

## **PUBLIC DISCLOSURE**

April 5, 1999

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

Marquette Bank South Dakota, National Association  
Charter Number 15537  
101 North Main Avenue  
Sioux Falls, South Dakota 57117

**Office of the Comptroller of the Currency  
Sioux Falls Field Office  
300 North Dakota Avenue, Suite 504  
Sioux Falls, South Dakota 57101**

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.

## **GLOSSARY OF TERMS AND COMMON ABBREVIATIONS**

The following terms and abbreviations are used throughout this Performance Evaluation:

**Assessment Area** - The geographic area in which an institution's CRA performance is assessed. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.

**Block Numbering Area (BNA)** - A small, statistical area within a nonmetropolitan county (also known as a "geography" or "tract").

**Census Tract (CT)** - A small, statistical area within a metropolitan area (also known as a "geography" or "tract").

**Income Levels** - The regulation prescribes various income levels, relating to individuals, families and geographies: low-income = less than 50% of the median family income; moderate-income = at least 50%, but less than 80% of the median; middle-income = at least 80%, but less than 120% of the median; and, upper-income = 120% or more of the median.

**Median Family Income** - The median family income is determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

## GENERAL INFORMATION

*The Community Reinvestment Act 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 Community Reinvestment Act (CRA) performance of **Marquette Bank South Dakota, National Association, Sioux Falls, South Dakota** prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **April 5, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated "Satisfactory."

- C Marquette Bank South Dakota, National Association, Sioux Falls, South Dakota meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 75% since the bank's prior CRA examination.
- C A majority of loans by both number (94%) and by dollar volume (92%) are located within the bank's defined CRA assessment areas.
- C The bank lends to individuals of different income levels, including low-income and moderate-income borrowers, small farms, and businesses of various sizes.
- C Geographic distribution of loans is reasonable and approximates community demographics.

## **DESCRIPTION OF INSTITUTION**

Marquette Bank South Dakota, National Association, Sioux Falls, South Dakota (MBSD) is a \$565 million commercial bank. The bank's main office is a full-service facility located in downtown Sioux Falls. MBSD consists of five "major markets"--Sioux Falls, Chamberlain, Watertown, Huron, and Milbank, South Dakota. The bank has 21 full-service branches throughout east-central and northeastern South Dakota. The bank also has limited service offices in Pukwana, Reville, and Hitchcock, South Dakota. MBSD has 22 Automated Teller Machines (ATMs) located throughout its branch network, eight of which are deposit-taking.

MBSD has not opened any branches since the last CRA examination dated February 17, 1997. The bank closed its former main office which was located at 1103 East Eighth Street in Sioux Falls on September 15, 1997. MBSD merged with the following banks on November 1, 1997: Tri-County State Bank in Chamberlain, South Dakota; Farmers & Merchants State Bank of Huron, South Dakota; Bank of South Dakota in Watertown, South Dakota; Dakota State Bank of Milbank, South Dakota.

MBSD's business focus includes commercial and residential real estate lending which represent 31% and 28%, of its loan portfolio, respectively. The remainder of MBSD's lending is balanced between agricultural and consumer lending. The primary products in each major market are discussed under **Description of Assessment Areas**. Net loans represent 63% of total assets.

MBSD received a "Satisfactory" rating at its February 17, 1997 CRA examination. This Evaluation covers the period from March 1, 1997 to December 31, 1998. This is the first time the bank's CRA performance has been assessed since the November 1, 1997 mergers. Prior to this, the merged banks received the following CRA ratings: Tri-County State Bank received a "Satisfactory" rating at its January 23, 1995 examination; Farmers & Merchants State Bank received an "Outstanding" rating at its April 8, 1996 examination; Bank of South Dakota State Bank received an "Outstanding" rating at its September 24, 1996 examination; Dakota State Bank received an "Outstanding" rating at its April 8, 1996 examination.

MBSD is 100% owned by Marquette Bancshares, Inc., a multi-bank holding company located in Minneapolis, Minnesota. Holding Company assets total \$2.2 billion. MBSD affiliates include 11 other commercial banks and one brokerage company. There are no financial, legal or other factors which impede the bank's ability to meet its CRA obligations.

## **DESCRIPTION OF ASSESSMENT AREAS**

MBSD has identified three assessment areas. These include the Sioux Falls Metropolitan Statistical Area (MSA), a 16-County rural area of east-central and northeastern South Dakota, and Yankton County, South Dakota. According to South Dakota State Department of Labor

## **DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

statistics, the March 1999 unemployment figure for South Dakota is 3.1%. The counties of the bank's assessment areas have unemployment figures that range from 1.9% to 10.4%. The 1998 HUD South Dakota MSA median family income is \$45,700. The non-MSA (rural) median family income is \$36,800.

### **SIOUX FALLS MSA**

The Sioux Falls MSA (#7760) assessment area includes the city of Sioux Falls and all of Minnehaha and Lincoln Counties in South Dakota. Only 5% of the population of this MSA is below the poverty level. Owner-occupied housing represents 61% of total housing units and the median housing value is approximately \$57,000. Based on March 1999 state figures, unemployment is low at 1.5% in Lincoln County and 1.9% in Minnehaha County.

The city of Sioux Falls represents most of the total MSA population of 139,000 (1990 census data). The local economy is strong and the population trend is increasing. The median family income from the 1990 Census is \$34,101. This figure is used to determine the following income levels of the geographies. Sioux Falls consists of 25 census tracts (CTs). Seven CTs are moderate-, nine are middle-, and seven are upper-income. The MSA has no low-income tracts. The area has experienced significant growth since the 1990 census.

MBSD has six branches in Sioux Falls. Primary credit needs include residential real estate, consumer, and commercial loans. The most popular loan product by number of originations between March 1, 1997 and December 31, 1998 is residential real estate followed by auto purchase loans. By dollar volume, the most common loan type is commercial followed by residential real estate.

The portion of the MSA surrounding Sioux Falls is more rural with several smaller communities making up the remainder of the total MSA population. This portion of the MSA consists of eight middle-income Block Numbering Areas (BNAs). MBSD has one branch in the area outside the city limits of Sioux Falls located in nearby Harrisburg, South Dakota.

### **16-COUNTY RURAL AREA**

The rural assessment area is a portion of east-central and northeastern South Dakota that stretches from west of the Missouri River to the state of Minnesota. This area includes the contiguous counties of Lyman, Brule, Buffalo, Aurora, Jerauld, Sanborn, Beadle, Spink, Clark, Kingsbury, Codington, Deuel, Grant, Roberts, and Marshall in South Dakota.

The 1990 census population of this assessment area is 112,000. As a whole, this area has seen a

stable to slightly decreasing population trend and stable to good economy. The exception is the community of Watertown which has seen significant population and economic growth in recent years. In this assessment area, owner-occupied housing represents 60% of total housing and the

**DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

median housing value is approximately \$30,000. In this assessment area, 12% of the population is below the poverty level. Several counties significantly exceed the state average unemployment figure of 3.1%. As of March 1999, Buffalo, Clark, Deuel, Kingsbury, Marshall, and Roberts Counties in South Dakota all have unemployment figures greater than 5%. The 1990 Census median family income for this assessment area is \$25,789 and used to determine the following BNA income levels. This area consists of 42 BNAs. Five are moderate-, 35 are middle-, and two are upper-income. This assessment contains no low-income tracts.

This assessment area also includes Big Stone County in Minnesota (adjacent to Roberts County in South Dakota). MBSD does not have a branch in Minnesota, but the Big Stone City, South Dakota branch is near the state line. This county is not analyzed as its own assessment area as it is a small, rural area with similar demographics to the adjacent South Dakota region.

This assessment area represents the four banks that merged with MBSD on November 1, 1997. This area includes the majority of MBSD branches as well as the major markets of Chamberlain, Huron, Watertown, and Milbank. Credit needs include agricultural production, commercial, residential real estate, and consumer. For this rural assessment area as a whole, the most common type of loan by number of originations and dollar volume between March 1, 1997 and December 31, 1998 is agricultural. Auto purchase loans are the second most common in terms in number and residential real estate loans are the second most common by dollar volume.

Each major market has its own characteristics and major products. The following table ranks the four most common loan types by number of originations and dollar volume in each of the four markets:

<b>RANK ORDER OF THE MOST COMMON LOAN TYPES IN THE FOUR MAJOR MARKETS OF THE 16-COUNTY RURAL ASSESSMENT AREA</b>								
Major Market	Commercial Loans		Agricultural Loans		Residential Real Estate Loans		Auto Loans	
	#	\$	#	\$	#	\$	#	\$
Chamberlain	3	2	1	1	4	3	2	4
Huron	3	2	1	1	4	3	2	4

<b>RANK ORDER OF THE MOST COMMON LOAN TYPES IN THE FOUR MAJOR MARKETS OF THE 16-COUNTY RURAL ASSESSMENT AREA</b>								
Watertown	4	2	3	3	1	1	2	4
Milbank	4	3	2	1	3	2	1	4
<b>Overall</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>4</b>

Source: Bank records (verified by examiners)

## DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)

This rural assessment area includes three Indian Reservations. The Lower Brule Indian Reservation is in Lyman County, the Crow Creek Indian Reservation is in Brule County, and the Lake Traverse (Sisseton-Wahpeton) Indian Reservation is located in parts of Marshall, Roberts, and Codington Counties.

### YANKTON COUNTY

The Yankton County assessment area is home to the bank's Yankton branch. This branch lies outside the Sioux Falls MSA in a non-adjacent county. Based on the 1990 census, the population of Yankton County is 19,000. The trend is slightly increasing. The community of Yankton makes up the bulk of the county's population. It has a good local economy, and has seen growth in recent years. Based on March 1999 state figures, unemployment is low at 2.3% for the county.

This Evaluation will focus on the Sioux Falls MSA and 16-County Rural assessment areas.

Examiners did not perform an analysis of the Yankton County assessment area as the Yankton branch has only 3% of the local deposit market share and ranks fifth out of seven local financial institutions in deposit market share. This branch also represents only 3% of MBSD total deposits. Two other local banks control almost 80% of the local deposit market and dominate local lending activity.

The assessment areas comply with regulatory requirements. The assessment areas include all MBSD branch offices and ATMs. The areas do not arbitrarily exclude any low- or moderate-income BNAs or CTs. The following table summarizes the income levels of individual BNAs and CTs and families located within the bank's assessment areas:

<b>INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES</b>								
Assessment Area	Number of BNAs or CTs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Sioux Falls MSA	0	7	19	7	16%	20%	28%	36%
16-County Rural Area	0	5	35	2	19%	19%	25%	37%

<b>INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES</b>								
Yankton County	0	0	4	0	15%	18%	23%	44%
<b>Total</b>	<b>0</b>	<b>12</b>	<b>58</b>	<b>9</b>	<b>17%</b>	<b>19%</b>	<b>26%</b>	<b>37%</b>

Source: U.S. Census Data (1990)

Major employment opportunities in the state of South Dakota include tourism, retail trade, farming and ranching, and government employment. Within the Sioux Falls MSA assessment area, credit card operations/processing, health care, light manufacturing, meat packing, retail trade/services, and education offer the bulk of employment opportunities. In the 16-County

### **DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

Rural assessment area, agriculture production, some light manufacturing, and retail trade are the most common types of employment. In Yankton County, light manufacturing, health care, and retail trade are the larger employers.

The Huron branches faced a local economic crisis in August 1997 when Dakota Pork closed. This company employed 860 people. MBSD offered loan extensions from August 4, 1997 to October 10, 1997. Twenty-eight borrowers took advantage of the extensions and another five were allowed to refinance their debt.

Competition from other financial institutions is strong. In the five major MBSD markets, several other financial institutions exist. Based on the bank prepared information of local deposit share, MBSD has a relatively small (less than 3%) deposit market share in the Sioux Falls market, but ranks eighth out of the 28 commercial banks in Sioux Falls deposit market share. MBSD has approximately 17% of the Watertown deposit market and ranks third out of 12 banks.

In the Chamberlain, Huron, and Milbank markets, MBSD is a larger competitor. In the Chamberlain market, MBSD ranks second in deposit market share (47%) out of three banks. In the Huron market, it ranks first of 11 banks with a 36% share of the local deposit market. In the Milbank market, it ranks first out of six banks with a 54% share of the deposit market.

Community contacts by other regulatory agencies over the past two years have identified affordable owner-occupied housing and small business development as primary credit needs. For this examination, examiners made contacts in Sioux Falls, Chamberlain, and Sisseton.

The Sioux Falls community contact stated the primary credit need for the Sioux Falls MSA is affordable owner-occupied housing. The individual contacted is connected with the Sioux Empire

Housing Partnership. The goal of this entity is to expand affordable owner-occupied housing in Sioux Falls and the surrounding area. Financial institutions can participate financially or by providing human resources (in the form of real estate loan officers) for home buyer seminars. All local banks participate financially to some degree and a few offer their employees' expertise at home buyer seminars. The contact's impression of all local banks is positive. No other regulatory agencies have contacted this organization.

The Chamberlain community contact is involved with the Lake Francis Case Development Corporation (Corp.) which serves the three county area of Lyman, Brule, and Buffalo Counties. The purpose of the Corp. is to retain and expand local businesses. The contact separated the three county area into two parts--the Chamberlain area and the Reservation area. The Chamberlain area includes the communities of Chamberlain, Oacoma, Pukwana, and Kimball. The Reservation area includes the nearby Lower Brule and Crow Creek Indian Reservations.

The needs of the Chamberlain area are agriculture, small business, and consumer. The needs of the Reservations are small business development and consumer loans. Tribal leadership

#### **DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

determines the level of business development. The degree of tribal business activity can change every three years with tribal elections. The contact felt housing was not a credit need in either area. The rural portions of the three county area are sparsely populated with low housing turnover. No other regulatory agencies have contacted this organization.

The Sisseton community contact echoed the Sioux Falls contact's comments on the general need for affordable housing, but stated that different parts of South Dakota have very different credit needs. This contact stated that small business and job development along with home improvement are the primary credit needs for the northeastern portion of South Dakota.

This individual is connected with the Northeast South Dakota Community Action Program (CAP) and the Northeast South Dakota Economic Corporation (NESDEC). The goal of CAP is to provide for weatherization and rehabilitation of older housing for low-income home owners. The goal of NESDEC is to help provide financing for low or no equity small business owners. The contact felt banks are and have been financially involved. The contact's impression of local banks in general is very positive. This contact did not wish to comment on housing needs (other than weatherization and rehabilitation) of the area.

Examiners made an additional contact to discuss housing in the Sisseton area. This contact works for the State of South Dakota Rural Development Authority and is involved with various development projects in northeastern South Dakota including the Sisseton area. This additional contact stated the rural portions of the state have neither the population nor the housing turnover of the urban areas where

real estate lending is quite active. Consequently, the contact felt housing is not a primary credit need in rural areas.

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

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

MBSD's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 75% over the eight quarters from March 31, 1997 to December 31, 1998. MBSD's net loan-to-deposit ratio trend is slightly increasing and was 78% at December 31, 1998. Thirty-five other commercial banks are chartered in the bank's assessment areas.

MBSD's ratio compares favorably with other community banks of similar size (commercial banks with total assets between \$100 million and less than \$1 billion) in the assessment areas. MBSD ranks fourth among seven similarly-situated banks in the assessment areas. The six other banks had average net loan-to-deposit ratios averaging 81% and ranging from 67% to 91% over the eight quarters from March 31, 1997 to December 31, 1998.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

### Lending in Assessment Areas:

MBSD originates a substantial majority of its loans to borrowers located within its defined CRA assessment areas. Examiners sampled agricultural, commercial, and consumer loans originated between March 1, 1997 and December 31, 1998 from all three assessment areas. We also reviewed all residential real estate lending activity from 1997 and 1998 in the Sioux Falls MSA assessment area and all real estate activity in 1998 in the 16-County Rural assessment area. The following table shows loans originated inside the assessment areas by number and dollar volume:

<b>LENDING IN ASSESSMENT AREAS BY NUMBER AND DOLLAR AMOUNT (000s)</b>				
Type of Loan	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollars
Commercial	52	93%	\$29,794	84%
Agricultural	84	87%	\$17,326	89%
Consumer (Auto)	100	91%	\$1,120	92%
Residential Real Estate	1,383	95%	\$88,065	96%
<b>Totals</b>	<b>1,464</b>	<b>94%</b>	<b>\$126,601</b>	<b>92%</b>

Source: Bank records (verified by examiners)

Bank prepared analysis showed comparable percentages. Based on the bank's analysis, 91% by number and 82% by dollar volume were made to farms, businesses, and individuals located within the bank's assessment areas. This analysis included commercial, agricultural, and consumer loans originated from July 1, 1998 to December 31, 1998 and all residential real estate lending activity in 1998.

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes:

Overall, the distribution of borrowers in the Sioux Falls MSA and 16-County Rural assessment areas reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. The bank's lending patterns do not exclude any income levels of businesses, farms, or individuals. As mentioned previously, the three primary loan products of the Sioux Falls MSA assessment area by number of originations are residential real estate, auto loans, and commercial loans. In the Rural assessment area, agricultural, auto, and residential real estate are the three most common.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

**Commercial lending** is a major business focus and loan product in the Sioux Falls MSA assessment area. The bank’s lending to businesses shows reasonable dispersion among the various revenue levels. Examiners sampled 26 loans to businesses in Sioux Falls originated between March 1, 1997 and December 31, 1998. The following table compares the bank’s commercial lending activity to the business demographic data:

<b>DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE</b>			
Gross Annual Revenue	Sioux Falls MSA		
	Number of Loans	Percent of Number	Business Data
<\$50,000	1	4%	86%
\$50,000-\$100,000	1	4%	
\$100,000-\$250,000	6	23%	
\$250,000-\$500,000	4	15%	
\$500,000-\$1,000,000	6	23%	
>\$1,000,000	8	31%	14%
Totals	26	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Business Demographic Data (1990)

**Agricultural lending** in the Sioux Falls MSA is minimal and an analysis would not be meaningful. Agricultural production, however, is the most common lending activity in the 16-County Rural assessment area. The bank’s agricultural lending in this assessment area compares favorably to the area farm income demographics and shows good dispersion among the various income levels.

Examiners sampled 84 agricultural loans from throughout this assessment area originated from March 1, 1997 to December 31, 1998. The following table compares the bank’s agricultural lending activity in the Rural assessment area by revenue size to 1997 census of agriculture demographics:

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

<b>DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE</b>			
Gross Annual Revenue	16-County Rural Assessment Area		
	Number of Loans	Percent of Number	1997 Ag Census Data
<\$ 50,000	19	23%	51%
\$ 50,000-\$100,000	20	24%	17%
\$100,000-\$250,000	23	27%	21%
\$250,000-\$500,000	15	18%	7%
>\$500,000	7	8%	4%
Totals	84	100%	100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)

**Consumer lending** (auto loans), is a major loan product in both assessment areas. In the Sioux Falls MSA assessment area, the bank approximates the demographics for both low- and moderate-income families. In the 16-County Rural assessment area, MBSD's consumer lending activity exceeds the demographics for both low- and moderate-income families.

Examiners sampled 26 auto loans from the Sioux Falls MSA and 45 auto loans from the 16-County Rural assessment area originated between March 1, 1997 and December 31, 1998. The following table compares the bank's consumer lending activity in both assessment areas by borrower income level to community demographics which are the shaded columns:

<b>BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL</b>						
Borrower Income Level	Sioux Falls MSA			16-County Rural Area		
	Number of Loans	Percent of Number	Percent of Families	Number of Loans	Percent of Number	Percent of Families
Low	4	15%	16%	12	<b>27%</b>	19%
Moderate	5	19%	20%	11	<b>24%</b>	19%
Middle	9	35%	28%	11	24%	25%
Upper	8	31%	36%	11	24%	37%

<b>BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL</b>						
Totals	26	100%	100%	45	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

**Residential real estate** is the other major loan product for both assessment areas. This includes home purchase, home improvement, and home refinance lending. The distribution of MBSD's residential lending activity is reasonable and shows the bank is originating real estate loans to all family income categories.

Examiners reviewed all residential real estate lending activity in 1997 and 1998 for the Sioux Falls MSA assessment area and the 1998 activity for the 16-County Rural assessment area. We used the Loan Application Registers maintained by the bank. The bank was not required to maintain this information for the Rural assessment area prior to 1998.

In both the Sioux Falls MSA and 16-County Rural assessment areas, residential real estate is a primary credit need. The bank's real estate lending activity falls short of the demographic for low-income families. But the bank exceeds the demographic for home purchase and home improvement loans to moderate-income families and approximates the income demographics for home refinance lending in both assessment areas. The following table illustrates the breakdown of residential real estate lending in the Sioux Falls MSA assessment area by borrower income level and type of real estate loan:

<b>DISTRIBUTION OF RESIDENTIAL LOANS BY INCOME LEVEL AND PURPOSE FOR SIOUX FALLS MSA</b>									
Borrower Income Level	Purchase		Home Improvement		Refinance		Totals		
	Number	Percent of Number	Number	Percent of Number	Number	Percent of Number	Number	Percent of Number	Percent of Families
Low	18	8%	10	11%	0	0%	28	6%	16%
Moderate	64	<b>27%</b>	19	<b>22%</b>	30	17%	113	22%	<b>20%</b>
Middle	81	34%	36	41%	44	24%	161	32%	28%
Upper	75	31%	23	26%	106	59%	204	40%	36%
Totals	238	100%	88	100%	180	100%	506	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

This next table illustrates the breakdown of residential real estate lending in the 16-County Rural assessment area by borrower income level and type of real estate loan:

<b>BORROWER DISTRIBUTION OF RESIDENTIAL LOANS BY INCOME LEVEL AND PURPOSE FOR 16-COUNTY RURAL AREA</b>									
Borrower Income Level	Purchase		Home Improvement		Refinance		Totals		
	Number	Percent of Number	Number	Percent of Number	Number	Percent of Number	Number	Percent of Number	Percent of Families
Low	26	8%	4	4%	8	2%	38	5%	19%
Moderate	77	<b>24%</b>	23	<b>23%</b>	44	12%	144	18%	<b>19%</b>
Middle	120	37%	32	33%	95	26%	247	31%	25%
Upper	102	31%	39	40%	217	60%	358	45%	37%
Totals	325	100%	98	100%	364	100%	787	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

### Geographic Distribution of Loans:

Overall, geographic distribution of loans in the Sioux Falls MSA and 16-County Rural assessment areas is reasonable and approximates community demographics. The lending patterns do not reflect any exclusion of moderate-income geographies. Geographic distribution analysis is not meaningful for the Yankton County assessment area as all four BNAs of this area are middle-income.

Geographic distribution of **commercial lending** in moderate-income CTs exceeds assessment area demographics in the Sioux Falls MSA assessment area. Examiners sampled 25 commercial loans originated at Sioux Falls branches. The results also show that commercial loan distribution shows good dispersion among the various tract income levels. Further analysis showed the bank made loans to businesses in five of the seven moderate-income CTs in the assessment area. The following table illustrates the geographic distribution of commercial lending in the Sioux Falls MSA assessment area:

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

<b>GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS IN THE SIOUX FALLS MSA ASSESSMENT AREA</b>					
Tract Income Level (both CTs and BNAs)	Originations Dated March 1, 1997 through December 31, 1998				Percent of Businesses by Tract Category
	Number of Tracts	Percent of Number	Number of Loans	Percent of Number	
Low	0	n/a	n/a	n/a	n/a
Moderate	7	21%	12	<b>46%</b>	<b>37%</b>
Middle	19	58%	9	35%	54%
Upper	7	21%	5	19%	9%
Totals	33	100%	26	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

A geographic distribution analysis of commercial lending in the 16-County Rural assessment area is not meaningful. Based on the 1990 census business data, less than 5% of the total number of businesses in that assessment area are located in moderate-income tracts. A geographic analysis of agricultural lending in the Sioux Falls MSA assessment area would also not be meaningful as MBSD branches are located within or near the Sioux Falls city limits and have little agricultural lending activity.

Geographic distribution of **agricultural lending** in the 16-County Rural assessment area is reasonable. This assessment area's geographies are mostly middle-income, but the area also includes five moderate-income BNAs. Examiners sampled 84 agricultural loans from this assessment area. This sample included loans from all four major markets in the 16-County Rural assessment area mentioned above under **Description of Assessment Areas**. Further analysis showed the five originations in moderate-income BNAs were originated to farms in four of the five moderate-income BNAs.

The following table breaks down the distribution of the bank's agricultural lending activity in the 16-County Rural assessment area by tract income level:

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

<b>GEOGRAPHIC DISTRIBUTION OF AGRICULTURAL LOANS IN THE 16-COUNTY RURAL ASSESSMENT AREA</b>				
Tract Income Level	Originations Dated March 1, 1997 through December 31, 1998			
	Number of Tracts	Percent of Number	Number of Originations	Percent of Number
Low	0	n/a	n/a	n/a
Moderate	5	12%	5	6%
Middle	35	83%	77	92%
Upper	2	5%	2	2%
<b>Totals</b>	42	100%	84	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

**Consumer lending** is a primary loan product of both assessment areas. The bank's consumer lending activity in the Sioux Falls MSA assessment area shows reasonable dispersion of loans among the three tract income levels. The bank's consumer lending to individuals residing in moderate-income tracts nearly meets the demographic information.

Examiners sampled 55 auto loans from Sioux Falls. In this sample, the bank originated loans to borrowers in three of the seven moderate-income CTs within Sioux Falls. This is no concern as two of the moderate-income CTs with no bank lending activity are non-residential and offer little opportunity to make consumer loans. These areas include the regional airport, the city water treatment facility, the state penitentiary, and a substantial portion of local industry.

The following table shows the breakdown of consumer lending in the Sioux Falls MSA assessment area by tract income level:

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

<b>GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN THE SIOUX FALLS MSA ASSESSMENT AREA</b>					
Tract Income Level	Originations Dated March 1, 1997 through December 31, 1998				Percent of Population By Tract Category
	Number of Tracts	Percent of Number	Number of Originations	Percent of Number	
Low	0	n/a	n/a	n/a	n/a
Moderate	5	12%	7	13%	18%
Middle	35	83%	42	76%	63%
Upper	2	5%	6	11%	19%
Totals	42	100%	55	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

The bank's consumer lending approximates the geographic breakdown of the 16-County Rural assessment area and is reasonable. Examiners sampled 45 auto loans from this area. In this sample, the bank originated auto loans in two of the five moderate-income BNAs. The following table illustrates the geographic distribution of consumer lending in this assessment area:

<b>GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN THE 16-COUNTY RURAL ASSESSMENT AREA</b>					
Tract Income Level	Originations Dated March 1, 1997 through December 31, 1998				Percent of Population By Tract Category
	Number of Tracts	Percent of Number	Number of Originations	Percent of Amount	
Low	0	n/a	n/a	n/a	n/a
Moderate	5	12%	2	4%	9%
Middle	35	83%	41	91%	80%
Upper	2	5%	2	4%	11%
Totals	42	100%	45	100%	100%

**Source: Bank records (verified by examiners) and U.S. Census Data (1990)**

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

The bank's lending activity in the moderate-income geographies is primarily consumer. This matches the need for consumer lending identified by community contacts. Bank prepared analysis of lending activity from July 1, 1998 to December 31, 1998 shows the bank originated 100 loans to borrowers living throughout the moderate-income portions of the 16-County Rural assessment area. Of this total, 93 were consumer-related.

The geographic distribution of **residential real estate** lending in the Sioux Falls MSA assessment area shows reasonable dispersion among the three tract income levels and three most common real estate loan types. The bank's home purchase lending nearly meets the demographic and its home improvement lending exceeds the demographic for moderate-income families.

Examiners reviewed the 1997 and 1998 Loan Application Register information for the Sioux Falls MSA. The following table illustrates the geographic distribution of residential real estate lending in the Sioux Falls MSA assessment area in 1997 and 1998:

<b>GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS BY INCOME LEVEL AND PURPOSE FOR SIOUX FALLS MSA</b>										
Tract Income Level	Purchase		Home Improvement		Refinance		Totals			
	Number	Percent of Number	Number	Percent of Number	Number	Percent of Number	Number	Percent of Number	Percent of Tracts	Percent of Owner Occupied Housing Units
Low	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0%	n/a
Moderate	23	11%	14	<b>16%</b>	10	5%	47	9%	21%	<b>14%</b>
Middle	134	61%	52	60%	138	66%	324	63%	58%	72%
Upper	62	28%	21	24%	60	29%	143	28%	21%	14%
Totals	219	100%	87	100%	208	100%	514	100%	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

The geographic distribution of residential real estate lending in the 16-County Rural assessment area does not meet the demographics for moderate-income families. The bank originated five residential real estate loans in 1998 to borrowers residing in moderate-income areas of this assessment area. Examiners reviewed the 1998 Loan Application Register which details

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

residential lending in the assessment area for the year. Residential real estate loan applications in the moderate-income areas are rare. The bank received only six real estate applications from borrowers residing in moderate-income areas in this assessment area in 1998.

However, as mentioned above, residential real estate is not a primary credit need in these areas and the opportunity to originate real estate loans in the moderate-income geographies of the Rural assessment area is minimal. Community contacts stated that the rural portions of the assessment area as a whole do not exhibit much turnover of housing stock which decreases the need for and opportunity to make home purchase loans.

The following table illustrates the bank's residential real estate lending in the 16-County Rural assessment area in 1998:

<b>GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL LOANS BY INCOME LEVEL AND PURPOSE FOR 16-COUNTY RURAL AREA</b>										
Tract Income Level	Purchase		Home Improvement		Refinance		Totals			
	Number	Percent of Number	Number	Percent of Number	Number	Percent of Number	Number	Percent of Number	Percent of Tracts	Percent of Owner Occupied Housing Units
Low	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0%	n/a
Moderate	2	1%	0	0%	3	1%	5	1%	12%	7%
Middle	285	86%	85	88%	314	85%	684	86%	83%	81%
Upper	43	13%	12	12%	52	14%	107	13%	5%	12%
Totals	330	100%	97	100%	369	100%	796	100%	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Several factors contribute to this decreased level of lending opportunity. In these areas, the level of owner-occupied housing is relatively low. Owner-occupancy ranges from 45% to 63% in the five moderate-income BNAs. In the middle- and upper-income areas, owner-occupancy is 61% and 65%, respectively. In moderate-income areas, the housing vacancy level is high. Vacancy levels range from 15% to 43% in these areas. In the middle- and upper-income areas, the vacancy level is 15% and 5%, respectively.

The poverty level in the moderate-income areas is higher than the rest of the assessment area. In the moderate-income areas, the percentage of families below the poverty level, which is less than

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)**

30% of the median family income, ranges from 12% to 40%. In the middle- and upper-income areas, the poverty level is only 16% and 11%, respectively.

The total population of moderate-income BNAs also contributes to the decreased level of lending opportunity. The total number of families in these moderate-income tracts represents only 7.1% of the total number of families in the assessment area.

### **OTHER INFORMATION**

#### **Response to Complaints:**

MBSD's response to the one CRA-related complaint received since the last CRA examination was satisfactory and timely. The complaint was dated March 3, 1999 and addressed the planned April 30, 1999 closing of the bank's limited purpose branch in Pukwana.

The complaint asserted that Pukwana residents need the MBSD branch because few local residents visit Chamberlain. The bank's March 4, 1999 response showed how the Chamberlain branch kept a record of Pukwana residents in the Chamberlain branch on a regular basis. The response also included how bank customers can conduct banking transactions without leaving Pukwana including phone banking and PC banking.

#### **Fair Lending:**

Examiners did not identify any substantive violations of antidiscrimination laws and regulations in the fair lending review performed during this compliance examination cycle. Our review used the loan terms approach to evaluate residential real estate lending based on gender. Examiners compared the terms of real estate loans granted to individual female applicants against individual male applicants that were also granted such loans.

#### **Home Mortgage Disclosure Act:**

We tested the 1998 Loan Application Register for accuracy and found no inaccuracies or deficiencies.