



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**March 10, 2010**

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

Security National Bank of South Dakota  
Charter Number 23226

325 Dakota Dunes Boulevard  
Dakota Dunes, South Dakota 57049

Comptroller of the Currency

Sioux Falls Field Office  
4900 South Minnesota Ave, 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, 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'S CRA RATING**

**This institution is rated Satisfactory.**

Security National Bank of South Dakota (SNBSD), Dakota Dunes, South Dakota helps meet the credit needs of its assessment areas (AAs). The primary lending activities within the AAs are to commercial and consumers borrowers.

- SNBSD's lending level is reasonable, given the institution's size, the lending through affiliate The Security National Bank of Sioux City (SNBSC), and the AAs credit needs.
- The majority of the bank's lending is within the bank's two AAs.
- The bank's lending to consumers of different income levels and businesses of different sizes is reasonable.
- The bank's geographic distribution of business loans within the Sioux Falls AA is reasonable.
- SNBSD has not received any formal complaints related to its Community Reinvestment Act (CRA) performance.

## **DESCRIPTION OF INSTITUTION**

SNBSD is a \$130 million bank headquartered in Dakota Dunes in Union County in extreme southeastern South Dakota. Dakota Dunes is a planned community just across the Iowa state line from Sioux City, Iowa. The bank's main office is at 325 Dakota Dunes Boulevard. The bank has two branches at 4621 West 26<sup>th</sup> Street and 6601 Louise Avenue in Sioux Falls, which were opened in March and April 2007, respectively. Security National Corporation (SNC), a \$1,070 million, five-bank holding company headquartered in Sioux City, Iowa, owns 100 percent of SNBSD's bank stock.

SNBSD opened for business May 1, 1997. The chartering of SNBSD was intended to benefit SNC's current customers and to allow SNC and its affiliate banks to better serve and grow their trust business. After the establishment of the trust business, the Board of Directors found a permanent location with better access to the public and became a full service bank. The most recent expansion into Sioux Falls was to provide additional trust and banking services in southeastern South Dakota. As of December 31, 2009 SNBSD had \$311 million in managed trust assets and custodial trust accounts.

The bank has no legal or financial impediments limiting its ability to help meet community credit needs. However, SNBSD opened two new branches and loan growth has been slowed by the economic down turn that started in 2008. Also, SNBSD continues to rely on the assistance of SNBSC, the lead bank in the SNC group. SNBSC offers residential loan products in the Union

County AA and SNBSD purchases some participations from SNBSC in the Sioux Falls AA.

The new locations in Sioux Falls allow more space for additional staff, two drive-up facilities, lock boxes, and two deposit taking ATMs. The bank has since emphasized the growth of commercial, consumer, and residential lending in the Sioux Falls AA. The new locations are full service banking facilities with onsite business lenders and a residential lender.

SNBSD’s CRA performance was last rated September 29, 2003. The bank’s performance was rated Satisfactory.

SNBSD is the third smallest institution in Union County, South Dakota and the second smallest institution in Minnehaha County, South Dakota. The December 31, 2009 Federal Deposit Insurance Corporation’s “Summary of Deposit Report” shows a comparison of the number of banking offices and deposits per financial institution in Union and Minnehaha County. SNBSD had total deposits of \$120 million. SNBSD is one of seven banks with offices in Union County and holds about 12 percent of total deposits. SNBSD is one of ten banks with offices in Minnehaha County and holds less than 1 percent of deposits in the county.

As of December 31, 2009 SNBSD’s loan portfolio comprised 36.75 percent of total assets compared to the last CRA assessment when loans were 18 percent of total assets. In addition, SNBSC has originated 82 residential loans for another \$19.6 million in the last two years within the AA. Also, SNBSC has originated additional commercial and agricultural loans within the Union County AA in the amount of \$12.7 million and assigned them to SNBSD for CRA purposes. SNBSC originated loans the last two years that total an additional 27 percent of SNBSD’s total deposits. SNBSD has increased its consumer loan volume by 30 percent and agricultural lending by 248 percent since December 31, 2006. SNBSD’s primary direct credit product by number of loans is consumer loans in the Union County AA. Sixty nine percent of consumer loans were originated at the Dakota Dunes office. The primary product in the Sioux Falls AA is commercial loans. The following table shows the percentage of each loan type originated in 2008 and 2009 by dollar and number of originations.

	<b>% of Origination Dollars</b>	<b>% of Origination # of Loans</b>
Commercial Loans	<b>73%</b>	16%
Residential Loans	17%	16%
Consumer Loans	5%	<b>55%</b>
Agricultural Loans	3%	1%
Home Equity Lines of Credit	2%	12%

Source: % of consumer origination dollars and # are based on the SNBSD’s new consumer loan origination report. Residential, commercial, installment, and agricultural originations are based on the SNBSD’s HMDA report and new business reports for 2008 and 2009. The bank just became a HMDA reporting bank in 2008.

## **DESCRIPTION OF ASSESSMENT AREA**

SNBSD's two AAs meet all legal requirements of the CRA. The Union County AA is census tract 203, which is the southern one-third of Union County, South Dakota. The AA includes the communities of Dakota Dunes, Jefferson, and North Sioux City. Also, McCook Lake is within the AA. The AA consists of one middle-income tract. The AA does not arbitrarily exclude any low- or moderate-income areas. The bank's headquarters is located in the southern half of the AA. The AA is part of the Sioux City, Iowa MSA.

The Sioux Falls AA includes the southern one-half of Minnehaha County and the northern census tract (101) in Lincoln County. The AA includes the communities of Brandon, Harrisburg, Hartford, Lennox, Sioux Falls, and Tea. The AA consists of 28 census tracts of which no tracts are low-income, 5 are moderate-income, 18 are middle-income, and 5 are upper-income tracts. This AA does not arbitrarily exclude any low- or moderate income areas. The bank's branches are located on the western side of Sioux Falls just west of Interstate 29 and the southern edge of Sioux Falls just south of the Interstate 229 bypass. This is part of the Sioux Falls, South Dakota MSA. A map of the two AAs can be obtained from the bank's CRA public file.

According to the updated 2000 U.S. Census, the population of the Union County AA is 5,807. The Housing and Urban Development (HUD) 2009 weighted average updated MSA median family income for the Union County is \$58,800. The distribution of family incomes within the AA is 12 percent low-income, 12 percent moderate-income, 20 percent middle-income, and 56 percent upper-income. About 4.5 percent of the households in the AA are below the poverty level. Based on the census, the median housing value is \$103,900 and 83 percent of housing stock is owner-occupied.

Per the updated 2000 U.S. Census, the population of the Sioux Falls AA is 151,911. The HUD 2009 weighted average updated MSA median family income for the Sioux Falls AA is \$66,600. The distribution of family incomes within the AA is 15 percent low-income, 19 percent moderate-income, 28 percent middle-income, and 38 percent upper-income. About 7.4 percent of the households in the AA are below the poverty level. Based on the census, the median housing value is \$96,586 and 91 percent of housing stock is owner-occupied.

The economies in the two AAs, primarily the communities of Sioux Falls and Sioux City, appear to have stabilized and are starting the initial stage of economic recovery. The depth of the fall in commercial real estate and housing prices were not as severe in either community as some larger communities. Both AAs over the last several years have benefited from the growth of Sanford Hospital in Sioux Falls and a new medical center and expansion of related medical offices in Dakota Dunes. The growth in the medical community has offset employment losses in home construction in Sioux Falls and the decline at Union County's, major employer, Gateway. Current major employers in Sioux Falls AA include Sanford and Avera medical centers, Morrell Packing Company, credit card businesses, and retail businesses. The major employers in Union County are medical related, Alorica, Interbake Foods, Inc., and Mars Pet Care.

We considered 5 state banks as similarly situated banks for CRA comparison. We did not consider a number of the banks in the AA comparable as their sizes were higher than \$250 million or the banks generated a significant majority of their deposits outside the Union County AA or Sioux Falls AA. We compared the bank’s lending level and activities to similarly situated banks in the AAs that had assets ranging from \$42 million to \$124 million.

Examiners made two community contacts and reviewed a previous contact. The contacts were community leaders with a sound understanding of area credit needs and knowledge of the bank’s efforts to meet those needs. The contacts identified charitable giving, residential real estate, small commercial, and consumer loans as community credit needs. SNBSD, with assistance from SNBSC, offers and originates these loan products.

Community contacts indicate that credit needs differ in the AAs. One contact indicated charitable giving to agencies that assist low- and moderate-income individual is a constant need. Another felt affordable housing was a primary need. A third contact indicated the primary credit need was small business loans. One contact indicated SNBSD and two other banks had the strongest impact on development agencies and direct impact on lending within the AAs.

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

### **Loan-to-Deposit Ratio**

SNBSD’s loan-to-deposit (LTD) ratio is reasonable given its size and financial condition, the recent addition of branches in the Sioux Falls MSA, and the AA’s credit needs. The average LTD for the past twenty quarters is 50.3 percent. The bank’s lending level is below the 87 percent average of the five similar sized banks in the Sioux Falls AA and Union County AA. The LTD ratios of those banks range from 70 percent and 99 percent. The bank’s LTD ratio would increase materially if it were adjusted to account for the loans referred by SNBSD and originated by their affiliate SNBSC. SNBSD’s affiliate, SNBSC originated an additional \$32.3 million in residential and commercial loans within the AAs during the assessment period and assigned them to SNBSD for CRA lending purposes. The adjusted LTD ratio would be 66 percent.

### **Lending in Assessment Area**

SNBSD originates a majority of its consumer loans within the Union County AA. We sampled 20 installment loans originated in 2008 and 2009 to assess the bank’s performance of lending within the Union County AA. Fourteen installment loans, or 70 percent, were made within the AA. Also, \$159 thousand, or 57 percent by loan volume, were within the AA. The following table details the findings of our consumer sample.

<b>Table 1A - LENDING WITHIN THE UNION COUNTY ASSESSMENT AREA</b>				
	<b># of Loans</b>	<b>% of Total #</b>	<b>\$ of Loans</b>	<b>% of Total \$</b>

Inside AA	14	70%	\$159,399	57%
Outside AA	6	30%	\$120,928	43%
<b>Totals</b>	<b>20</b>	<b>100%</b>	<b>\$280,327</b>	<b>100%</b>

Source: Loan sample.

SNBSD originates a majority of its business loans within the Sioux Falls AA. We sampled 20 business loans originated in the 2008 and 2009 to assess the bank's performance of lending within the Sioux Falls AA. Fourteen business loans, or 60 percent, were made within the AA. Also, \$6.9 million, or 59 percent by loan volume, were within the AA. The following table details the findings of our sample.

<b>Table 1B - LENDING WITHIN THE SIOUX FALLS ASSESSMENT AREA</b>				
	# of Loans	% of Total #	\$ of Loans	% of Total \$
Inside AA	12	60%	\$6,935,900	59%
Outside AA	8	40%	\$4,910,000	41%
<b>Totals</b>	<b>20</b>	<b>100%</b>	<b>\$11,845,900</b>	<b>100%</b>

Source: Loan sample.

Our evaluation did not focus on the agricultural or residential loans as they were not the primary product by dollar volume or number of loans.

### **Lending to Consumer and Business Borrowers of Different Incomes and Businesses of Different Sizes**

We sampled 20 loans in each of the bank's AAs using the primary loan products in each AA to assess performance. All loans were to consumers or businesses originated during 2008 and 2009. Overall, the bank has a reasonable record of lending to borrowers of different income levels and businesses of different sizes.

#### Consumer Loans within the Union County AA

The bank has a satisfactory record of providing consumer loans to consumers of different income levels. The volume of loans to low- and moderate-income consumers is comparable to census percentages. The following table shows the bank's performance in making consumer loans compared to income demographics within the Union County AA.

<b>Table 2A – BORROWER DISTRIBUTION OF CONSUMER LOANS IN THE UNION COUNTY AA</b>					
<b>Income Level</b>	<b># of Loans</b>	<b>% of Total #</b>	<b>\$ of Loans</b>	<b>% of Total \$</b>	<b>% of Households in the AA</b>
Low	5	25%	\$ 16,312	6%	12%
Moderate	2	10%	\$ 34,895	12%	12%
Middle	7	35%	\$ 153,245	55%	20%
Upper	6	30%	\$ 75,875	27%	56%
<b>Totals</b>	<b>20</b>	<b>100%</b>	<b>\$280,327</b>	<b>100%</b>	<b>100%</b>

Source: Consumer loan sample and 2000 U.S. Census Data.

### Business Loans within the Sioux Falls AA

SNBSD has a satisfactory record of lending to businesses of different sizes. Since the bank opened two new branches in Sioux Falls, they hired two full time dedicated business lenders. Outstanding business loan volume has grown from less than \$5 million at the time of the last performance evaluation in 2003 to \$32 million. The following table indicates 15 of 20 loans sampled (75 percent) were to businesses with annual revenues of less than \$1 million. This is just above Dun and Bradstreet data for the AA where 73 percent of businesses had sales revenues under \$1 million.

<b>Table 2B - Borrower Distribution of Loans to Businesses in the Sioux Falls AA</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	73%	6%	21%	100%
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	70%	30%	0%	100%

Source: Loan sample and Dun and Bradstreet Data.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The Union County AA is one middle-income census tract. Therefore, a specific analysis of geographic distribution of loans is not meaningful.

The geographic distribution of business loans in the Sioux Falls AA is reasonable. The Sioux Falls AA consists of 28 census tracts of which 5 (18 percent) are moderate-income, 18 (54 percent) are middle-income, and 5 (18 percent) are upper-income. Our review of 20 business loans in the Sioux Falls AA found that by number 3 (15 percent) were located within moderate-income tracts, 13 (60 percent) within middle-income tracts, and 4 (20 percent) were within upper-income tracts.

<b>Table 3A - Geographic Distribution of Loans to Businesses in the Sioux Falls AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans in the Sample	% of AA Businesses	% of Number of Loans in the Sample	% of AA Businesses	% of Number of Loans in the Sample	% of AA Businesses	% of Number of Loans in the Sample
	0%	0%	18%	15%	54%	60%	18%	20%

Source: Loan sample and Dun and Bradstreet Data.

## **RESPONSES TO COMPLAINTS**

The bank has not received any CRA-related complaints since the evaluation dated September 29, 2003.

## **FAIR LENDING AND OTHER ILLEGAL PRACTICES REVIEW**

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