



## PUBLIC DISCLOSURE

April 17, 2017

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank  
Charter Number 14252

307 Hustan Avenue, Fort Pierre, SD 57532

Office of the Comptroller of the Currency  
4900 S. Minnesota Avenue, Suite 300, Sioux Falls, SD 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.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

- First National Bank's (FNB or bank) loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the assessment areas (AAs).<sup>1</sup>
- A majority of the bank's loans are located within the AAs.
- The borrower distribution of loans to businesses and farms of different sizes and borrowers of different income levels reflects reasonable penetration of the AAs small farms and businesses and low- and moderate-income borrowers in the AAs.
- The geographic distribution of loans to census tracts (CTs) of different income levels reflects excellent dispersion of the AAs moderate- and low-income CTs.
- Management originated an adequate level of community development (CD) loans and investments totaling 10.60 percent of FNB's tier one capital plus the allowance. CD loans were primarily provided to small businesses benefitting low- and moderate-income individuals. CD investments include one bond and \$38 thousand in qualified donations.
- Access to financial services for low- and moderate-income individuals is satisfactory. Four branches are located in moderate-income CTs and three are located in distressed and/or underserved middle-income CTs.

## **Scope of Examination**

FNB was evaluated under the Intermediate Small Bank examination procedures. The Lending Test evaluates FNB's record of meeting the credit needs of its AAs through its lending activities. The CD Test evaluates FNB's responsiveness to the CD needs in the bank's AAs by providing CD loans, investments, and services.

The Lending Test covers FNB's performance from January 1, 2014 to December 31, 2016. The Lending Test evaluated business, farm, and residential home loans as they were the primary loan products in the bank's individual AAs. The primary loan products are representative of management's lending strategy since the last Community Reinvestment Act (CRA) examination. Refer to Appendix A for a list of primary products identified in each AA.

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<sup>1</sup> The net loan-to-deposit ratio and percentage of loans and other lending-related activity in the assessment area only apply to the institution overall. No discussion of these performance criteria applies to sections of the performance evaluation relating to states and multistate metropolitan areas.

## Description of Institution

FNB is a \$926 million interstate bank headquartered in Fort Pierre, South Dakota. The bank has 13 branches in South Dakota located in Pierre (two branches), Fort Pierre, Huron (two branches), Lake Preston, Midland, Murdo, Lead, Sturgis, Newell, McLaughlin, and Rapid City. FNB's only Colorado branch is located in Centennial, which is a part of the Denver Metropolitan Statistical Area (MSA). The bank operates 14 automated teller machines (ATMs); none accept deposits. FNB is wholly-owned by Capital Bancorporation, Inc., a one-bank holding company headquartered in Britton, South Dakota.

FNB is affiliated with a national bank headquartered in Slayton, MN, a savings and loan institution headquartered in Beresford, SD, and a state bank headquartered in Oldham, SD. Each bank is wholly-owned by separate one-bank holding companies. In addition, FNB is a one-third owner of a company that provides information technology services to all affiliated institutions.

Management has not purchased or sold any branches since the last CRA evaluation on April 2, 2013. There have been no mergers, new branch openings, or branch closings since the last CRA evaluation.

FNB's business focus is traditional community banking products and credit cards. As of December 31, 2016, FNB's loan portfolio consisted of 53 percent commercial loans, 21 percent credit card loans, 15 percent agricultural loans, 8 percent residential real estate loans, and 1 percent consumer loans (excluding credit cards.) FNB sells a significant volume of their residential real estate loans into the secondary market. Net loans totaled 72 percent of average assets.

Examiners did not include credit card lending in our analysis when determining primary loan products or calculating the breakdown of lending within each AA because credit cards represent a national product. Instead, our analysis and conclusions are based on loan products offered in the bank's local markets.

FNB received a Satisfactory rating in its last performance evaluation dated April 2, 2013. FNB has no financial, legal, or other factors that impede the bank's ability to meet the credit needs of its AAs.

## Selection of Areas for Full-Scope Review

FNB has three AAs. All AAs received a full scope review. Two of the AAs are located in South Dakota and one AA is in Colorado. The Rapid City MSA AA and the Non-MSA AA are the two South Dakota AAs. For analysis purposes, we combined the rural counties in South Dakota into one AA because the rural counties have similar demographics. The Denver MSA AA is the only AA in Colorado.

## Ratings

FNB's overall rating is a blend of the South Dakota and Colorado state ratings. The South Dakota state rating was given more weight because the state accounts for the majority of FNB's branches, deposit activity, and loan volume. Thirteen of the bank's fourteen branches are in South Dakota. Approximately 77 percent of the bank's deposits and 84 percent of loan originations are in South Dakota.

The institution's CRA rating takes into account the ratings in different states by considering:

- The significance of the bank's activities in each state compared with the bank's overall activities.
- The lending opportunities in each state.
- The importance of the bank in providing loans to each state, particularly in light of the number of other institutions and the extent of their activities in each state.
- Demographic and economic conditions in each state.

Refer to the "Scope" section under each State and Multistate Metropolitan Area Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

## Conclusions with Respect to Performance Criteria

FNB's performance under the Lending Test is Satisfactory. FNB's loan-to-deposit ratio is more than reasonable and FNB originates a majority of loans inside the bank's AAs. Borrower distribution reflects reasonable penetration among businesses and farms of different sizes and borrowers of different income levels. Geographic distribution reflects excellent dispersion to CTs of different income levels. We placed more weight on the borrower distribution than the geographic distribution as there were limited opportunities to serve low-income CTs in the South Dakota AAs.

### Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and the AA's credit needs. FNB's average quarterly net loan-to-deposit ratio was 97 percent for the 16 quarters from March 31, 2013 through December 31, 2016. During this period, the ratio ranged from a quarterly low of 83 percent to a quarterly high of 106 percent.

The bank's net loan-to-deposit ratio is more reasonable when compared with other community banks of similar size (total assets ranging from \$650 million to \$983 million) operating within at least one of FNB's designated AAs. FNB ranks first among four

similarly-situated banks serving the AAs. The average loan-to-deposit ratio for similar banks was 75 percent for the 16 quarters from March 31, 2013 through December 31, 2016. The ratio ranged from an average quarterly low of 49 percent to an average quarterly high of 90 percent.

**Lending in Assessment Area**

FNB originated a majority of its loans to borrowers located inside its designated AAs during the evaluation period. We reviewed 60 business, 20 farm, and 20 residential home loans originated between January 1, 2014 and December 31, 2016. Management originated 84 percent by number and 44 percent by dollar volume to borrowers within the bank's designated AAs. We placed more weight on the percentage by number because three large out-of-area loans, representing 41 percent of the total dollar volume of the loan sample, skewed the percentage of loans by dollar.

Table 1 details the bank's lending within it AAs by number and dollar volume.

<b>Table 1 - Lending in South Dakota Non-MSA AA, Rapid City MSA AA, Denver MSA AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm Loans	17	85%	3	15%	20	1,043	32%	2,239	68%	3,282
Business Loans	50	83%	10	17%	60	11,022	41%	15,999	59%	27,021
Home Loans	17	85%	3	15%	20	3,118	80%	787	20%	3,905
<b>Total</b>	<b>84</b>	<b>84%</b>	<b>16</b>	<b>16%</b>	<b>100</b>	<b>15,183</b>	<b>44%</b>	<b>19,025</b>	<b>56%</b>	<b>34,208</b>

*Source: Loan Sample*

**Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), in determining a national bank's CRA rating, this Office considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

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

## State Rating

### State of South Dakota

**CRA Rating for South Dakota: Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

FNB's performance in the State of South Dakota meets the standards for satisfactory performance:

- The distribution of loans to farms and businesses of different sizes and borrowers of different income levels reflects reasonable penetration of the AA's small farms and businesses and low- and moderate-income borrowers.
- The geographic distribution of loans to CTs of different income levels reflects excellent dispersion to moderate-income CTs in the South Dakota AAs. There are minimal opportunities for the bank to lend in the state AAs only low-income CT.
- FNB's CD activities demonstrate an adequate responsiveness to CD needs of its AAs.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN SOUTH DAKOTA

FNB has two AAs in South Dakota: South Dakota Non-MSA AA and Rapid City MSA AA. The AAs are legal and reasonable and do not arbitrarily exclude any low- or moderate-income CTs.

#### South Dakota Non-MSA AA

The South Dakota Non-MSA AA includes all of Beadle, Butte, Clark, Corson, Haakon, Hand, Hughes, Jerauld, Jones, Kingsbury, Lawrence, Mellette, Perkins, Sanborn, and Stanley counties and the rural portion of Spink County. The counties extend from central South Dakota to the western border of South Dakota. FNB operates 11 branches in this AA, located in the towns of Fort Pierre, Pierre (two branches), Lead, Midland, Murdo, McLaughlin, Newell, Huron (two branches), and Lake Preston.

The South Dakota Non-MSA AA accounted for 66 percent of the bank's deposits and 52% of the bank's loan originations by dollar volume. FNB reported \$427 million of deposits in the AA as of June 30, 2016, which ranked the bank third in deposit market share with a market share of 13 percent. Primary lending products in the South Dakota Non-MSA AA are farm and business loans.

The South Dakota Non-MSA AA has 33 CTs. There are no low-income CTs, four moderate-income CTs, 25 middle-income CTs, and four upper-income CTs. Twelve of the 25 middle-income CTs are distressed or underserved. One-hundred four thousand people, or 27 thousand families, lived in the AA in 2016. Of the families, 19 percent were low-income, 17 percent were moderate-income, 22 percent were middle-income, and 42 percent were upper-income. Nine percent of the households in the AA lived below the poverty level. The weighted-average median family income was \$58,500 in 2016.

Sixty percent of the housing units in the South Dakota Non-MSA AA were owner-occupied and 26 percent were renter-occupied in 2016. The weighted-average of median housing cost was \$106,138 and the weighted-average of monthly gross rent was \$488.

The South Dakota Non-MSA AA included eleven thousand businesses in 2016. Eighty-one percent of the businesses were non-farm businesses and 75 percent employed fewer than five people. Eighty-one percent of the total businesses in the AA reported gross annual revenues of less than \$1 million.

The economy in the South Dakota Non-MSA AA is stable and showed improvement over the evaluation period. The unemployment rate has decreased over the evaluation period. According to the Bureau of Labor Statistics, the unemployment rate in 2012 ranged from a high of 8.0 percent in Corson County to a low of 3.0 in Stanley County with an average county unemployment rate of 4.2 percent. The unemployment rate in 2016 ranged from a high of 4.2 percent in Corson County to a low of 2.0 percent in Hand County, with an average unemployment rate of 2.8 percent. All of the counties had unemployment rates below the national average of 4.7 percent in 2016. The major employers are farms, agricultural businesses, government (Pierre is the state capital), and retail trade.

Competition in the South Dakota Non-MSA AA is moderate and primarily includes local community banks and regional banks. As of June 30, 2016, there were 24 institutions with 72 banking offices located in the AA.

We completed one community contact in the South Dakota Non-MSA AA in conjunction with this examination. The contact was an executive vice president of a local economic development organization that provides services and financing for local businesses to create and retain jobs in the community. The contact did not identify any unmet credit needs in the AA and noted opportunities for CD involvement are limited.

#### Rapid City MSA AA

The Rapid City MSA AA includes a portion of the Rapid City, SD MSA (#39960). The MSA includes Pennington, Meade, and Custer Counties in South Dakota. FNB considers all of Pennington and Meade Counties as its AA. FNB operates 2 branches in this AA, located in the towns of Rapid City and Sturgis.



The Rapid City MSA AA accounted for 11 percent of the bank's deposits and 32 percent of the bank's loan originations by dollar volume. FNB reported \$71 million of deposits in the AA as of June 30, 2016, which ranked the bank eighth in deposit market share with a market share of 3 percent. Primary lending products in the Rapid City MSA AA are residential home and business loans.

The Rapid City MSA AA has 30 CTs. There is one low-income CT, seven moderate-income CTs, 17 middle-income CTs, and five upper-income CTs. One-hundred thirty-five thousand people, or 33 thousand families, lived in the AA in 2016. Of the families, 18 percent were low-income, 19 percent were moderate-income, 23 percent were middle-income, and 40 percent were upper-income. Nine percent of the households in the AA lived below the poverty level. The weighted-average median family income was \$61,300 in 2016.

Sixty-one percent of the housing units in the Rapid City MSA AA were owner-occupied and 28 percent were renter-occupied in 2016. The weighted-average of median housing cost was \$150,189 and the weighted-average of monthly gross rent was \$672.

The Rapid City MSA AA included fifty thousand businesses in 2016. Ninety-four percent of the businesses were non-farm businesses and 71 percent employed fewer than five people. Eighty-three percent of the total businesses in the AA reported gross annual revenues of less than \$1 million.

The economy in the Rapid City MSA AA is stable and showed some improvement over the evaluation period. The unemployment rate has decreased over the evaluation period. According to the Bureau of Labor Statistics, the unemployment rate as of December 31, 2012 was 4.4 percent. The unemployment rate as of December 31, 2016 was 3.2 percent. The unemployment rate is below the national average of 4.7 percent. The major employers are Ellsworth Air Force Base, the regional hospital, the school district, government entities, as well as retail trade.

Competition in the Rapid City MSA AA is moderate and primarily includes local community banks and regional banks. As of June 30, 2016, there were 12 institutions with 36 banking offices located in the AA.

We reviewed two recent community contacts in the Rapid City MSA AA in conjunction with this examination. One contact was an executive director of an organization that provides affordable housing and the other community contact was a finance director with an organization that works with area businesses. The contacts did not identify any unmet credit needs in the AA and noted opportunities for CD involvement are limited. The first contact noted the availability of low-income housing remains consistent and many low-income clients prefer to use money orders rather than banking services.

## **SCOPE OF EVALUATION IN SOUTH DAKOTA**

We completed a full-scope review of both AAs in South Dakota. The Non-MSA AA was weighted heavily in arriving at our conclusion regarding performance in South Dakota. The bank's largest share of deposits, 66 percent, is in this AA. FNB's main office and ten additional branches are in the Non-MSA AA. The Rapid City MSA AA has two branches and 11 percent of the bank's deposits.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SOUTH DAKOTA**

FNB's performance under the Lending Test in South Dakota is rated Satisfactory. The borrower distribution of loans reflects reasonable penetration among farms and businesses of different sizes and among borrowers of different income levels. The geographic distribution of farm and home loans reflects excellent dispersion among moderate-income CTs. The geographic distribution of business loans reflects reasonable dispersion among moderate-income CTs. We placed more weight on the borrower distribution results as there were very limited opportunities to lend to low-income CTs and limited opportunities to lend to moderate-income CTs.

FNB's performance under the CD Test in South Dakota is rated Satisfactory. The aggregate volume of CD loans, investments, and services reflects adequate responsiveness to CD needs and opportunities of FNB's AAs.

## **LENDING TEST**

The bank's performance under the Lending Test in South Dakota is rated Satisfactory.

### **Lending to Borrowers of Different Incomes and to Businesses and Farms of Different Sizes**

#### South Dakota Non-MSA AA

The distribution of agriculture loans to farms of different sizes reflects reasonable penetration of the AA's small farms. Ninety-five percent of FNB's agriculture loans by number and 73 percent by dollar were to farms with gross annual revenue less than \$1 million. This is lower than, but near to the percentage of small farms in the AA.

The distribution of loans by dollar to farms with gross annual revenue less than \$1 million is skewed because of one large loan with unknown farm income, which represented 27 percent of the loans sampled by dollar.

Table 2 includes the data used to evaluate the borrower distribution of FNB's agriculture loans in the AA.

<b>Table 2 - Borrower Distribution of Loans to Farms in South Dakota Non-MSA AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98%	1%	1%	100%
% of Bank Loans in AA by #	95%	0%	5%	100%
% of Bank Loans in AA by \$	73%	0%	27%	100%

Source: 2010 U.S. Census data, D&B as of June 2016; Loan Sample

The distribution of commercial loans to businesses of different sizes reflects reasonable penetration of the AA’s small businesses. Seventy-nine percent of FNB’s commercial loans by number and 57 percent by dollar were to businesses with gross annual revenue less than \$1 million. This is lower than, but near to the percentage of small businesses in the AA.

Table 3 includes the data used to evaluate the borrower distribution of FNB’s commercial loans in the AA.

<b>Table 3 - Borrower Distribution of Loans to Businesses in South Dakota Non-MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	78%	5%	17%	100%
% of Bank Loans in AA by #	79%	21%	0%	100%
% of Bank Loans in AA by \$	57%	43%	0%	100%

Source: 2010 U.S. Census data, D&B as of June 2016; Loan Sample

Rapid City AA

The distribution of commercial loans to businesses of different sizes reflects reasonable penetration of the AA’s small businesses. Eighty percent of FNB’s commercial loans by number and 77 percent by dollar were to businesses with gross annual revenue less than \$1 million. This is lower than, but near to the percentage of small businesses in the AA.

Table 4 includes the data used to evaluate the borrower distribution of FNB’s commercial loans in the AA.

<b>Table 4 - Borrower Distribution of Loans to Businesses in Rapid City MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	82%	6%	12%	100%
% of Bank Loans in AA by #	80%	5%	15%	100%
% of Bank Loans in AA by \$	77%	11%	12%	100%

Source: 2010 U.S. Census data, D&B as of June 2016; Loan Sample

The distribution of residential home loans to borrowers of different income levels reflects reasonable penetration of the AA’s low- and moderate-income families. Twenty percent of FNB’s residential home loans were to moderate-income borrowers. This meets the percentage of moderate-income families in the AA. Five percent of FNB’s residential home loans were to low-income borrowers. This is significantly lower than the percentage of low-income families in the AA but is reasonable considering the cost of homeownership is high for low-income families. A thirty year mortgage payment for the average median housing cost represents at least 30 percent of a low-income family’s monthly income, without considering house insurance or property taxes. Nine percent of the AAs families are below the poverty level, and a 30 year mortgage represents at least 37 percent of the family’s monthly income, without considering house insurance or property taxes.

Table 5 includes the data used to evaluate the borrower distribution of FNB’s home loans in the AA.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Loans	18%	5%	19%	20%	23%	35%	40%	40%

*Source: 2010 U.S. Census data; Loan Sample*

**Geographic Distribution of Loans**

The distribution of farm and residential home loans to CTs of different income levels reflects excellent dispersion to the AAs’ moderate-income CTs. The distribution of business loans to CTs reflects reasonable dispersion to the AAs moderate-income CTs. There is very limited opportunities to lend to borrowers located in the only low-income CT.

We placed more weight on farm loans in the Non-MSA AA because they represent the largest volume of originations by both number and dollar during the evaluation period.

South Dakota Non-MSA AA

The distribution of farm loans to CTs of different income levels reflects excellent dispersion of the AA’s moderate-income CTs. Sixteen percent of FNB’s agriculture loans by number were to farms located in moderate-income CTs. This exceeds the comparator ratio of 11 percent. The AA has no low-income CTs.

Table 6 includes the data used to evaluate the geographic distribution of FNB’s farm loans in the AA.

<b>Table 6 - Geographic Distribution of Loans to Farms in South Dakota Non-MSA MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0%	0%	11%	15%	79%	50%	10%	35%

Source: 2010 U.S. Census data D&B as of June 2016; Loan Sample

The distribution of business loans to CTs of different income levels reflects reasonable dispersion of the AA's moderate-income CTs. Four percent of FNB's business loans by number were to businesses located in moderate-income CTs. This is lower than, but near the comparator ratio. The AA has no low-income CTs.

Table 7 includes the data used to evaluate the geographic distribution of FNB's business loans in the AA.

<b>Table 7 - Geographic Distribution of Loans to Businesses in South Dakota Non-MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0%	0%	5%	4%	76%	79%	19%	17%

Source: 2010 U.S. Census data; D&B as of June 2016; Loan Sample

### Rapid City MSA AA

The distribution of business loans to CTs of different income levels reflects reasonable dispersion of the AA's moderate-income CTs. Fifteen percent of FNB's business loans by number were to businesses located in moderate-income CTs. This is lower than, but near the comparator ratio. Less than one percent of businesses in the AA are located in the AA's only low-income CT.

Table 8 includes the data used to evaluate the geographic distribution of FNB's business loans in the AA.

<b>Table 8 - Geographic Distribution of Loans to Businesses in Rapid City MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0%	0%	23%	15%	59%	65%	18%	20%

Source: 2010 U.S. Census data; D&B as of June 2016; Loan Sample

The distribution of residential home loans to CTs of different income levels reflects excellent dispersion of the AAs moderate-income CTs. Twenty percent of FNB's residential home loans by number were to borrowers located in moderate-income CTs. This exceeds the comparator ratio. Less than one percent of owner occupied housing in the AA are located in the AA's only low-income CT.

Table 9 includes the data used to evaluate the geographic distribution of FNB's residential real estate loans in the AA.

<b>Table 9 - Geographic Distribution of Residential Real Estate Loans in Rapid City MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Loans	0%	0%	15%	20%	61%	65%	24%	15%

Source: 2010 U.S. Census data; Loan Sample

### Responses to Complaints

Neither the bank nor the Office of the Comptroller of the Currency (OCC) has received any CRA-related complaints since the last CRA examination.

### COMMUNITY DEVELOPMENT TEST

The bank's performance under the CD Test in South Dakota is rated Satisfactory.

CD activities demonstrate adequate responsiveness to CD needs and opportunities in the bank's AAs. CD loans and investments totaled \$4.7 million and represented 5 percent of tier one capital as of December 31, 2016. Members of management provided 352 qualified service hours to four community organizations during the evaluation period. Three bank branches are located in moderate-income CTs and three branches are located in distressed and/or underserved middle-income CTs.

## **Number and Amount of Community Development Loans**

Management originated an adequate number of CD loans in the State of South Dakota during the evaluation period. The CD loans are concentrated in the South Dakota Non-MSA AA. CD loans are primarily small business loans qualified for the Small Business Administration's (SBA) 504 loan program by meeting the definition of economic development by benefitting low- or moderate-income individuals or serving low- or moderate-income CTs.

### South Dakota Non-MSA AA

Management provided an adequate level of CD loans to the South Dakota Non-MSA AA during the evaluation period. Management originated three loans totaling \$2.4 million. Two loans totaling \$2.4 million were small business loans in the AA that qualified for the SBA's 504 loan program by meeting the definition of economic development by benefitting low- or moderate-income individuals. One loan totaling \$19 thousand was for affordable housing to a low-income individual in a moderate-income CT.

### Rapid City MSA AA

Management provided an adequate level of CD loans to the Rapid City MSA AA during the evaluation period. Management originated four loans totaling \$2.1 million during the evaluation period. All of the loans were small business loans in the AA that qualified for the SBA's 504 loan program by meeting the definition of economic development by benefitting low- or moderate-income individuals or serving a low- or moderate-income CT.

## **Number and Amount of Qualified Investments**

Management provided an adequate number of CD investments to the State of South Dakota during the evaluation period. The CD investments are concentrated in the South Dakota Non-MSA AA.

### South Dakota Non-MSA AA

Management provided an adequate level of CD investments to the South Dakota Non-MSA AA during the evaluation period. Management purchased one bond totaling \$100 thousand during the evaluation period. The bond supports the operations of a qualified CD Financial Institution primarily benefitting low-income individuals in the statewide rural areas, including the bank's AA.

Management made qualified donations totaling \$38 thousand to two organizations during the evaluation period. A \$36 thousand donation supports an organization primarily serving low- to moderate-income individuals. A \$2 thousand donation supported an organization that provides personal finance courses for a school located in a moderate-income CT where more than 50 percent of the students qualify for free or reduced cost lunches.

Rapid City MSA AA

Management provided a poor level of CD investments to the Rapid City MSA AA during the evaluation period. Management made four qualified donations totaling \$10,000 during the evaluation period. The donations supported an organization that provides crime prevention services to veteran, elderly low- and moderate-income individuals.

**Extent to Which the Bank Provides Community Development Services**

Management provided an adequate number of CD services to the State of South Dakota during the evaluation period. Bank staff provided 352 qualified service hours to four CD organizations.

The availability of services to low- and moderate-income individuals is adequate. Three bank branches are located in moderate-income CTs and three branches are located in distressed or underserved middle-income CTs. The availability of services in those branches is consistent with the availability in branches located in other middle- or upper-income CTs. Additionally, management makes banking services available to all customers through Internet and mobile banking, which increases the availability of services to all individuals.

South Dakota Non-MSA AA

Management provided a poor number of CD services to the South Dakota Non-MSA AA during the evaluation period. Two employees provided 52 qualified service hours to two organizations that promote economic development by financing small businesses.

The availability of services to low- and moderate-income individuals is adequate. Two branches in the South Dakota Non-MSA AA are located in moderate-income CTs and another three branches are located in distressed or underserved middle-income CTs, which generally increases access to financial services to low- and moderate-income individuals.

Rapid City MSA AA

Management provided an adequate number of CD services to the Rapid City MSA AA during the evaluation period. Bank staff provided 300 qualified service hours to an affordable housing organization and an organization which provides services to low- and moderate-income individuals.

The availability of services to low- and moderate-income individuals is adequate. One of the bank's two branches in the Rapid City MSA AA is located in a moderate-income CT, which generally increases access to financial services to low- and moderate-income individuals.



## **Responsiveness to Community Development Needs**

FNB demonstrated adequate responsiveness to CD needs and opportunities in the State of South Dakota.

We considered the limited CD opportunities in the South Dakota Non-MSA AA and the Rapid City MSA AA during the evaluation period in our analysis. The Rapid City MSA AA only has one low-income CT and the Non-MSA AA has no low-income CTs. Both AAs have a limited number of moderate-income CTs. Additionally, both AAs are primarily rural areas that do not offer the traditional community service and affordable housing organizations typically found in metropolitan areas. Because of these limitations, we placed more reliance on the bank's lending to small businesses benefitting low- and moderate-income individuals or low- and moderate income CTs in these AAs.

## State Rating

### State of Colorado

**CRA Rating for Colorado: Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community development test is rated: Satisfactory.**

The primary factors supporting the rating are:

- The geographic distribution of loans to CTs of different income levels reflects excellent dispersion to low-and moderate-income CTs in the AA.
- FNB's CD activities demonstrate an adequate responsiveness to CD needs of its AA.

### DESCRIPTION OF INSTITUTION'S OPERATIONS IN COLORADO

FNB operates one AA in Colorado. The AA is legal and reasonable and does not arbitrarily exclude any low- or moderate-income CTs. The Denver MSA AA includes a portion of the Denver-Aurora-Lakewood, CO MSA (#19740). The MSA includes Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, and Park Counties in Colorado. FNB considers all of Arapahoe, Douglas, and Denver Counties as its AA. FNB operates one branch in this AA, located in the town of Centennial.

The Denver MSA AA accounted for 23 percent of the bank's deposits and 16 percent of the bank's loan originations by dollar volume. FNB reported \$150 million of deposits in the AA as of June 30, 2016, which ranked the bank twenty-ninth in deposit market share with a market share of less than 1 percent. The primary lending product in the Denver MSA AA is business loans.

The Denver MSA AA has 352 CTs. There are 52 low-income CTs, 76 moderate-income CTs, 100 middle-income CTs, and 123 upper-income CTs. The income level of one CT is unknown. One million four hundred fifty-eight thousand people, or 343 thousand families, lived in the AA in 2016. Of the families, 23 percent were low-income, 16 percent were moderate-income, 19 percent were middle-income, and 42 percent were upper-income. Nine percent of the households in the AA lived below the poverty level. The weighted-average median family income was \$80,100 in 2016.

Fifty-eight percent of the housing units in the Denver MSA AA were owner-occupied and 34 percent were renter-occupied in 2016. The weighted-average of median housing cost was \$280,845 and the weighted-average monthly gross rent was \$882.

The Denver MSA AA included one hundred sixty-eight thousand businesses in 2016. Ninety-eight percent of the businesses were non-farm businesses and 75 percent

employed fewer than five people. Eighty-seven percent of the total businesses in the AA reported gross annual revenues of less than \$1 million.

The economy in the Denver MSA AA is favorable and has improved over the evaluation period. According to the Bureau of Labor Statistics, the unemployment rate as of December 31, 2012 was 7.2 percent. The unemployment rate as of December 31, 2016 improved to 2.6 percent. The unemployment rate is below the national average of 4.7 percent. The primary industries are health and education services; finance, insurance and real estate; and retail. Major employers include Centura Health, Lockheed Martin Corporation, CenturyLink, Kaiser Permanente, Denver Health, Comcast Corporation, Children's Hospital Colorado, and United Airlines.

Competition in the Denver MSA AA is strong and includes large national banks, regional banks, and some community banks. As of June 30, 2016, there were 63 institutions with 408 banking offices located in the AA.

We completed one community contact in the Denver MSA AA in conjunction with this examination. The contact was an executive director of a local small business development organization that provides services to assist small start-up businesses in securing financing from third parties. The contact did not identify any unmet credit needs in the AA.

## **SCOPE OF EVALUATION IN COLORADO**

We completed a full-scope review of the Denver MSA AA because it is FNB's only AA in the State of Colorado. The Colorado state rating received less weight in the bank's overall rating than the South Dakota state because the majority of the bank's activities occur in South Dakota. The Denver MSA AA generates 23 percent of the bank's deposits and has only one of the bank's fourteen branches. Additionally, only 16 percent of the loans originated by dollar volume during the evaluation period were originated in the Denver MSA AA.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN COLORADO**

### **LENDING TEST**

The bank's performance under the Lending Test in Colorado is rated Satisfactory.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The distribution of commercial loans to businesses of different sizes reflects poor penetration of the AA’s small businesses. Forty-five percent of FNB’s commercial loans by number and 49 percent by dollar were to businesses with gross annual revenue less than \$1 million. This is significantly lower than the percentage of small businesses in the AA.

Table 10 includes the data used to evaluate the borrower distribution of FNB’s commercial loans in the AA.

<b>Table 10 - Borrower Distribution of Loans to Businesses in Denver MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	87%	5%	8%	100%
% of Bank Loans in AA by #	45%	45%	10%	100%
% of Bank Loans in AA by \$	49%	32%	19%	100%

Source: 2010 U.S. Census data, D&B as of June 2016; Loan Sample

**Geographic Distribution of Loans**

The distribution of business loans to CTs of different income levels reflects excellent dispersion of the AA’s low- and moderate-income CTs. Thirty percent of FNB’s business loans by number were to businesses located in moderate-income CTs. This exceeds the comparator ratio. Twenty-five percent of FNB’s business loans by number were to businesses located in low-income CTs. This exceeds the comparator ratio.

Table 11 includes the data used to evaluate the geographic distribution of FNB’s business loans in the AA.

<b>Table 11 - Geographic Distribution of Loans to Businesses in Denver MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	11%	25%	19%	30%	26%	20%	44%	25%

Source: 2010 U.S. Census data; D&B as of June 2016; Loan Sample

**Responses to Complaints**

Neither the bank nor the OCC has received any CRA related complaints since the last CRA examination.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the CD Test in Colorado is rated Satisfactory.

CD activities demonstrate adequate responsiveness to CD needs and opportunities in the bank's AAs. CD loans totaled \$4.5 million and represented 5 percent of tier one capital as of December 31, 2016. The bank's only branch in the state is located in a moderate-income CT.

### **Number and Amount of Community Development Loans**

Management originated an adequate number of CD loans in the Denver MSA AA during the evaluation period. Management originated two loans totaling \$2.5 million to small businesses. The loans qualified for the SBA's 504 loan program by benefitting low- or moderate-income individuals or serving low- or moderate-income income CTs.

### **Number and Amount of Qualified Investments**

Management did not provide any CD investments or donations in this AA during the evaluation period.

### **Extent to Which the Bank Provides Community Development Services**

Management and bank staff did not provide any service hours to qualified CD organizations in the Denver MSA AA during the evaluation period.

The availability of services to low- and moderate-income individuals is adequate. The only branch in the AA is located in a moderate-income CT. Additionally, management makes banking services available to all customers through Internet and mobile banking, which increases the availability of services to all individuals.

### **Responsiveness to Community Development Needs**

FNB demonstrated adequate responsiveness to CD needs and opportunities in the State of Colorado

We considered the strong competition in the Denver MSA AA and the bank's limited market share and rank within the MSA. Banks with larger market share and presence serve the needs of the AA. Management's lending activities and the location of the branch are adequately responsive to the CD needs given FNB's deposit market share.

## 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 nonmetropolitan 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>	<b>Lending Test:</b> 1/1/2014 to 12/31/2016 <b>Community Development Test:</b> 1/1/2013 to 04/17/2017	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First National Bank (FNB) Fort Pierre, South Dakota	See list below for each AA	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
No affiliate lending or products were reviewed.	Not applicable	Not applicable
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
South Dakota Non-MSA Rapid City MSA #39660	Full Scope Full Scope	Farm and business loans Business and home loans
Colorado Denver–Aurora-Lakewood MSA #19740	Full Scope	Business loans

## Appendix B: Summary of Multistate Metropolitan Area and State Ratings

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<b>Overall Bank:</b>	<b>Lending Test Rating</b>	<b>Community Development Test Rating</b>	<b>Overall Bank/State/Multistate Rating</b>
First National Bank	Satisfactory	Satisfactory	Satisfactory
South Dakota	Satisfactory	Satisfactory	Satisfactory
Colorado	Satisfactory	Satisfactory	Satisfactory