

Public Disclosure

November 8, 1999

**Community Reinvestment Act
Performance Evaluation**

**United Credit National Bank
Charter Number: 23116**

**2200 East Benson Road
Sioux Falls, South Dakota 57104**

**Office of the Comptroller of the Currency
Midwestern District Office
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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, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **United Credit National Bank, Sioux Falls, South Dakota** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 8, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. 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 by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA) - A geographic area which consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area - A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

CEBA - Competitive Equality Banking Act of 1987 which permitted corporations to form limited purpose credit card banks, whose operations are restricted to credit card activities, without the bank being considered a bank under the Bank Holding Company Act. A CEBA credit card bank engages only in credit card operations, does not accept demand deposits or savings or time deposits of less than \$100M (other than to secure extensions of credit), maintains only one office and does not engage in the business of making commercial loans.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Community Development (CD) - Affordable 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 safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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

Limited Purpose Institution - An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market. A limited-purpose institution continues to meet the narrow product line requirement if it only infrequently provides other types of loans.

Median Family Income (MFI) - The median income determined by the United States 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.

Low-Income Family or Geography - An income level that is less than 50% of the MFI.

Moderate-Income Family or Geography - An income level that is at least 50% and less than 80% of the MFI.

Middle-Income Family or Geography - An income level that is at least 80% and less than 120% of the MFI.

Upper-Income Family or Geography - An income level that is 120% or more of the MFI.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income - As defined by the Consolidated Report of Condition and Income, income before adjusting for extraordinary items.

Pass Through Receivables - Outstanding receivables tied to all accounts issued or owned by the bank regardless of the balances of those receivables being carried on the bank's books or sold to another entity.

Tier 1 Capital - The total of common shareholders equity, perpetual preferred shareholders equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Total Assets - Total bank assets as defined by the Consolidated Report of Condition and Income.

Total Income - From the Consolidated Report of Condition and Income -- Interest income plus

noninterest income.

Scope of the Examination

In evaluating the bank's performance under the CRA, we reviewed community development activities from February 3, 1997 through November 8, 1999. We reviewed the level and nature of qualified investments and community development services. At the bank's option, we also considered the community development activities provided by its affiliate, Specialized Card Services, Inc., (SCS) of Sioux Falls, South Dakota. This is the first CRA evaluation of UCNB since its inception on February 3, 1997.

Institution's CRA rating:

This institution is rated "Satisfactory."

The major characteristics that support this rating are:

- UCNB originated an adequate level of community development investments, including an investment that is not routinely provided by private investors.
- The bank demonstrates occasional use of innovative investments and shows excellent responsiveness to community development needs in its assessment area.
- UCNB senior management provided an adequate level of community development services to its assessment area.

Description of Institution

United Credit National Bank (UCNB) is a \$293 million financial institution headquartered in Sioux Falls, South Dakota. UCNB is a wholly owned subsidiary of United Credit Services Corporation of Dallas, Texas. The ultimate parent is UICI, a \$2.8 billion general insurance company also headquartered in Dallas, Texas. The bank, which commenced operations on February 3, 1997, has no operating subsidiaries and no branch offices.

UCNB is chartered under the Competitive Equality Banking Act (CEBA) of 1987, which restricts its operations and lending to credit cards. Refer to Definitions and Common Abbreviations for CEBA limitations. Other than the restrictions imposed by the CEBA, there are no legal or financial factors that would impede the bank's ability to help meet the community development needs of its assessment area. UCNB received its limited purpose CRA designation from the OCC on August 12, 1997. The bank, which offers variable-rate Visa credit card accounts, rarely sells its credit card receivables. Table 1 provides a perspective on the bank's financial capacity to make community development investments.

Table 1: Financial Information (000s)

	Year-end 1997	Year-end 1998	Most Recent Quarter-end 9/30/99	Average for Evaluation Period
Tier 1 Capital	5,139	18,243	30,639	18,007
Total Income	3,030	57,904	*191,580	84,171
Net Operating Income	193	4,815	*14,448	6,485
Total Assets	15,650	144,523	292,504	150,892
Pass Through Receivables	108,254	304,956	483,295	298,835

Source: Consolidated Report of Condition and Income and Bank reported data.

*Annualized data reported.

Description of Assessment Area

UCNB's assessment area is the Sioux Falls, South Dakota MSA, which consists of Lincoln and Minnehaha Counties. The assessment area complies with CRA guidelines and does not arbitrarily exclude low- and moderate-income geographies. The MSA is the largest urbanized area in South Dakota with a population of 139,236. The median family income at the 1990 census was \$34,101, the 1999 HUD updated median family income is \$49,600, and 9 percent of households live at or below the poverty level. The following table presents additional assessment area demographic information.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tract	33	0%	21%	58%	21%
Families	36,631	16%	20%	28%	36%
Small Business	7,051	0%	34%	56%	10%

Source: Demographic Data - 1990 U.S. Census, Dun & Bradstreet Data

Local economic conditions are very good. The assessment area's population grew by 16 percent since 1990 as business expansion brought new job seekers to the area. The unemployment rate is low at 1.4 percent compared to the statewide rate of 2.6 percent. Total occupied housing stands at 96 percent, and only 6 percent of homeowners and renters pay more than 30 percent of their income for housing cost. The average purchase price of a single family home in 1999 was \$90,300. Major employers include health care, retail trade and financial services. There are over twenty commercial financial institutions in the Sioux Falls MSA.

During the examination, we reviewed recent community contacts conducted by the OCC, Federal Reserve Bank, and Federal Deposit Insurance Corporation and CRA Performance Evaluations of other banks in the assessment area. We also met with a representative of a local nonprofit social service organization. Due to strong competition among financial institutions coupled with a robust local economy, the assessment area has very few unmet community development needs. However, community contacts listed creating additional affordable housing and other support services for low- and moderate-income residents as identified community development needs. These services include job training, budgeting, parenting skills training, drug and alcohol rehabilitation, affordable childcare, and basic home maintenance. In addition, the 1995 Sioux Falls Consolidated Plan Executive Summary lists increasing the number of affordable low-income housing units and expanding public facilities and services to low-income residents as primary goals.

Conclusions About Performance

Summary

- UCNB has made an adequate level of qualified investments, grants and services in its assessment area. During this evaluation period, the bank's qualified investments and grants totaled \$361,077. These dollars represent 2 percent of the bank's average Tier 1 capital. All of the bank's investments originated during this evaluation period and each investment directly benefited UCNB's assessment area.
- The bank's investments showed excellent responsiveness to identified community development needs.
- UCNB's investment and participation in the Sioux Falls Community Development Corporation (CDC), a multi-bank, for-profit CDC, demonstrates management's willingness to participate in a more complex qualified investment.
- Through its involvement with the CDC, senior management provided an adequate level of community development services to the assessment area.

Consideration of Activities that Benefit Areas Outside of the Bank's Assessment Area

The bank did not generate any community development investments or services outside of its assessment area.

Qualified Investments

The bank, along with its affiliate SCS, invested \$300,000 in the Sioux Falls Community Development Corporation. The CDC is a for-profit, multi-bank CDC that engages in activities to provide affordable housing for low- and moderate-income individuals, help small businesses create and retain jobs, and participate in government sponsored redevelopment programs. On a combined basis, UCNB and SCS hold the largest investment in the CDC with 36 percent.

The CDC's only investment to date is funding the construction of a multipurpose facility that provides childcare for low-income families. The facility represents a community development investment that is not routinely provided by other institutions. It is the first and only facility in the assessment area providing childcare and other support services to low-income families under one roof.

The facility is operated by a private non-profit organization and offers Head Start, early Head Start (for pregnant women) and after-school care for children from low-income families. In addition, the facility provides administrative offices for the organization's other support services for low- and moderate-income residents. These include eviction prevention, home rehab, rent/deposit assistance, home weatherization, parenting skills, money management, job counseling and placement, basic education, and general living skills.

UCNB also contributed \$55,000 to a local non-profit organization that provides transitional housing to homeless families. The organization operates a 15-unit apartment complex for homeless families and has a waiting list exceeding 100 families. In addition, the bank provided several smaller contributions totaling \$6,077 to groups that provide community development services in the assessment area.

Table 3 provides a breakdown of UCNB's qualified investments and Table 4 shows the bank's investments in relation to its financial capacity to meet community development needs.

Table 3: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	300
Originated Grants	61
Prior Period Investments	0
Totals	361

Table 4: Qualified Investment Percentages (000s)

	Benefits AA (%)
Total Investments/Average Tier 1 Capital	2.00
Total Investments/Average Total Income	00.43
Total Investments/Average Receivables	00.12

UCNB's investment in the multipurpose childcare facility was complex and highly responsive to an identified community development need. Community contacts were very vocal in crediting UCNB management with leading the effort to form the CDC and to build the childcare facility.

The project was complex as UCNB management had to obtain the cooperation of six other financial institutions and local government officials. Demonstrating its leadership, senior management actively promoted the idea of building the childcare facility to local government, business, and community leaders. They partnered with six other financial institutions to pool resources together to address this need. UCNB senior management helped to select the corporate structure, write the by-laws, and obtain regulatory approval to establish the CDC.

The bank's investment reflects excellent responsiveness to assessment area needs. In past years, the lack of affordable childcare services made it difficult for low-income families to move out of poverty. Inadequate child care options were a major factor contributing to the high unemployment among low-income families served by the agency. Many parents suffered from poor job attendance due to unreliable and costly childcare. According to the facility director, the organization has observed a 75 percent decline in job absenteeism among the parents using the facility, which currently serves 46 children.

Community Development Services

Members of UCNB senior management team are active participants in the Sioux Falls Community Development Corporation. They led the effort to form the CDC and used their financial expertise in the planning and construction of the CDC's multipurpose childcare facility.

Compliance with Anti-Discrimination Laws and Regulations

We identified no violations of the substantive provisions of the anti-discrimination laws and regulations. We reviewed the bank's compliance with fair lending laws and regulations during our November 8,

1999 compliance examination. Our review included a comparative file analysis of individual male and female applicants. We evaluated the bank's underwriting decisions for approving initial credit limits to ensure no gender-based differences in treatment occurred.