



Public Disclosure

May 26, 1999

Community Reinvestment Act Performance Evaluation

**First National Bank South Dakota
Charter Number 22764**

**332 Broadway Street
Yankton, South Dakota 57078**

**Office of the Comptroller of the Currency
Midwestern District
Midsize-Credit Card/Community Banks
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Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

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

Assessment Area (AA) - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance.

Block Numbering Area (BNA) - Small, locally defined statistical area, determined by the Census Bureau. A BNA has defined boundaries per the ten-year census and an average population of 4,000.

Community Development Loan - A loan which has as its *primary* purpose community development. Community development loans specifically exclude loans which have been previously reported under the Home Mortgage Disclosure Act or as small loans to businesses and farms.

Community Development Service - A service that has community development as its *primary* purpose and is related to the provision of financial services.

Community Development Purpose - Defined per 12 C.F.R. § 25.12(h) as affordable housing (including multi-family rental housing) for low- and moderate-income (LMI) individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that meet size eligibility standards of 13 C.F.R. § 121.802(a)(2) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize LMI geographies.

Community Reinvestment Act - A statute that requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs of the institution's local community.

Income Levels - These relate to individuals, families, or the BNAs or CTs in a bank's assessment area.

Low = An income level that is less than 50% of the median income.

Moderate = An income level that is at least 50% and less than 80% of the median income.

LMI = An income level that is less than 80% of the median income.

Middle = An income level that is at least 80% and less than 120% of the median income.

Upper = An income level that is 120% or more of the median income.

Median Family Income - The median family income for a specific MSA as determined by the United States Census Bureau. The Department of Housing and Urban Development (HUD) updates this figure annually using an estimated inflation factor.

Qualified Investment - A lawful investment that has as its *primary* purpose community development.

Small Business or Small Farm - A business or farm that has \$1 million or less in gross annual revenues.

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

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **First National Bank South Dakota (FNB)** prepared by The Office of the Comptroller of the Currency (OCC) as of **May 26, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **"Satisfactory."**

FNB elected to be evaluated under the Community Reinvestment Act strategic plan option. FNB is rated "satisfactory" because the bank met a significant portion of its performance goals outlined in the strategic plan approved by our Office. The bank did not meet all of its goals, however, goals that were not fully reached were substantially met as explained in this document. We detail goals given primary consideration in determining the bank's CRA performance below:

- C FNB exceeded its business loans under \$100,000 goal of 143 loans with 233 loans.
- C FNB exceeded its farm loans under \$100,000 goal of 247 loans with 320 loans.
- C FNB exceeded the residential real estate loan goal to LMI families. The bank's goal was to maintain between 5-10% of the lending to LMI families. In 1998, 12% of the loans were to LMI families.
- C The bank exceeded the goal of one community development loan a year with four loans in 1998.
- C The bank exceeded its service goal of 8 seminars in 1998.

Description of Institution

FNB is a \$299 million full-service financial institution in Yankton, South Dakota. FNB is 100% owned by First National Nebraska, Inc. (FNNI), a \$7.9 billion multi-bank holding company based in Omaha, Nebraska. FNB is affiliated with seven national banks and three state chartered banks in Nebraska, Colorado, and Kansas. Although FNB is affiliated with a multi-bank holding company, its operations

are decentralized with significant local authority. The bank has no legal or financial impediments to hinder its ability to meet the established performance goals set forth in the strategic plan.

The Bank has one location in Yankton, and operates six Automated Teller Machines (ATM). One ATM takes deposits and the other five are cash dispensing only ATMs. The deposit taking ATM is located in Yankton. Two cash dispensing ATMs are located in Yankton, two in Vermillion, and one outside the assessment area on the Rosebud Indian Reservation.

The bank's loan-to-deposit ratio is 68% and gross loans represent 47% of total assets, as of March 31, 1999. The loan portfolio make-up is: 18% agricultural, 19% commercial and commercial real estate, 8% residential real estate, and 9% consumer. The remaining 46% of the loan portfolio is comprised of credit card loans. Credit card lending is the bank's primary product. FNB issues credit cards on a national basis and participates out the majority to FNNI affiliates. FNB on average retains about \$69 million in credit cards. FNB also sells a majority of its home purchase and refinancing mortgage loans on the secondary market. The loan-to-deposit ratio and loan portfolio mix do not reflect secondary market loans. However, these loans are considered under the banks lending goals.

The bank was rated "satisfactory" at the last CRA examination dated March 31, 1997.

Description of FNB's Assessment Area

The bank's assessment area (AA) is all of Yankton, Clay, and Bon Homme Counties in southeastern South Dakota. This is a change from the approved strategic plan. The approved plan included only Yankton, Clay and the eastern portion of Bon Homme County. The bank added the western portion Bon Homme County because it has several customers in this area and considers it part of its trade area. The change from the approved plan did not materially change the demographics or lending patterns within the AA. Information contained in this evaluation represent activities in the revised AA. The new area consists of nine block numbering areas (BNA). Eight of the BNAs are middle-income and one is upper-income. The 1998 nonmetropolitan statewide median family income for South Dakota is \$36,800. The 1990 U.S. Census reported the median family income as \$26,757. The Census median family income is used to determine the income classification of each BNA. The Census reported a population of 39,527 in the AA.

The 1990 census data shows 9,290 families with 18% designated low income, 18% moderate-income, 23% are middle-income, and 41% upper-income. There are 14,207 households in the AA with almost 18% of the households (2,554) below the poverty level and 30% of the households (4,304) on social security.

The median housing value in the AA is \$40,958. Only 58% of the housing units are owner occupied and 33% are rental occupied units. The high volume of rental units is the result of housing needs for college students from the University of South Dakota in Vermillion and Mount Marty College in

Yankton.

There are several financial institutions in the AA. The bank views four institutions as its main competitors. They are: First Dakota National Bank, Norwest Bank, Marquette Bank, and Cortrust Bank.

Major employers in the AA are in the medical field, manufacturing, and retail. Examples are: The Human Services Center, Sacred Heart Hospital, Dale Electronics, Alumax Extrusions, Portec-Kolberg, M-Tron, Wahpeton Canvas, Yankton Federal Prison Camp, First Bankcard Center, Wal-Mart, K-mart, and Cimpl Packing Company. The area has very low unemployment.

Examiners made one community contact and used a previous contact made during a recent CRA examination of another local institution. These contacts are involved in community development and residential real estate in the AA. They revealed that community credit needs continue to include small business, agricultural, and affordable housing. The contacts responded favorably to FNB's performance in trying to address these credit needs.

Scope of Examination

We evaluated FNB under the approved strategic plan. The bank submitted a plan to the OCC stating measurable goals in business lending, farm lending, residential lending, community development lending, investments, and services. A copy of the strategic plan can be reviewed in the bank's CRA public file. The plan was approved by our Office on April 22, 1999, retroactive to January 1, 1998. Although the plan contains goals in lending, investments, and services that constitute "satisfactory" and "outstanding" performance we approved only the goals for "satisfactory" performance. Our assessment of FNB lending, investment, and service performance under the plan is based on results from January 1, 1998 to December 31, 1998.

For CRA purposes, FNB has identified measurable goals for business, farm, and residential lending. While credit card loans comprise the largest portion of the bank's loan portfolio, the bank did not include these loans in its plan. Credit card loans represent a product that is offered nationwide and as a result, the vast majority are to borrowers outside FNB's assessment area. Regulatory assessment of CRA performance is based on the bank's ability to meet identified credit needs in the AA as defined in the approved CRA strategic plan.

CONCLUSIONS WITH RESPECT TO STRATEGIC PLAN GOALS

The information in this section is presented in a manner consistent with the format contained in the bank's approved CRA strategic plan. A copy of the current strategic plan is available upon request from the bank.

Lending Goals

FNB substantially met the lending goals for a “satisfactory” rating. The strategic plan established goals for business, farm, and residential lending. Tables 1- 3 on the following pages reflect the bank’s performance under each loan type.

Business Lending

The bank met all but one of the 1998 measurable goals for business lending. Table 1 outlines the bank’s goals compared to its actual performance. FNB substantially exceeded its goals for business loans under \$100,000 and loans of \$100,001 to \$250,000. In addition, the strategic plan detailed programs the bank will use to achieve business lending goals. The bank established a streamlined application process for small dollar business loans under \$25M. This was done through a promotional product using flyers to local businesses and advertisements in local newspapers. The bank has also held small business seminars, and contacted new and potential customers to help stimulate small business loan growth.

The bank substantially met the small business goal with 76% of its business loans to small businesses (revenues less than \$1 million). This is slightly under the 80% goal in the plan. The bank’s lending within the AA met the satisfactory goal. The plan established a goal of 60% by number and the bank made 66% of its loans within the AA in 1998. The bank also exceeded the goal for growth in the number of loans during the assessment period ended December 31, 1998. Please refer to the table below for a comparison of business lending goals.

Table 1: Business Loans by Number			
Loan Size	1998 Goal	1998 Actual Performance	Goal Met, Substantially Met, or Not Met
\$100,000 or less	143 to 163	191	Met
\$100,001 to \$250,000	16 to 18	29	Met
\$250,001 to \$1,000,000	12 to 15	13	Met
Total number of loans	199	233	Met
Percent of loans within the AA	60%	66%	Met

Farm Lending

FNB had substantial performance but did not meet all of the 1998 volume goals for farm loans. See Table 2 for the farm lending results. Due to depressed grain prices and only average yields in 1998,

farmers had more conservative spending patterns. As a result, the bank fell short of its goals for overall farm lending, loans from \$100,000 to \$250,000, and loans greater than \$250,000. Equipment financing is a significant portion of FNB's farm lending. The more conservative spending pattern is evident in this type of financing. The bank saw a decline in equipment loans from 157 in 1997 to 66 in 1998. Another reason for not reaching all the goals is aggressive competition from other area agricultural lenders.

The bank met its lending within the AA goal of 50% with 55% of farm loans by number. The bank also met the goal to become a Certified Farm Service Agency (FSA) lender. The bank became a certified lender in 1998. FNB continues to work with the FSA and made six guaranteed loans in 1998 totaling \$500,830. The FSA loans are included in Table 2.

Table 2: Farm Loans by Number			
Loan Size	1998 Goal	1998 Actual Performance	Goal Met, Substantially Met, or Not Met
\$100,000 or less	247 to 297	320	Met
\$100,001 to \$250,000	39 to 49	30	Substantially Met
\$250,001 to \$1,000,000	10 to 12	7	Substantially Met
Total Number of Loans	361	357	Substantially Met
Percent of Loans Within AA	50%	55%	Met

Residential Real Estate Lending

The bank met all but one goal for residential real estate lending. Refer to Table 3 on real estate lending goals and results. The bank was five loans short of its loan goal to moderate-income families. The bank's approval rate on loans to individuals in this income category was high. However, the number of applicants from moderate-income individuals was below expectations. The bank did meet the goal for loans to low-income individuals. The bank offers programs that target low- and moderate-income families (LMI). The bank utilizes the South Dakota Housing Development Authority Program (SDHDA) which helps LMI first time home buyers with reduced rates and low down payment requirements using government sponsored programs (FHA, VA, Rural Development). FNB also helps LMI families by providing seminars and credit counseling. FNB has also tried to increase customer knowledge through seminars and credit counseling.

The bank exceeded the goals for middle- and upper-income due to the SDHDA removing the first time home buyer and income restrictions from August 1997 through December 1998. This was done because of the hardships across the state caused by the 1997 blizzard. This made the program very

attractive to all home buyers in South Dakota.

FNB’s strategic plan establishes goals for lending to LMI families. The goal is for 5-10% of real estate loans to LMI families. The bank originated 29 loans or 12% to LMI families. The bank also met the loans within the AA goal of 70% with 76% of the loans originated within the AA. Another goal was to practice flexible underwriting practices by requiring less than a 20% down payment for in-house loans. The bank does offer an in-house product with less than a 20% down payment. This product is not widely used by consumers because more attractive secondary market products with lower rates and down payment requirements are available.

Table 3: Residential Real Estate Loans by Number			
Income Level	1998 Plan Goal	1998 Actual Performance	Goal Met, Substantially Met, or Not Met
Low-Income	7 to 11	7	Met
Moderate-Income	27 to 31	22	Substantially Met
Middle-Income	26 to 32	67	Met
Upper-Income	57 to 62	140	Met
No Income Information		2	
Total Number of Loans	136	238	Met
Percent of Loan Within AA	70%	76%	Met

Community Development Lending

The bank exceeded the satisfactory goal for community development loans. The plan calls for one community development loan annually. The bank made 4 community development loans in 1998 totaling \$597,229. Two loans were to organizations that provide shelter for LMI individuals. The funds were used to purchase shelter residences. One loan was to a Yankton economic development company to purchase a building to lease to a nonprofit real estate development corporation. The development corporation provides real estate financing and management to small manufacturing businesses wanting to expand or relocate in the area. The fourth loan provided school supplies to LMI Native Americans. The loan benefited a regional area that also included the bank’s AA.

Investment Goals

FNB exceeded the goals for qualified investments within its AA. The goal was \$16,500 for a satisfactory rating. The bank’s qualified investment total for 1998 was \$27,642. The bank gave grants

to organizations that provide services targeted toward LMI individuals. The grants were to an organization that builds housing for LMI families, a credit counseling agency, a homeless shelter, and to organizations that provide services to LMI families. The bank also donated 17 computers to organizations that serve LMI families. Grants were also given to organizations that promote community development, and small business educational services.

Service Goals

The bank met its goals for community development services. The bank committed to conduct at least 8 seminars each year. In 1998, the bank met this goal by conducting seminars for home buying, small business financing, small farm financing and marketing, and personal investing targeted to women. Loan officers also provide consumer credit counseling to help individuals understand credit bureau reports and how to establish or re-establish good credit. The credit counseling sessions are generally done on a one-on-one basis.

Bank officers and employees are highly involved in organizations that have community development as their primary purpose. The following are some examples of community development services.

A bank officer acts as Board Treasurer and is on the development committee of an organization that builds LMI housing. The bank also provides the organization office space, a phone line, postage, and other services.

A member of bank management is Vice Chairman of Board and provides financial expertise to an organization that facilitates the use of services available to meet human needs in Yankton for LMI individuals.

Bank management and employees provides financial expertise as Board members of the local homeless shelter and the women's shelter.

A bank officer provides financial and lending expertise to an organization that promotes the long term survival of small family businesses through life-long educational programs.

A bank officer provides local economic development companies with financial and lending expertise as a Board member. The economic development companies attract and assist new businesses in the AA.

The bank met the approved strategic goal of increasing innovative and flexible retail products and services. The bank introduced some new retail products that benefit bank customers. The bank opened Investment One, an investment center. The Express Bank was opened, which provides customers with extended banking hours. The bank also started telephone banking. The bank offers a full range of loan, deposit, check cashing, and bill paying services benefitting LMI individuals.

Fair Lending

No violations of the substantive provisions of anti-discrimination laws or regulations were discovered. FNB's policies, procedures, training programs, annual internal fair lending review, and independent second review process of all denied applicants help to ensure compliance with fair lending laws and regulations. The bank reviewed direct automobile applications from January 1, 1997 to March 31, 1998. The review compared denied individual female applicants to approved individual male applicants. Examiners verified the conclusions of management's internal fair lending review by sampling 6 denied individual female applicants and 33 individual male approvals from the bank's sample to draw this conclusion.