



PUBLIC DISCLOSURE

August 31, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Security National Bank of South Dakota
Charter Number 23226

325 Dakota Dunes Blvd
Dakota Dunes, SD 57049

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 South 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The major factors supporting this rating include:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, loan growth, and the credit needs of the assessment areas (AAs).
- The bank originated a majority of its loans inside its designated AAs.
- The bank's geographic distribution of business and consumer loans within the Sioux Falls Metropolitan Statistical Area (MSA) AA reflects reasonable dispersion throughout census tracts (CTs) of different income levels.
- The bank has not received any formal complaints related to its Community Reinvestment Act (CRA) performance.

SCOPE OF EXAMINATION

Security National Bank of South Dakota (SNBSD) was evaluated using the Small Bank examination procedures, which includes a Lending Test for the State of South Dakota.

The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. The lending test for SNBSD covers performance from January 1, 2013 through March 31, 2015. The bank's lending during this evaluation period is representative of the bank's lending strategy since the last CRA examination.

To determine the bank's primary loan products, examiners analyzed both the number and dollar of loans originated and purchased during the evaluation period. Loans were broken down by loan product type using the bank's internal classification codes. Based on this analysis, the bank's primary loan products are business and consumer loans in the Sioux Falls MSA AA and consumer loans in the Sioux City MSA AA. These primary products are consistent with the bank's business strategy. Tables 1 and 2 below show the breakdown of loans originated and purchased during the evaluation period by AA.

Table 1 - Loan Originations/Purchased Summary by Loan Product in the Sioux Falls MSA		
Loan Category	By Number Originated/Purchased	By Dollar Originated/Purchased
Farm Loans	13%	19%
Business Loans	23%	66%
Consumer Loans	40%	2%
Home Loans	24%	13%
Total	100%	100%

Source: Bank Reports

Table 2 - Loan Originations/Purchased Summary by Loan Product in the Sioux City MSA		
Loan Category	By Number Originated/Purchased	By Dollar Originated/Purchased
Farm Loans	0%	0%
Business Loans	0%	0%
Consumer Loans	90%	79%
Home Loans	10%	21%
Total	100%	100%

Source: Bank Reports

To evaluate the bank's business and consumer lending, examiners selected a sample of loans originated or purchased during the evaluation period for each primary product in each AA. To evaluate whether the bank made loans to borrowers in their AA, examiners selected a sample of 20 loans from each primary product. Examiners selected additional loans as needed to have sufficient information to analyze borrower and geographic distribution within the AA.

DESCRIPTION OF INSTITUTION

SNBSD is headquartered in Dakota Dunes, South Dakota. As of June 30, 2015, SNBSD had total assets of \$177 million and tier one capital of \$16.4 million. The bank is wholly owned by Security National Corporation (SNC), a \$1.4 billion, three-bank holding company headquartered in Sioux City, Iowa. There have been no significant changes to the bank's corporate structure, including any merger or acquisition activities, since the last CRA examination.

In addition to the main office, the bank operates two full-service branches in Sioux Falls, SD. Both Sioux Falls branches are located in a middle-income CT and the Dakota Dunes branch is located in an upper-income CT. There have been no branches opened or closed since the last CRA examination. The bank also operates an automated teller machine (ATM) at each branch location. The bank has no deposit-taking ATMs.

SNBSD offers traditional loan and deposit products and trust services. There have been no changes in the bank's business strategy since the last CRA examination. Management's business strategy is to serve the needs of the community, primarily through commercial loans in Sioux Falls and consumer loans in Sioux City. As of June 30, 2015, SNBSD reported net loans of \$87 million, which represents 49 percent of total assets compared to 37 percent at the last CRA examination. Table 3 below describes the loan portfolio composition.

Table 3 - Loan Portfolio Summary by Loan Product as of June 30, 2015	
Loan Category	Percent of Outstanding Dollars
Farm Loans	11%
Business Loans	64%
Consumer Loans	5%
Home Loans	16%
Other Loans	4%
Total	100%

The bank has no legal or financial impediments limiting its ability to help meet community credit needs. SNBSD was rated Satisfactory during its last examination dated March 10, 2010.

DESCRIPTION OF ASSESSMENT AREA(S)

SNBSD operates with two AAs. The AAs comply with all regulatory requirements and include the bank's main office and two branch offices. The AAs do not arbitrarily exclude any low- or moderate-income census tracts.

Sioux Falls, SD MSA

During the evaluation period, SNBSD considered a portion of the Sioux Falls MSA as one of its AAs. The AA includes the southern half of Minnehaha County and the northern half of Lincoln County, including the communities of Brandon, Harrisburg, Hartford, Lennox, Sioux Falls, and Tea. The AA consists of 47 census tracts of which no tracts are low-income, 14 are moderate-income, 21 are middle-income, and 12 are upper-income tracts. The bank's branches are located on the western side of Sioux Falls just west of Interstate 29 and the southern edge of Sioux Falls just south of the Interstate 229 bypass. A map of the AA can be obtained from the bank's CRA public file.

This AA accounted for 48 percent of the bank's deposits and 64 percent of the bank's loans (by number) during the evaluation period. SNBSD reported \$83 million in deposits within the AA as of June 30, 2014. In comparison to competitors, SNBSD has a small market share with less than 1 percent of total deposits and is ranked 17 out of 28 banks. Branches from large national financial institutions, Citibank and Wells Fargo, have 98 percent of the AA's total deposits.

Per the 2010 U.S. Census, the population of the Sioux Falls AA is 192,259 or 72,645 households in the AA. Of those households, 21 percent are low-income, 18 percent are moderate-income, 20 percent are middle-income, and 41 percent are upper income. Thirty-two percent of households are located in moderate-income CTs, 44 percent in middle-income CTs, and 24 percent in upper-income CTs. The AA has no low-income CTs. There are 47,968 families in the AA. Of those families, 18 percent are low-income, 17 percent moderate-income, 26 percent middle-income, and 39 percent are

upper-income. The 2015 weighted average HUD updated MSA median family income is \$71,000.

Sixty-two percent of the housing units in the Sioux Falls MSA AA were owner-occupied and 31 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$152,807 and the weighted-average of monthly gross rent was \$677.

The Sioux Falls MSA AA included 15,577 businesses in 2015. Ninety-five percent of the businesses were non-farm businesses and 69 percent employed fewer than five people. Seventy-seven percent of the non-farm businesses reported gross annual revenue under \$1 million. Thirty-nine percent of non-farm businesses are located in moderate-income CTs, 37 percent in middle-income CTs, and 24 percent in upper-income CTs. There are no low-income CTs in the AA.

The economy in the Sioux Falls MSA was favorable during the evaluation period. According to the South Dakota Department of Labor and Regulation, the unemployment rate in the Sioux Falls MSA steadily improved from 4.6 percent in July 2009 to 2.6 percent in July 2015. This is below the national unemployment rate of 5.3 percent in July 2015. Major employers in the Sioux Falls MSA include the healthcare industry, credit card processors, the education sector, and meat processing companies.

Competition in the Sioux Falls MSA is strong. Competition includes local community banks and branches of larger regional and national institutions. As of June 30, 2014, there were 28 institutions with 120 offices located in Minnehaha and Lincoln counties.

Examiners reviewed a community contact form completed in January 2015 in conjunction with another CRA examination. The contact was an executive director of an organization supporting economic development. The contact identified low-income housing as the primary credit need in the community and area banks were meeting this need. SNBSD offers home loan products and participates in a first-time home buyer program to assist low- to moderate-income individuals in obtaining financing. The bank also offers and pursues commercial loans.

Sioux City IA-NE-SD Multi-State MSA

During the evaluation period, SNBSD considered a portion of Union County, South Dakota as one of its AAs. Union County is located in the Sioux City IA-NE-SD Multi-State MSA (Sioux City MSA). Because the bank's operations are limited to the South Dakota portion of this Multi-State MSA, this AA was incorporated into the State of South Dakota rating.

This AA accounted for 52 percent of the bank's deposits and 36 percent of the bank's total loans (by number) originated or purchased during the evaluation period. SNBSD reported \$89 million in deposits within the AA as of June 30, 2014. SNBSD ranked second among six banks with offices in Union County with 20 percent of the deposit market share.

The Sioux City MSA AA includes census tract 203 in Union County, South Dakota, which is the southern one-third of the county. The AA includes the communities of Dakota Dunes, Jefferson, and North Sioux City. The CT is an upper-income tract. The AA does not arbitrarily exclude any low- or moderate-income areas. The bank's headquarters is located in the southern half of CT 203. A map of the AA can be obtained from the bank's CRA public file.

According to the 2010 U.S. Census, the population of the Sioux City MSA AA is 7,578, or 2,986 households in the AA. Of those households, 13 percent are low-income, 9 percent are moderate-income, 18 percent are middle-income, and 60 percent are upper income households. There are 1,980 families in the AA. Of those families, 11 percent are low-income, 12 percent are moderate-income, 21 percent are middle-income, and 56 percent are upper income. The 2015 weighted average of HUD updated MSA median family income is \$63,000.

Seventy-two percent of the housing units in the Sioux City MSA AA were owner-occupied and 25 percent were renter-occupied in 2015. The weighted-average of median housing cost was \$176,500 and the weighted-average of monthly gross rent was \$790.

The Sioux City MSA AA included 872 businesses in 2015. Ninety-three percent of the businesses were non-farm businesses and 71 percent employed fewer than five people. Seventy-nine percent of the businesses reported gross annual revenues under \$1 million.

The economy in the Sioux City MSA was favorable during the evaluation period. According to the South Dakota Department of Labor and Regulation, the unemployment rate for Union County improved from 6.9 percent in July 2009 to 3.8 percent in July 2015. This is below the national employment rate of 5.3 percent in July 2015. Major employers in the Sioux City MSA include call centers, meat processing companies, and the healthcare industry.

Competition in the Sioux City MSA is moderate and primarily includes local community banks. As of June 30, 2014, there were six institutions with 10 offices located in Union County in the Sioux City MSA.

Examiners reviewed community a contact form completed in June 2015 in conjunction with another CRA examination. The contact was an executive vice president of an organization supporting business development. The contact did not identify any unmet credit needs in the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SNBSD's performance under the Lending Test is Satisfactory. Management operates with a reasonable loan-to-deposit ratio and originates a majority of its loans by number within the AAs. The geographic distribution of loans is reasonable. The borrower distribution of loans is poor; however, the other lending performance criteria areas were reasonable and satisfactory.

Loan-to-Deposit Ratio

SNBSD's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, AA credit needs, and loan growth over the past two and a half years. The bank's LTD ratio is now reasonable at 59 percent as of June 30, 2015 and continues to improve. The bank's net loans have increased \$39MM, or 82% since the prior CRA examination. The bank's LTD ratio averaged 40 percent over the past twenty-two quarters since the last CRA examination, from March 31, 2010 to June 30, 2015. The ratio ranged from a quarterly low of 29 percent on December 31, 2012 and a quarterly high of 59 percent as of the most recent quarter end. The average LTD ratio was impacted by low LTD ratios in 2011 and 2012 caused by a significant increase in deposits without a corresponding increase in loan demand. Between 2010 and 2012 year-ends deposits grew \$35 million, or 29 percent and net loans did not change. SNBSD, like many banks at the time, had difficulties generating new loans during the economic downturn as the demand for loans decreased. During 2013, the LTD ratio began improving as SNBSD experienced significant loan growth at the same time deposits stabilized. Loans increased \$42 million, or 94 percent between December 31, 2012 and June 30, 2015. The LTD ratio improved to 43 percent as of December 31, 2013, 54 percent as of December 31, 2014, and the ratio continues to improve through 2015.

In addition to balance sheet loans, the bank also originates an average of 90 mortgage loans totaling \$19 million, or 10 percent of assets annually. These loans are subsequently sold to the secondary market or an affiliate bank.

The bank's net loan-to-deposit is lower than other financial institutions of similar size, locations, and product offerings. SNBSD ranks last among four similarly situated banks. The other four banks had net loan-to-deposit ratios averaging 75 percent and ranging from a low of 51 percent to a high of 94 percent over the same quarters. We put more weight on the bank's loan growth and current LTD ratio.

Lending in Assessment Area

SNBSD originated a majority of its loans to borrowers located inside its designated AAs. Examiners sampled 20 consumer loans in the Sioux City MSA AA, 20 consumer loans in the Sioux Falls MSA AA, and 20 commercial loans in the Sioux Falls MSA AA originated or purchased during the evaluation period. SNBSD originated or purchased 65 percent of its loans by number and 61 percent of its loans by dollar volume within its AAs.

Table 4 details the bank's lending within its AAs by number and dollar volume of loans sampled.

Table 4 - Lending in Sioux Falls MSA and Sioux City MSA AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Consumer Loans	26	65%	14	35%	40	464	69%	205	31%	669
Business Loans	13	65%	7	35%	20	9,960	61%	6,457	39%	16,417
Total	39	65%	21	35%	60	10,424	61%	6,662	39%	17,086

Source: Loan sample

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

SNBSD's overall borrower distribution of business loans to businesses of different sizes and consumer loans to households of different income levels reflects poor penetration of each AA's demographics during the evaluation period. Examiners placed the most weight on the business loans in the Sioux Falls MSA AA as management's primary loan strategy is focused on business loans in the Sioux Falls MSA AA and the bank had the most opportunity to lend to small businesses during the evaluation period as 77 percent of the businesses in the AA are small businesses. Additionally, the Sioux Falls MSA AA represents the majority of the bank's lending by number and dollar volume and the AA has the most branch locations and half of the bank's deposits.

Sioux Falls MSA:

Business Loans

The bank's distribution of business loans in the Sioux Falls MSA AA reflects poor penetration among businesses of different sizes. The bank originated or purchased 42 percent of loans by number and 22 percent by dollar to small businesses. This is significantly lower than the demographic data that shows 77 percent of businesses in the AA are considered small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less.

Table 5A shows the distribution of business loans among businesses of different sizes in the Sioux Falls MSA AA.

Table 5A - Borrower Distribution of Loans to Businesses in Sioux Falls MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	77%	6%	17%	100%
% of Bank Loans in AA by #	42%	58%	0%	100%
% of Bank Loans in AA by \$	22%	78%	0%	100%

Source: 2010 U.S. Census data; loan sample

Consumer Loans

The distribution of consumer loans in the Sioux Falls MSA AA reflects poor penetration among borrowers of different income levels. The bank originated or purchased 36 percent of the loans sampled to low- or moderate-income borrowers, which is lower than the 39 percent of households in the AA that have low- or moderate-income. The bank originated or purchased 13 percent of the loans sampled to low-income borrowers, which is lower than the 21 percent of households in the AA that have low-income.

Table 5B shows the distribution of consumer loans among different income levels in the Sioux Falls MSA AA.

Table 5B - Borrower Distribution of Consumer Loans in Sioux Falls MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21%	13%	18%	23%	20%	22%	41%	42%

Source: 2010 U.S. Census data; loan sample

Sioux City MSA

Consumer Loans

The distribution of consumer loans in the Sioux City MSA AA reflects reasonable penetration among borrowers of different income levels. The bank originated or purchased 25 percent of the loans sampled to low- or moderate-income borrowers, which exceeds the 22 percent of households in the AA that have low- or moderate-income. The bank originated or purchased 15 percent of the loans sampled to moderate-income borrowers, which exceeds the 9 percent of households in the AA that have moderate-income.

Table 5C shows the distribution of consumer loans among different income levels in the Sioux City MSA AA.

Table 5C - Borrower Distribution of Consumer Loans in Sioux City MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	13%	10%	9%	15%	18%	20%	60%	55%

Source: 2010 U.S. Census data; loan sample

Geographic Distribution of Loans

The bank’s geographic distribution of loans in the Sioux Falls MSA AA reflects reasonable dispersion throughout CTs of different income levels. The loan sample reflected lending in most moderate-income CTs. Examiners placed the most weight on the business loans in the Sioux Falls MSA AA as management’s primary loan strategy is focused on business loans in the Sioux Falls MSA AA.

A geographic distribution for the Sioux City MSA AA is not meaningful as there are no low- or moderate-income CTs within the AA.

Sioux Falls MSA

Business Loans

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout CTs of different income levels. The bank originated or purchased 33 percent of business loans in their AA to businesses located in moderate-income CTs. This is lower than, but near the 39 percent of businesses in the AA located in moderate-income CTs. The AA does not have any low-income CTs.

Table 6A shows the bank’s performance compared to the percentage of businesses in each CT income level in the Sioux Falls MSA AA.

Table 6A - Geographic Distribution of Loans to Businesses in Sioux Falls MSA								
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%	39%	33%	37%	32%	24%	35%

Source: 2010 U.S. Census data; loan sample

Consumer Loans

The bank’s geographic distribution of consumer loans reflects poor dispersion throughout CTs of different income levels. The bank originated or purchased 23 percent of consumer loans in their AA to households located in moderate-income CTs. This is lower than the 32 percent of businesses in the AA located in moderate-income CTs. The AA does not have any low-income CTs.

Table 6B shows the bank’s performance compared to the percentage of households in each CT income level in the Sioux Falls MSA AA.

Table 6B - Geographic Distribution of Consumer Loans in Sioux Falls MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans	% of AA House-holds	% of Number of Loans
Consumer Loans	0%	0%	32%	23%	44%	37%	24%	40%

Source: 2010 U.S. Census data; loan sample

Responses to Complaints

Neither the bank nor the Office of the Comptroller of the Currency received any complaints regarding the bank’s CRA performance since the last CRA examination dated March 10, 2010.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in an 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.