

PUBLIC DISCLOSURE

February 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 14252
125 West Sioux Avenue
Pierre, South Dakota 57501

**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 - A small, statistical area within a nonmetropolitan county (also known as a "geography").

Community Development Loan - A loan with a **primary** purpose of community development. With one exception community development loans specifically exclude loans reported in Home Mortgage Disclosure Act (HMDA) or CRA (small loans to businesses and farms) Disclosure Statements. Multi-family rental housing loans can be reported under HMDA and count as community development loans.

Community Development Purpose - Affordable housing (including multifamily rental housing) for low- and moderate- income (LMI) individuals; community services targeted for LMI individuals; activities that promote economic development by financing businesses or farms that meet certain size and revenue standards prescribed by regulation; and, activities that vitalize or stabilize LMI geographies.

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.

Small Business or Small Farm - A business or farm with gross annual revenues of \$1 million or less.

Small Loan to a Business or Farm - A loan of \$1 million or less to any business and a loan of \$500,000 or less to any farm.

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 **First National Bank, Pierre, South Dakota**, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **February 1, 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 First National Bank meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio of 85 percent since the bank's prior CRA examination.
- C A majority of loans by both number (85 percent) and by dollar volume (59 percent) are located within the bank's defined assessment areas.
- C The bank actively lends to individuals of different income levels (including low- and moderate-income borrowers), small farms, and businesses of various sizes.
- C Geographic distribution of loans, where applicable, is reasonable and approximates community demographics.

DESCRIPTION OF INSTITUTION

First National Bank (FNB), Pierre, South Dakota is a \$148 million commercial bank. The bank's main office is a full-service facility located in downtown Pierre. There are eight other full-service branch locations, including Fort Pierre, Midland, Murdo, Sturgis, Lead, Newell, McLaughlin, and Rapid City. FNB opened the Newell branch on January 1, 1996, and the Rapid City branch on April 11, 1997. The bank also operates three deposit-taking automated teller machines (ATMs) and six cash-dispensing ATMs.

FNB's business focus is commercial, agricultural, and consumer lending. According to its Report of Condition and Income, FNB has the following outstanding loans in relation to total loans on December 31, 1998: commercial (49 percent), agricultural (19 percent), consumer (14 percent), residential real estate (15 percent), and other (2 percent). Net loans total 80 percent of assets.

FNB is 97 percent owned by Capitol Bancorporation, Inc., (CBI) a one-bank holding company headquartered in Britton, South Dakota. CBI is owned by Mr. Frank L. Farrar, who also owns several other financial institutions. FNB related organizations include a wholly-owned credit card subsidiary in Sioux Falls, South Dakota.

FNB received a "Satisfactory" rating at its October 26, 1995, CRA examination. There are no financial, legal or other factors which impede the bank's ability to meet its CRA obligations. In 1998, FNB had net income of \$2.5 million for a return on average assets of 1.7 percent and Tier I Capital of \$12.1 million.

DESCRIPTION OF ASSESSMENT AREAS

FNB has identified four assessment areas, three of which are rural. The Pierre/Fort Pierre/Midland/Murdo assessment area includes Hughes, Stanley, Haakon, and Jones Counties. The Sturgis/Lead/Newell assessment area includes Lawrence and Butte Counties and most of Meade County. The McLaughlin assessment area includes Corson County, which is also the South Dakota portion of the Standing Rock Indian Reservation. The Rapid City assessment area includes most of Pennington County and is part of the Rapid City Metropolitan Statistical Area (MSA) #6660. The total population of all assessment areas is 138,645 persons, according to 1990 U.S. Census Data.

The assessment areas comply with regulatory requirements. They include all FNB branch offices and ATMs, as well as a majority of the bank's loans. The areas do not arbitrarily exclude any low- or moderate-income block numbering areas (BNAs) or census tracts (CTs).

The Department of Housing and Urban Development's 1998 updated statewide non-MSA median family income (MFI) estimate for South Dakota is \$36,800. The 1998 updated MFI estimate for the Rapid City MSA is \$41,400. The following table summarizes the income levels of individual BNAs or

CTs and families located within the bank's four assessment areas:

DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Number of BNAs or CTs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Pierre/Fort Pierre Midland/Murdo	0	0	5	2	13%	14%	22%	51%
Sturgis/Lead/Newell	0	0	7	3	15%	16%	23%	46%
McLaughlin	0	1	0	0	39%	17%	17%	27%
Rapid City	0	6	7	5	17%	19%	25%	39%
Total	0	7	19	10	16%	17%	24%	43%

Source: U.S. Census Data (1990)

The McLaughlin assessment area has 33 percent of families with incomes below the poverty level (less than 30 percent of MFI). The other assessment areas average between 9 and 10 percent.

Major industries in the state of South Dakota include tourism, retail trade, farming and ranching, and government employment. According to State Department of Labor statistics, the December 1998 unemployment figure for South Dakota was low at 2.6 percent. Counties exceeding the average by more than one percent include Corson (5.0 percent), Lawrence (4.7 percent), Jones (4.2 percent) and Butte (3.9 percent).

Competition from other financial institutions is strong. Except for Corson County, the bank is one of the smaller financial institutions in all of its markets. FNB has 49 percent of the deposits in Corson County, and is the only bank in McLaughlin. FNB is also the only bank in Fort Pierre and all of Stanley County, but it faces strong competition from other financial institutions in Pierre. Including FNB, there are three financial institutions chartered in Pierre. FNB ranks second in total assets, but third in deposit market share with 21 percent. In Meade, Butte, and Lawrence Counties, FNB ranks fourth among six banks with five percent deposit market share. FNB has a very small presence in the Rapid City market due to the recent branch opening. Of 10 financial institutions in Pennington County, FNB ranks ninth in deposit share with 0.5 percent.

We did not identify any unmet credit needs in any of FNB's assessment areas. Community contacts and other information indicate a relatively strong, stable, state-wide economy and many financial institutions willing and able to provide all types of credit.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio:

FNB'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 85.4 percent over the 13 quarters from December 31, 1995, through December 31, 1998. FNB's net loan-to-deposit ratio trend is steadily increasing and totals 90.9 percent at December 31, 1998.

FNB's ratio compares favorably with other community banks of similar size (total assets <\$250 million) in the assessment areas. FNB ranks third among a total of 10 similarly-situated banks chartered in the assessment areas. The nine other banks had average net loan-to-deposit ratios averaging 77 percent and ranging from 52 percent to 94 percent over the 12 quarters from December 31, 1995 through September 30, 1998.

Lending in Assessment Areas:

FNB originates a majority of its loans to borrowers located within its defined assessment areas. Of loans originated in 1997 and 1998, about 85 percent by number and 59 percent by dollar volume were made to farms, businesses, and individuals located within the bank's four assessment areas. The following table shows loans originated inside the assessment areas by number and dollar volume:

LENDING IN ASSESSMENT AREAS BY NUMBER AND DOLLAR AMOUNT (000S)				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Agricultural	550	81%	\$26,425	74%
Commercial	451	85%	\$44,616	44%
Consumer	1,259	87%	\$17,763	89%
Residential	169	89%	\$8,590	93%
Total	2,429	85%	\$97,394	59%

Source: Bank records (verified by examiners)

The bank purchases a significant volume of commercial loan participations to hold in its own portfolio and for sale to affiliate banks. In 1997 and 1998, FNB purchased 19 loans totaling \$28 million. These purchases significantly reduce the percentage of commercial loans by dollar volume originated inside the assessment areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

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

Overall, the distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes and individuals of different income levels. Lending to small business and farms and to low- and moderate-income individuals meets or exceeds community demographics.

Commercial lending activity in the Rapid City assessment area (96 percent) exceeds community demographics of 89 percent. Commercial lending in the other assessment areas meets community demographics. The largest number of loans in all assessment areas were originated to small businesses with less than \$50,000 in annual revenues. Examiners sampled 100 percent of loans to commercial borrowers originated in three assessment areas in 1997 and 1998. We did not analyze commercial loans originated in the McLaughlin assessment area due to minimal volume (five loans). The following table compares the bank's commercial lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF COMMERCIAL LOANS BY REVENUE SIZE									
Revenue (000s)	Pierre/Fort Pierre Midland/Murdo			Sturgis/Lead/Newell			Rapid City		
	Number	Percent of Number	Business Data	Number	Percent of Number	Business Data	Number	Percent of Number	Business Data
<\$50	43	30%	90%	44	42%	93%	14	48%	89%
\$50-\$100	25	18%		20	19%		2	7%	
\$100-\$250	24	17%		18	17%		3	10%	
\$250-\$500	17	12%		12	11%		6	21%	
\$500-\$1,000	14	10%		7	7%		3	10%	
>\$1,000	18	13%	10%	5	5%	7%	1	4%	11%
Totals	141	100%	100%	106	100%	100%	29	100%	100%

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

Agricultural lending activity in all assessment areas meets the community demographics. The largest number of loans in all assessment areas were originated to small farms with less than \$50,000 in annual revenues. Examiners sampled 100 percent of loans to agricultural borrowers originated in three assessment areas in 1997 and 1998. We did not analyze agricultural loans originated in the Rapid City assessment area due to minimal volume (eight loans). The following table compares the bank's agricultural lending activity by revenue size to community demographics:

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE									
Revenue (000s)	Pierre/Fort Pierre Murdo/Midland			Sturgis/Lead/Newell			McLaughlin		
	Number	Percent of Number	1997 Ag Census	Number	Percent of Number	1997 Ag Census	Number	Percent of Number	1997 Ag Census
<\$ 50	69	48%	49%	56	69%	68%	12	60%	56%
\$ 50-\$100	32	22%	18%	18	22%	16%	3	15%	23%
\$100-\$250	27	19%	21%	7	9%	12%	3	15%	17%
\$250-\$500	10	7%	8%	0	0%	3%	0	0%	3%
>\$500	5	4%	4%	0	0%	1%	2	12%	1%
Totals	143	100%	100%	81	100%	100%	20	100%	100%

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

Consumer lending activity in all assessment areas meets or exceeds community demographics. The McLaughlin assessment area has the highest percentages of low- and moderate-income families. FNB meets the community demographics for low-income borrowers and exceeds them for moderate-income borrowers. Examiners sampled 100 percent of consumer loans originated in the Rapid City assessment area and 10 percent of consumer loans originated in the other assessment areas in 1997 and 1998. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL												
Borrower Income Level	Pierre/Fort Pierre Midland/Murdo			Sturgis/Lead/Newell			McLaughlin			Rapid City		
	Number	Percent of Number	Percent of Families	Number	Percent of Number	Percent of Families	Number	Percent of Number	Percent of Families	Number	Percent of Number	Percent of Families
Low	14	21%	13%	16	36%	15%	4	40%	39%	9	28%	17%
Moderate	15	22%	14%	8	18%	16%	3	30%	17%	6	19%	19%
Middle	11	17%	22%	15	33%	23%	2	20%	17%	8	25%	25%
Upper	27	40%	51%	6	13%	46%	1	10%	27%	9	28%	39%

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL

Totals	67	100%	100%	45	100%	100%	10	100%	100%	32	100%	100%
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Source: Bank records (verified by examiners) and U.S. Census Data (1990)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Geographic Distribution of Loans:

Geographic distribution of loans in the Rapid City assessment area is reasonable. Commercial and consumer loan distribution in moderate-income census tracts is consistent with assessment area demographics, as shown in the following tables:

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS IN THE RAPID CITY ASSESSMENT AREA					
Tract Income Level	Originations Dated January 1, 1997 through December 31, 1998				Percent of Businesses By Tract Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	0	0%	\$0	0%	0%
Moderate-Income	23	45%	\$8,472	80%	46%
Middle-Income	14	28%	\$1,013	10%	32%
Upper-Income	14	27%	\$1,092	10%	22%
Totals	51	100%	\$10,577	100%	100%

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

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN THE RAPID CITY ASSESSMENT AREA					
Tract Income Level	Originations Dated January 1, 1997 through December 31, 1998				Percent of Population By Tract Category
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
Low-Income	0	0%	\$0	0%	0%
Moderate-Income	14	38%	\$104	34%	36%
Middle-Income	12	32%	\$101	33%	33%
Upper-Income	11	30%	\$104	34%	31%
Totals	37	100%	\$309	100%	100%

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

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Geographic distribution analysis reflects lending in most of the 18 census tracts in the Rapid City assessment area. FNB did not originate commercial loans in three census tracts, including two middle-income tracts and one upper-income tract. FNB did not originate consumer loans in four census tracts, including one moderate-income tract and three middle-income tracts.

We did not review geographic distribution of residential and agricultural loans in the Rapid City assessment area due to the low number and volume of these loan types.

Geographic distribution analysis is not meaningful for the McLaughlin assessment area since there is only one BNA. Geographic distribution analysis is not meaningful for the Pierre/Fort Pierre/Midland/Murdo and Sturgis/Lead/Newell assessment areas since the BNAs in those areas are all middle- or upper-income.

Response to Complaints:

The bank has not received any CRA-related complaints since the last CRA exam.

OTHER INFORMATION

Fair Lending:

Examiners did not identify any instances of illegal discrimination or disparate treatment in the fair lending review performed during this compliance examination cycle. Our review used the benchmark approach to evaluate consumer lending based on gender.

Home Mortgage Disclosure Act:

Prior to 1998, FNB was exempt from the Home Mortgage Disclosure Act (HMDA). The Rapid City branch opened April 11, 1997, requiring the bank to comply with this regulation beginning January 1, 1998. We verified the 1998 Loan Application Register for accuracy.