



**LARGE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Sioux Falls Field Office

**PUBLIC DISCLOSURE**

**January 7, 2002**

**Community Reinvestment Act  
Performance Evaluation**

**First National Bank in Brookings  
Charter Number: 12838  
424 Fifth Street  
Brookings, South Dakota 57006**

**Office of the Comptroller of the Currency  
Sioux Falls Field Office  
4900 South Minnesota Avenue, Suite 300  
Sioux Falls, South Dakota 57108**

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, and should not 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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## Overall CRA Rating

**Institution’s CRA Rating:** This institution is rated "**Satisfactory.**"

The following table indicates the performance level of **First National Bank in Brookings** with respect to the Lending, Investment, and Service Tests:

Performance Levels	First National Bank in Brookings Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	<b>X</b>	<b>X</b>	
High Satisfactory			<b>X</b>
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support the bank’s rating include:

- Community development lending levels are excellent. The bank made a total of five community development loans totaling more than \$5.6 million, or 16 percent of Tier I Capital. Bank management actively seeks out opportunities for community development lending. Despite somewhat limited opportunities, the bank takes a leading role to improve the economic base of the assessment area. The volume and nature of the community development lending was a contributing factor to the “Outstanding” rating for the Lending Test.
- Distribution of loans by the income or revenue level of the borrower is good for loan products, including home mortgage, small business, and small farm lending.
- FNB made an excellent level of qualified investments within its assessment area. The bank made a total of 15 qualified investments totaling more than \$4.7 million, or 13 percent of Tier I Capital.
- Retail banking services are accessible as to geographic location and hours of operation. Bank personnel provide a good level of community development services, mostly in the form of financial expertise to community development organizations.
- The bank violated the Federal Trade Commission Act, which prohibits unfair or deceptive acts or practices, in its sub-prime credit card programs. This was an illegal credit practice. FNB also violated 12 C.F.R. § 30 in its underwriting of payday loans. These violations reduced the bank’s overall CRA rating from “Outstanding” to “Satisfactory.”

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Block Numbering Area (BNA):** A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also

include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male household and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home Mortgage Loans:** Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes loans for multifamily (five or more families) dwellings, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any primary metropolitan area (PMA), metropolitan area (MA), or consolidated metropolitan area (CMA), as defined by the Office of Management and Budget, with a population of 250,000 or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by non-farm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by non-farm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

First National Bank in Brookings (FNB) is a \$503 million commercial bank headquartered in Brookings, South Dakota. FNB is an intrastate bank, operating five full-service branches and eight automated teller machines in eastern South Dakota.

FNB is wholly-owned by Fishback Financial Corporation (FFC), a \$697 million bank holding company headquartered in Brookings, South Dakota. FFC owns five commercial bank charters located throughout eastern South Dakota and southwestern Minnesota. A change in holding company structure occurred on September 1, 2000 affecting three of the bank charters. First National Bank of Luverne, Minnesota was formed using the charter formerly held by First National Bank, Garretson, South Dakota in combination with the Luverne, Beaver Creek, and Magnolia branches of First National Bank in Pipestone, Minnesota. This resulted in the Garretson location becoming a branch of FNB.

As of December 31, 2001, the bank's Tier I Capital is \$35.4 million and net loans represent 61.7 percent of total assets. FNB's loan portfolio is comprised of the following types of loans: commercial (36.9 percent), consumer (25.4 percent), residential (22.2 percent), and agricultural (15.5 percent).

FNB's business strategy is diversified between both traditional and non-traditional products. The bank's primary product offerings are traditional and include commercial, agricultural, residential, and consumer loans. A large majority of these loans are made within the bank's assessment area. In addition, the bank offers non-traditional consumer loan products, including a substantial volume of sub-prime credit cards and payday loans, both of which are marketed on a national basis. Essentially all of the sub-prime credit card and payday loans were made outside of the bank's assessment area.

The bank has two community development corporation subsidiaries. First National Community Development Corporation (FNCCDC) purchases and renovates housing for rental or resale to low- and moderate-income individuals or families. First National Venture Capital, Inc. (FNVCI) encourages economic development by making equity investments in small businesses to retain or create new jobs in the assessment area. We considered the lending activities of these subsidiaries in conjunction with those of the bank, at the bank's request.

There are no financial, legal, or other factors that impede the bank's ability to meet the credit needs in its assessment area. FNB was rated "Satisfactory" at its last Community Reinvestment Act examination dated October 5, 1998.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

- Our analysis of small business and small farm lending included 1999, 2000, and 2001 loan originations and purchases.
- Our analysis of home mortgage lending included 2001 loan originations and purchases. The bank first began reporting HMDA loan data in 2001. Therefore, home mortgage origination data for the fourth quarter of 1998 and all of 1999 and 2000 is derived from trial balance information. Due to changes in the bank's internal loan purpose codes, we were unable to obtain complete information about the bank's home mortgage lending, including volume and loan type or purpose. We agree with bank management that 2001 HMDA data is generally representative of home mortgage lending that occurred in prior years.
- We weighted HMDA, small business, and small farm loans relatively equally in arriving at our conclusion for the bank's performance in the Lending Test. All three products are primary product types for the bank with significant lending volume. In addition, all of these products have been identified as credit needs in the assessment area.
- We used an evaluation period of October 1, 1998 through December 31, 2001 for assessing FNB's community development loan, investment, and service activities. This evaluation period captures community development activities not considered in prior CRA examinations.
- For analysis purposes, it was most meaningful to combine all of the bank's geographies into one assessment area for this evaluation period. Brookings, Moody, Lake, Kingsbury, Deuel, and Hamlin Counties in South Dakota are all contiguous, non-Metropolitan Areas. FNB included 2 of the 29 census tracts in Minnehaha County, South Dakota due to the addition of the Garretson branch more than halfway through the evaluation period. Minnehaha County is contiguous and is part of the Sioux Falls, South Dakota MA #7760. The two census tracts are in the rural portion of the county and do not include the city of Sioux Falls. The one block numbering area included from Rock County, Minnesota is also contiguous, and is not material enough to justify a separate assessment area. Clay County, South Dakota is the only non-contiguous county; however, its demographics are so similar to Brookings County due to the university population that the combination is warranted, as it has been in past examinations.

### Selection of Areas for Full-Scope Review/Ratings

We performed a full-scope review of the bank's one assessment area and based our rating entirely on that performance.

## Data Integrity

In preparation for our CRA examination, the bank engaged an external review to verify the integrity of its 1999 and 2000 CRA small business and small farm data in April 2001. That review found numerous errors, which required bank personnel to perform a corrective file review. A follow-up external review of the same data in August 2001 noted improvements, but the number of errors remained unacceptable. After a second file review to correct these errors, a third external review in September 2001 found that the data were accurate. An external review found that FNB's 2001 CRA small business and small farm data were also accurate. We reviewed the bank's 2001 HMDA loan data in January 2002 and found it to be substantially accurate.

These data integrity problems delayed the start of our examination from October 2001 to January 2002. Publicly reported data for small business and small farm lending activity are inaccurate for 1999 and 2000. We based this evaluation on accurate data subsequent to the bank's corrections.

## Other

We interviewed two community contacts during the examination to determine the credit needs of the assessment area. These contacts included a business development organization and a person knowledgeable about housing needs in the assessment area. Both community leaders agreed that small business lending is of primary importance to much of the local economy. Adequate affordable housing is also a community need. Prior community contacts completed by other regulatory agencies were not recent enough to provide any additional relevant information, except to emphasize that continued availability of agricultural credit is needed to sustain the farm economy.

During the examination, we received public comment letters from three community organizations regarding FNB's CRA performance. These community organizations expressed concerns about predatory lending in relation to the bank's payday loan product. We investigated specific concerns contained in these letters, and considered all public comments in reaching our conclusions as to the overall rating for FNB. Refer to the **Compliance with Laws and Regulations** page for more information.

Even though some of the public comment letters were not received directly by the bank, we asked the bank to make the comments received by our office available in the bank's CRA public file. Copies of all public comments received by our office are also available at: Office of the Comptroller of the Currency, Midwestern District Office, 2345 Grand Boulevard, Suite 700, Kansas City, Missouri 64108-2637.

## Compliance with Laws and Regulations

The OCC did not separately evaluate the bank's consumer lending in connection with the lending test. However, the bank engaged in Federal Trade Commission Act violations during the evaluation period in connection with its sub-prime credit card activities. This was an illegal credit practice. FNB also violated the standards set forth in 12 C.F.R. § 30 by failing to identify the source of repayment and to assess the borrower's repayment ability at each extension of credit in connection with its payday loan program. These violations adversely affected FNB's overall CRA rating, as required by the regulation.

As a result of these violations, the bank's Board of Directors entered into a *Consent Order* with the OCC on January 17, 2003. The *Consent Order* provides that FNB will provide up to \$6 million of restitution to affected customers, and imposes guidelines for any future sub-prime credit card product offerings. FNB ceased issuing all sub-prime credit cards in January 2002. In addition, the *Consent Order* requires the bank to cease its payday loan program, which occurred in May 2003.

We found no evidence of illegal discrimination. We did review concerns raised in the public comment letters that the bank's payday loan product may have been targeted to lower-income or minority communities and borrowers. Although information on the race or national origin of the bank's payday loan borrowers was not available to assist us in this inquiry because Federal Reserve Board Regulation B prevents the bank from collecting such information on consumer-purpose loan borrowers, we reviewed the addresses of the payday loan stores to determine if they were located in areas with a high minority or low- or moderate-income populations. Based on this review, we did not find sufficient evidence to support a conclusion of reverse redlining practices.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the lending test is rated "Outstanding." FNB's overall lending activity and borrower distribution are good. Community development lending levels are excellent and had a positive influence on the Lending Test rating. Geographic distribution analysis was not meaningful.

#### Lending Activity

Lending levels reflect good responsiveness to identified small business, small farm, and home mortgage credit needs. FNB originated the following loan volumes included in our analysis:

- 1,483 reportable small business loans totaling \$102.8 million during the evaluation period. Of these, 1,288 loans totaling \$77.9 million are located within the bank's assessment area. FNB ranks 3<sup>rd</sup> among 43 reporters in the assessment area with 9.5 percent market share.
- 2,091 reportable small farm loans totaling \$112.1 million during the evaluation period. Of these, 1,855 loans totaling \$90.9 million are located within the bank's assessment area. FNB ranks 1<sup>st</sup> among 24 reporters in the assessment area with 23 percent market share.
- 875 home mortgage loans totaling \$54.1 million during 2001. Of these, 802 loans totaling \$48.3 million are located within the bank's assessment area. Market share information is not available.

FNB's lending market share for small business and small farm loans exceeds its deposit market share. FNB has a 4.6 percent deposit market share in the assessment area, ranking 5<sup>th</sup> among 45 institutions with offices located in the assessment area.

Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's lending activity.

#### Distribution of Loans by Income Level of the Geography

FNB's assessment area does not contain any low- or moderate-income geographies. Therefore, geographic distribution analysis is not meaningful.

#### Lending Gap Analysis

A lending gap analysis showed no inexplicable gaps in the bank's lending. FNB originated small business and home mortgage loans in all of the 16 assessment area geographies. FNB originated small farm loans in 15 of the 16 assessment area geographies.

### ***Inside/Outside Ratio***

FNB originates and purchases a substantial volume of its loans within its assessment area. During the evaluation period, the bank originated or purchased a total of 89 percent by number and 81 percent by dollar volume of its loans within the assessment area. The inside/outside ratio was similar to the total for all loan products reviewed. The bank originated or purchased 87 percent by number and 76 percent by dollar volume of its small business loans within the assessment area. The bank originated or purchased 89 percent by number and 81 percent by dollar volume of its small farm loans within the assessment area. The bank originated or purchased 92 percent by number and 76 percent by dollar volume of its residential mortgage loans within the assessment area.

### **Distribution of Loans by Income Level of the Borrower**

Distribution of loans to borrowers of different income levels and to businesses and farms of different sizes is good based on good performance in home mortgage and small farm lending, and adequate performance in small business lending.

### ***Home Mortgage Loans***

The bank's performance in lending to borrowers of different incomes in the assessment area is good. FNB's performance in home purchase, home improvement, and home refinance lending to low-income borrowers is good. The percentage of the bank's home purchase loans (7.1 percent), home improvement loans (12.6 percent), and home refinance loans (5.6 percent) is below the percentage of low-income families in the assessment area (17 percent). However, nearly 10 percent of families in the assessment area are below the poverty level, which is a significant barrier to home ownership.

FNB's performance in home purchase and home improvement lending to moderate-income borrowers is excellent. The percentage of the bank's home purchase loans (20.8 percent) and home improvement loans (21.3 percent) originated to moderate-income borrowers exceeds the percentage of moderate-income families in the assessment area (16.8 percent). FNB's performance in home refinance lending to moderate-income borrowers is adequate. The percentage of the bank's home refinance loans (11.1 percent) originated to moderate-income borrowers is below assessment area demographics.

Market share information for home mortgage loans is unavailable. FNB became subject to HMDA reporting in 2001; the most recent aggregate market share data available is for 2000.

Refer to Tables 8, 9, and 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

### ***Small Loans to Businesses***

The distribution of loans to businesses of different sizes is adequate. FNB originated 78 percent of its reported business loans in the assessment area to entities with gross annual revenues of \$1 million or less. This performance exceeds the overall market performance of 65 percent, but is below the assessment area demographics -- 88 percent of businesses have gross annual revenues of \$1 million or less.

Of all banks subject to CRA data reporting, FNB ranked 2<sup>nd</sup> among 43 lenders in originating small business loans to businesses with revenues of \$1 million or less. This represents 14 percent market share. FNB's ranking and market share percentage for lending to businesses with revenues of \$1 million or less exceeds its ranking (3<sup>rd</sup> of 43) and market share (9.5 percent) for making small loans to businesses of all revenue sizes.

Loan size distribution for FNB approximates that of the combined market lenders. The bank made 86 percent of its small business loans in amounts of \$100 thousand or less, with an average loan size of \$60 thousand. In aggregate, all market lenders made 87 percent of their small business loans in amounts of \$100 thousand or less, with an average loan size of \$62 thousand.

Refer to Table 11 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

### ***Small Loans to Farms***

The distribution of loans to farms of different sizes is good. FNB originated 74 percent of its reported farm loans in the assessment area to entities with gross annual revenues of \$1 million or less. This performance is below both the overall market performance of 96 percent and assessment area demographics of 98 percent. However, FNB had 22 percent of its small farm loans to farms with unknown revenues, most of which would likely have gross annual revenues well below \$100 thousand. This reflects the bank's practice of requiring less financial documentation for very small loan amounts or for very small farming operations.

Of all banks subject to CRA data reporting, FNB ranked 1<sup>st</sup> among 24 lenders in originating small farm loans to farms with revenues of \$1 million or less. This represents 24 percent market share. FNB's ranking and market share percentage for lending to farms with revenues of \$1 million or less equals its ranking (1<sup>st</sup> of 24) and market share (23 percent) for making small loans to farms of all revenue sizes.

Loan size distribution for FNB approximates that of the combined market lenders. The bank made 87 percent of its small farm loans in amounts of \$100 thousand or less, with an average loan size of \$49 thousand. In aggregate, all market lenders made 86 percent of their small farm loans in amounts of \$100 thousand or less, with an average loan size of \$54 thousand.

Refer to Table 12 in the Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to farms.

### **Community Development Lending**

Community development lending levels are excellent and meet community credit needs related to economic development and affordable housing. Despite somewhat limited opportunities, the bank has actively pursued available community development lending opportunities and has played a leading role in promoting economic development in the assessment area. Community development loans total \$5.65 million, or 16 percent of Tier I Capital.

In 1999, the bank extended two loans totaling \$5.5 million to a local small business for real estate and equipment expansion. This expansion promoted economic development by creating additional job opportunities in the assessment area, with employees now numbering over 300. Over 95 percent of employees earn wages in the low- and moderate-income range.

In 2000, FNB extended two loans totaling \$101 thousand to FNCDL to purchase and renovate two single-family dwellings for resale to low- and moderate-income individuals.

The bank extended a loan for \$46 thousand to a qualifying community organization to purchase real estate for future development of an industrial park. This loan creates numerous economic development opportunities for the assessment area.

Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's level of community development lending.

### **Product Innovation and Flexibility**

FNB offers a flexible loan program for affordable housing. South Dakota Housing Development Authority (SDHDA) is a first-time homebuyer program that offers below-market interest rates and very low or no down payment requirements for low- and moderate-income borrowers. The bank originated 132 SDHDA loans totaling \$8.1 million during the evaluation period. These loans are included in the home mortgage loan totals and analysis discussed earlier in this report.

## INVESTMENT TEST

The bank's performance under the Investment Test is rated "Outstanding." Opportunities for making qualified investments in the assessment area exist, but are somewhat limited as the assessment area is comprised of small towns and rural areas. FNB generated an excellent level of qualified investments totaling nearly \$4.6 million, or 13 percent of Tier I Capital. Qualified investments are directly responsive to the identified credit needs in the bank's assessment area. About \$3.9 million of the investments funded affordable housing, \$617 thousand promoted economic development, and \$26 thousand provided community services to low- and moderate-income individuals and families.

Refer to Table 14 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

## **SERVICE TEST**

The bank's performance under the Service Test is rated "High Satisfactory." The level of retail banking and community development services is good.

### **Retail Banking Services**

FNB's branches and ATMs are accessible to geographies and individuals of different income levels. Although there are no low- or moderate-income geographies in the bank's assessment area, analysis shows that retail banking services are equally accessible to individuals of all income levels, including low- and moderate-income individuals. The bank has five full-service branches: three in Brookings, one in Vermillion, and one in Garretson (opened September 1, 2000). In addition, FNB owns and operates eight ATMs, of which four are deposit-taking and four are cash-dispensing only. The bank has not closed any branches during the evaluation period.

Lobby and drive-up hours are reasonable and are substantially similar at all traditional banking branches. The Brookings HyVee branch offers extended evening and weekend hours, but does not have a drive-up facility. Alternative delivery systems include 24-hour telephone banking, Internet banking, and bank-by-mail. FNB does not have information to describe the impact that these systems have on low- and moderate-income individuals; therefore, we could not place much weight on these systems to determine the bank's performance under this test.

Refer to Table 15 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

### **Community Development Services**

FNB provided a good level of community development services during the evaluation period. Bank employees routinely provide financial expertise to community development organizations, especially those involved with affordable housing and economic development. These are identified needs in the assessment area.

In addition, a loan officer facilitated a complex transaction, ultimately resulting in a community development investment to fund the permanent financing of an assisted living center in Brookings. This transaction involved managing a large CRA deposit from another bank to make loans to fund the construction phase of the project, then converting those loans into a bond purchased by the bank.

The bank administers its two community development corporations, FNCD (affordable housing) and FNVCI (economic development).

A bank director serves on the boards of both the Brookings Area Development Corporation (BADDC) and the Brookings Economic Development Center (BEDC). BADDC's purpose is to increase employment opportunities in the area by providing financing to start-up and existing businesses. BEDC's purpose is to recruit small business and farm industries to the area using state and local incentives. Its major accomplishment has been the development of an industrial park area.

Bank employees also provide community development services to meet the needs of low- and moderate-income individuals in the assessment area. A bank employee served as the co-chair of the 1999 United Way campaign and remains active on various committees. FNB hosted a luncheon meeting featuring Lutheran Social Services/Consumer Credit Counseling Services presenting its plan to meet the needs of the Brookings area.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Small Business and Small Farm Loans: 1/1/1999 to 12/31/2001 Home Mortgage Loans: 1/1/2001 to 12/31/2001 Investment/Service Tests, CD Loans: 10/1/1998 to 12/31/2001	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First National Bank in Brookings (FNB) Brookings, South Dakota	Small Business, Small Farm, Home Mortgage, Community Development (CD) Loans; Investments; Services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
First National Community Development Corporation (FNDCD)	Bank Subsidiary	Community Development Loans
First National Venture Capital, Inc. (FNVCI)	Bank Subsidiary	Investments
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Brookings, South Dakota	Full Scope	All of Brookings, Clay, and Moody Counties in South Dakota. Portions of Deuel (BNA #9536), Hamlin (#9551), Kingsbury (#9581), and Lake (#9601) Counties in South Dakota. Portion of Rock County (#9701) in Minnesota. Portion of Minnehaha County (MA #7760, CTs #101,104) in South Dakota.

## Appendix B: Market Profiles for Full-Scope Areas

### Brookings, South Dakota

Demographic Information for Full-Scope Area: Brookings, South Dakota						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	16	0%	0%	87.5%	12.5%	0%
Population by Geography	76,670	0%	0%	82.4%	17.6%	0%
Owner-Occupied Housing by Geography	18,198	0%	0%	85.8%	14.2%	0%
Businesses by Geography	3,462	0%	0%	85.8%	14.2%	0%
Farms by Geography	1,790	0%	0%	95.5%	4.5%	0%
Family Distribution by Income Level	18,959	17.0%	16.8%	23.9%	42.3%	0%
Distribution of Low- and Moderate-Income Families throughout Geographies	6,408	0%	0%	87.1%	12.9%	0%
Median Family Income	\$29,749	Median Housing Value		\$42,043		
HUD Adjusted Median Family Income for 2001	\$45,418	Unemployment Rate		4.0%		
Households Below the Poverty Level	16.3%					

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 1990 U.S. Census and 2001 HUD updated MFI.

The Brookings, SD Assessment Area consists of 16 census tracts and block numbering areas in South Dakota and Minnesota. The assessment area complies with all regulatory requirements. It includes all of the bank's branch offices and ATMs, as well as a majority of the bank's loans. The area contains only middle- and upper-income geographies, but does not arbitrarily exclude any low- or moderate-income geographies. Refer to the "Scope of the Evaluation" section for more information on the bank's assessment area.

FNB's overall deposit market share is 4.6 percent, ranking 5<sup>th</sup> among 45 institutions with branches in the assessment area. Citibank (South Dakota), N.A. dominates deposit market share with 41.4 percent. However, the bank's deposit market share in individual counties varies widely. Brookings County comprises the bank's most dominant assessment area with 56 percent deposit market share, ranking 1<sup>st</sup> among 10 institutions. The bank has a moderate presence in Clay County, with 14 percent deposit market share, ranking 5<sup>th</sup> among six institutions. FNB has a minimal presence in Minnehaha County with 0.5 percent deposit market share, ranking 16<sup>th</sup> among 25 institutions.

Economic conditions in the assessment area are generally good. Unemployment averages about 4.0 percent, which is a slight increase over recent months, but well below the national average of 5.8 percent.

Education, manufacturing, and services are all major sources of employment in the assessment area. The largest employers in the assessment area include South Dakota State University (Brookings), University of South Dakota (Vermillion), Daktronics, Inc., 3M Corporation, and Larson Manufacturing. In addition, the rural portions of the assessment area are predominantly agricultural, including livestock, dairy, and grain production.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Tables without data are not included.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption, such as “Statewide/Regional” or “Out of Assessment Area,” in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.

- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

**Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/assessment area. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item with the appropriate caption, such as "Statewide/Regional" or "Out of Assessment Area," in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/assessment area. The table also presents data on branch openings and closings in each MA/assessment area.















