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development¹ and redevelopment projects or programs.

¹Community development is defined as affordable housing for LMI individuals, community services targeted to LMI individuals, activities that promote economic development by financing small businesses and farms, and activities that revitalize or stabilize LMI geographies.

- **FNBSD participates in community development and redevelopment programs, providing leadership, technical expertise and financial support throughout its community.**

Examples of community development activities within its delineated community include:

- Financed loans of \$300 thousand to make infrastructure improvements to the Willow Ridge North subdivision and \$250 thousand to construct LMI housing units to a private developer and nonprofit organization. This project incorporates Community Development Block Grant funds which require that 28 of the 60 proposed units in this project be sold to LMI families. SDHDA provided subordinated financing for the infrastructure improvements and will guarantee mortgage financing for 20 homes.
- Financed approximately \$56 thousand to the Yankton Housing and Development Commission to construct a speculative LMI house in Yankton.
- FNBSD provides office space for and pays the overhead expenses of Habitat for Humanity. The bank also provides an annual cash donation used in the construction of the LMI homes. The CRA coordinator serves on the Development Board and assists with fundraising activities.
- Annually, FNBSD provides a small grant to Consumer Credit Counseling Services (CCCS) to assist with the costs of its seminars and counseling.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

- **FNBSD's efforts to meet community credit needs are consistent with its size and resources.**

FNBSD has sufficient resources to meet the credit needs of its community. The bank also has access to additional resources through its holding company. FNBSD has demonstrated its willingness to support the development and implementation of programs and products to meet community needs. No legal impediments or other factors limit its efforts.

Assessment Factor L - Any other factors that, in the regulatory authority's judgement, reasonably bears upon the extent to which an institution is helping to meet the credit needs of its entire community.

- **FNBSD has engaged in other meaningful activities that contribute to its efforts to help meet the community's credit needs.**

FNBSD developed its Emergency Disaster Loan Program in response to a fire near the senior citizen's center. The program provides fire victims with an unsecured loan up to \$1,500 for

24 months with no payment for the first three months regardless of the applicants' financial situation. Four loans were made to three affected borrowers.

FNBSD also purchases Stafford student loan pools consisting of loans to South Dakota students which indirectly helps to meet the credit needs of its community. FNBSD's purchased loan pool includes 164 subsidized loans for \$165 thousand and 67 unsubsidized loans for \$539 thousand.

FNBSD offers deposit accounts with no monthly maintenance charges and very low or no minimum balance requirements to assist LMI individuals in establishing deposit relationships. In response to the need to encourage LMI individuals to establish checking accounts, the bank developed its Electronic Plus Checking account. This product was implemented on November 14, 1996 to receive direct deposits and involves no transaction fees or minimum balance requirements. FNBSD does not charge a fee to noncustomers for cashing government checks.

ADDITIONAL INFORMATION

Examination Profile

The scope of the CRA examination included an analysis of the bank's performance since April 1995, the date of the prior CRA examination. National bank examiners reviewed information prepared by bank management. Examiners also obtained information regarding the community's credit needs through a contact with Economic Development Director Ron Kraft with the Yankton Office of Economic Development.

The bank is not subject to the Home Mortgage Disclosure Act but has opted to maintain a loan application register. FNBSD compiles information under the CRA for its small business, small farm, and consumer loans. It maintains information on the businesses' and farms' annual revenues and income information on consumers. Examiners used the above information to determine the bank's lending within its delineated community and distribution of its loans.

The Office of the Comptroller of the Currency (OCC) is the regulatory agency responsible for supervising the bank. If you should have comments regarding this bank's performance under the CRA or questions regarding the Act, contact the OCC at: Midwestern District Office, 2345 Grand Avenue, Suite 700, Kansas City, Missouri 64108.