

## PUBLIC DISCLOSURE

November 13, 2002  
Date of Evaluation

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## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First American Bank & Trust  
Name of Depository Institution

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550756  
Institution's Identification Number

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Madison, South Dakota  
Address of Institution

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**Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue, P.O. Box 291  
Minneapolis, MN 55480-0291**

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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*Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a “**Glossary of Common CRA Terms**” is attached as Appendix A at the end of this performance evaluation.*

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

First American Bank & Trust, Madison, South Dakota's performance under the Community Reinvestment Act ("CRA") is outstanding. We commend the bank on its outstanding rating and encourage it to continue its efforts to facilitate the credit needs of low- and moderate-income individuals and small businesses in its assessment areas. The CRA evaluation used the Small Bank CRA Evaluation Procedures. Several factors support the bank's CRA rating.

- The bank's lending to borrowers of different incomes and businesses of different sizes is excellent. It extended a substantial portion of its residential real estate and consumer loans to low- and moderate-income individuals. The bank enhanced its residential real estate lending by applying for and receiving federal grant monies to assist low- and moderate-income consumers in purchasing their first homes. Similarly, the bank originated a sizable majority of its small business loans to entities with gross annual revenues of less than \$1 million.
- The geographic distribution of the bank's loans is satisfactory. The bank actively makes residential real estate, small business, and consumer loans in the majority of the geographies that comprise its assessment area. The distribution and dispersion of the bank's loans in the assessment areas reveal a satisfactory penetration among geographies of different income levels.
- Given the bank's asset size and financial condition, and the assessment areas' credit needs, the bank's net loan-to-deposit ratio reflects the fact that the bank is an active lender.
- The bank originated a substantial majority of its loans inside its assessment areas.

#### Community Development Activities

In addition, since the last evaluation, the bank has made qualified community development loans, contributions, and an investment to residents and organizations in its assessment areas. Bank staff also provided valuable qualified community development services in the assessment areas. All of these activities enhance the bank's CRA performance. A detailed discussion of the qualified community development loans, investments, and services appears subsequently in this evaluation.

## DESCRIPTION OF INSTITUTION

The bank's performance under CRA is outstanding. The bank became a Federal Reserve System member on November 20, 2001. The bank received a rating of outstanding at its last CRA performance evaluation, conducted by the Federal Deposit Insurance Corporation as of November 14, 1997.

*Offices.* First American Bank & Trust is a full-service bank with offices in Madison, Sioux Falls, Canton, Watertown, Worthing, and the Madison-Jubilee grocery store, South Dakota. Although the bank is chartered in Madison, its Sioux Falls office operationally functions as its headquarters. The branch offices provide full banking services. The bank operates five cash-dispensing automated teller machines ("ATM") with three in Madison and two in Canton. Two of the Madison ATMs accept deposits. The bank's Sioux Falls office is approximately 65 miles from its Madison offices, over 100 miles from Watertown, 26 miles from Canton, and 20 miles from its Worthing office.

The bank opened its Sioux Falls office in July 1998 and its Watertown office in April 2002. The bank acquired its first Canton office through a merger in 1998 and opened its Canton Plaza Office in December 1999. Also, in December 1999, the bank closed its Fairview branch office due to its proximity to the offices in Canton, South Dakota. In January 2002, the bank closed the Canton Plaza office and increased the hours of operation at its remaining Canton office.

The bank's Madison, Canton, and Worthing lobbies are open Monday through Friday 9:00 a.m. to 4:00 p.m. The Watertown lobby is open 8:00 a.m. to 4:00 p.m. and the Sioux Falls lobby is open from 8:30 a.m. to 4:30 p.m. The Madison-Jubilee grocery store branch is open from 10:00 a.m. until 6:00 p.m. during the week and from 9:00 a.m. to 3:00 p.m. on Saturday and 12:00 p.m. to 3:00 p.m. on Sunday. Several of the bank's branches operate drive-up facilities that are open extended hours during the week. All but one of the offices also offer Saturday hours through either the drive-up or lobby. The bank's hours of operation and branch distribution are reasonable.

The bank offers 24-hour telephone banking, which allows customers to make funds transfers, check balances, and identify cleared checks. Telephone banking is accessible to consumers by a toll-free number. The bank also operates an Internet web site at [www.firstambanktrust.com](http://www.firstambanktrust.com). The web site enables customers to check account balances, complete transfers between accounts, and view statements. The web site also provides information about the bank, its locations, and the services it offers.

*Loan portfolio.* According to the September 30, 2002, Report of Condition ("ROC"), the bank's assets totaled \$123.5 million. The ROC data reflects the composition of the loan portfolio at 56% commercial (including commercial real estate), 15% agricultural (including farm real estate), 19% consumer real estate (1st and junior liens), 10% consumer (including home equity lines of credit, overdraft lines of credit, and credit cards), and less than 1% other loans. According to bank management, the bank's primary lending niche in the assessment area is small business and residential real estate lending. The evaluation did not reveal any financial constraints on the bank's ability to lend within the assessment area.

*Credit products.* The bank offers a wide variety of consumer, commercial, agricultural, and real estate loan products and programs to help meet the credit needs of the residents, small businesses, and small farms in its overall assessment area. The bank's consumer credit products include both open- and closed-end loans. Its consumer loan products include installment, single-payment, overdraft protection, personal lines of credit, and home equity consumer loans. The bank's residential real estate products include

fixed- and variable-rate purchase money, refinance, construction, and home improvement loans. The bank also participates in flexible government-guaranteed residential real estate and small business loan programs.

In the overall assessment area, the bank provides federal and state government-guaranteed loans through the Small Business Administration (“SBA”), Farm Service Agency (“FSA”) Federal Housing Administration, Department of Veterans Affairs, and South Dakota Housing Development Authority (“SDHDA”).

**DESCRIPTION OF FIRST AMERICAN BANK & TRUST, MADISON, SOUTH DAKOTA’S, ASSESSMENT AREAS**

First American Bank & Trust has designated three assessment areas in eastern South Dakota. The Sioux Falls assessment area includes the bank’s Sioux Falls, Canton, and Worthing offices. The Madison assessment area includes the bank’s two Madison offices, and the Watertown assessment area includes the Watertown office. For this evaluation, two assessment areas were reviewed: Sioux Falls and Madison. These assessment areas were chosen because they represent a significant portion of the bank’s loan activity. Table 1 shows the number and percentage of residential real estate, small business, consumer, and agricultural loans in the bank’s three assessment areas from January 1, 2002, to December 16, 2002. The bank’s lending is concentrated in the Sioux Falls assessment area.

<b>TABLE 1 LOAN PRODUCTION BY ASSESSMENT AREA AND PRODUCT TYPE</b>							
	<i>Sioux Falls Assessment Area</i>		<i>Madison Assessment Area</i>		<i>Watertown Assessment Area</i>		<i>Total by Loan Product</i>
<b>Loan Product</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	
Residential real estate	1,000	92	93	8	8	0	1,101
Commercial	206	68	78	26	19	6	303
Consumer	337	52	294	45	16	3	647
Agricultural	120	53	104	46	1	1	225
<b>Totals by Assessment Areas</b>	1,663	73	569	25	44	2	2,268

In addition to discussions with bank management, examiners contacted several community representatives familiar with credit needs and current economic issues of the assessment areas. Information received from the contacts and bank management was used to evaluate the bank’s CRA performance. The evaluation did not reveal any unmet credit needs.

**SIoux FALLS METROPOLITAN STATISTICAL AREA (“MSA”) ASSESSMENT AREA**

*Assessment area.* The bank’s Sioux Falls assessment area is defined as Minnehaha and Lincoln counties and follows the outline of the Sioux Falls MSA, which is composed of 33 census tracts (“CT”). The bank’s Sioux Falls assessment area does not include any non-MSA CTs. Because of the bank’s asset size and location in the Sioux Falls MSA, it is subject to the requirements of the home mortgage disclosure Act (“HMDA”). The Sioux Falls assessment area is composed of moderate-, middle-, and upper-income CTs. There are no low-income CTs in the Sioux Falls assessment area. The bank’s Sioux Falls, Canton, and Worthing offices are located in this assessment area. Also, the bank operates two ATMs at its Canton office in the Sioux Falls assessment area.

Seven CTs classified as moderate income are located in the central city sections of Sioux Falls. The city of Sioux Falls lies within Minnehaha County. The bank's Sioux Falls office is located in a moderate-income CT. Nineteen CTs are classified as middle income. Fifteen middle-income CTs are located in Minnehaha County and four are located in Lincoln County. Middle-income geographies constitute the largest segment of the Sioux Falls assessment area. Six of the upper-income CTs predominately lie within Minnehaha County and comprise the outer area of the Sioux Falls city limits.

Examiners used 1990 U.S. Census data for the evaluation unless otherwise indicated. According to 1990 census data, Table 2 shows a breakdown of low-, moderate-, middle-, and upper-income households and families who reside in the Sioux Falls assessment area. Approximately 9% of the households and 5% of the families in the assessment area have incomes below the poverty level. The representation of such households and families in the assessment area is less than South Dakota's statewide averages.

	<i>Low Income</i>	<i>Moderate Income</i>	<i>Middle Income</i>	<i>Upper Income</i>
Percentage of Assessment Area Households	21%	18%	22%	39%
Percentage of Assessment Area Families	16%	20%	28%	36%

*Income.* See appendix A on page 17 for definitions of low, moderate, middle, and upper income. For purposes of classifying borrowers' incomes, this evaluation used the Department of Housing and Urban Development's estimated 2002 median family income of \$58,800 for the Sioux Falls metropolitan statistical area ("MSA") when analyzing the bank's lending performance. For the purposes of classifying the income levels of CTs, this evaluation used Sioux Falls MSA 1990 median family income of \$34,923.

*Housing.* The 55,603 housing units in the Sioux Falls assessment area consist of 61% owner-occupied housing units, 34% rental housing units, and 4% vacant housing units. According to 1990 census data, approximately 14% of the owner-occupied housing units are located in the moderate-income CTs, 65% in the middle-income CTs, and 22% in the upper-income CTs. According to the National Association of Realtors, the median housing price was \$114,500 for fourth quarter 2001. The moderate-income CTs consist primarily of industrial parks, the Sioux Falls airport, a correctional facility, the University of Sioux Falls, and the Sioux Falls downtown business district.

*Economy.* According to updated 2000 census data, the Sioux Falls MSA has a total population of 172,362, which represents a 20% increase over 1990 census data. According to information prepared by the Sioux Falls Chamber of Commerce, Sioux Falls is the fastest growing metropolitan area in the Midwest, and 46th in the nation. Community contacts attribute this growth to the strong national and local economies. Much of Lincoln County's growth is attributable to development in Sioux Falls. Lincoln County is located at the southern edge of the city of Sioux Falls. A boom in credit card processing and computer manufacturing in Sioux Falls created thousands of jobs that have drawn people away from the rural communities. Contacts indicated the strong employment has increased wages and continues to cause concern over a shortage of affordable housing. The economy in the Sioux Falls assessment area is strong with an unemployment rate of approximately 2.4%, which is lower than both the current state and national unemployment rates, according to data published by the State of South Dakota.

The largest employers in the area include Sioux Valley Hospitals and Health System, Citibank South Dakota N.A., John Morrell & Company, and Avera McKennan Hospital. In addition, there are several employers with greater than 1,000 employees in the Sioux Falls assessment area. Community contacts and bank management classified the banking environment in Sioux Falls as extremely competitive. At this time, there are over 30 different financial institutions operating in the Sioux Falls assessment area.

### MADISON ASSESSMENT AREA

*Assessment area.* The bank's Madison assessment area follows the outline of Lake County, South Dakota. Lake County is composed of three block numbering areas ("BNA"). The Madison assessment area is entirely composed of middle-income BNAs. The bank operates two branch offices and three ATMs in the Madison assessment area. Two of the ATMs accept deposits. The bank's offices and ATMs are located in the city of Madison. Madison is the largest city in Lake County and serves as the county seat.

*Income.* For purposes of classifying borrowers' incomes, this evaluation used the Department of Housing and Urban Development's estimated 2002 median family income of \$44,800 for nonmetropolitan South Dakota when analyzing the bank's lending performance. For purposes of classifying BNAs, this evaluation used the 1990 median family income of \$27,602 for nonmetropolitan South Dakota.

*Housing.* According to 1990 census data, 5,148 housing units exist in the Madison assessment area and 2,722, or 53% are classified as owner occupied. Approximately 1,308 or 25% are classified as rental housing units and 1,118 or 22% are classified as vacant. Community contacts indicated the median sales price for a home in the Madison assessment area is \$80,000. According to the contacts, Madison has an ample supply of affordable housing. However, contacts indicated that the majority of employees who work for the government, university, or one of the manufacturing plants in Madison earns minimum wage, or a few dollars over minimum wage. Residential housing that costs \$100,000 or more usually prohibits individuals earning minimum wage from qualifying for mortgage loans.

*Economy.* According to updated 2000 census data, the current population in the Madison assessment area is 11,276. Community contacts classified the local economy as stable. Approximately 70% of the labor market in the Madison assessment area consists of employment with federal and state governmental entities, manufacturing companies, and Dakota State University. The Madison assessment area is served by several financial institutions, and community contacts classified the banking environment as extremely competitive. Community contacts also indicated that there are no unmet credit needs in the Madison assessment area. According to the State of South Dakota, the unemployment rate in Lake County as of April 2002 was 2.7%, as compared to 2.4% for Minnehaha County.

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

The bank's performance under CRA is rated outstanding. As mentioned previously, most of the bank's loans are originated by the offices in the Sioux Falls assessment area. As such, examiners assigned greater weight when determining the overall rating to the bank's Sioux Falls assessment area lending activities.

The Sioux Falls office includes the bank's residential real estate loan department and all of the bank's secondary market residential real estate loans are originated through this office.

Table 3 shows that the bank originated a sizable percentage of residential real estate, commercial, and consumer loans based on the number of loans and loan amount. Because of this, the CRA analysis is based on these three product categories.

<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Percentage</i>	<i>Total Amount of Loans (in thousands)</i>	<i>Percentage</i>
Consumer	421	43%	\$ 5,119	5%
Home equity	35	4%	\$ 1,035	2%
Residential real estate	332	34%	\$35,258	51%
Small business	108	11%	\$22,093	32%
Small farm	94	8%	\$ 7,222	10%

Examiners selected a statistical sample of small business and consumer loans originated February 1, 2002, to July 31, 2002. The residential real estate sample was based on all HMDA loans originated and reported by the bank during the same time period. The overall CRA analysis is based on a sample of 332 residential real estate, 66 small business, and 130 consumer loans. Examiners assigned greater weight to the bank's residential real estate lending compared to the percentage of small business and consumer loans. Prior to the start of the CRA evaluation, examiners evaluated the bank's HMDA data and verified the accuracy of its 2002 HMDA data. A total of 18% of the bank's consumer loans in the sample are missing income information.

In determining the overall CRA rating, examiners placed the greatest weight on the bank's level of lending to borrowers of different income levels, followed by the geographic distribution of loans, its loan-to-deposit ratio, and the comparison of credit extended inside and outside the bank's assessment area. As mentioned, the analysis also assigned greater weight to the bank's lending activities in the Sioux Falls assessment area and its residential real estate lending in particular.

As previously mentioned, this evaluation is based on a full-scope review of two of bank's assessment areas. For the assessment area not subject to a full-scope review, loan data indicates that the bank's performance is consistent with the bank's overall rating. In addition, the bank's operations in the assessment area not reviewed during this evaluation appear to be consistent with the bank's overall performance.

#### LOAN-TO-DEPOSIT RATIO ANALYSIS

Given the bank's asset size and financial condition, and the assessment area's credit needs, the bank's net loan-to-deposit ratio reflects that the bank is an active lender in its assessment areas. Based on quarterly ROC data from December 31, 1997, to September 30, 2002, Table 4 identifies the asset size and quarterly average net loan-to-deposit ratios for the bank and its competitors in the assessment area.



<b>TABLE 4 COMPARATIVE NET LOAN-TO-DEPOSIT RATIOS</b>		
<b><i>Bank and Location</i></b>	<b><i>Total Assets (As of September 30, 2002) (in thousands)</i></b>	<b><i>Quarterly Average Net Loan-to-Deposit Ratio</i></b>
First American Bank & Trust Sioux Falls, South Dakota	\$123,515	80%
First PREMIER Bank Sioux Falls, South Dakota	\$955,698	96%
Home Federal Bank Sioux Falls, South Dakota	\$759,253	98%
F&M Bank Watertown, South Dakota	\$584,121	88%
Security Bank Madison, South Dakota	\$143,837	89%

Table 4 shows that the bank's average net loan-to-deposit ratio over the past 20 quarters is lower than its competitors. However, its current loan-to-deposit ratio is 95%. It is also important to note that the bank's net loan-to-deposit ratio has increased over the past five years, particularly since June 2001. In addition, the bank sells a large volume of residential real estate on the secondary market. It also sells portions of commercial loans. These loans are generally not reflected in the net loan-to-deposit ratio data set forth in Table 4. However, were they included, the net loan-to-deposit ratio would increase.

The most recent Uniform Bank Performance Report shows that the bank's September 30, 2002, net loan-to-deposit ratio compares favorably with its national peer group's ratio. The September 30, 2002, net loan-to-deposit ratio for the national peer group is 77%. The bank's 95% net loan-to-deposit ratio ranks the bank in the 89th percentile of its national peer group. The bank's national peer group consists of all insured commercial banks having assets between \$100 million and \$300 million with three or more banking offices and located in a nonmetropolitan area.

#### COMMUNITY DEVELOPMENT LENDING

In addition to its net loan-to-deposit ratio, the evaluation revealed that the bank originated three community development loans. Given the competitive nature of the bank's markets, the level of community development loans reflects a relatively high level of activity in the assessment areas. Since the last evaluation, the bank originated three new qualified community development loans totaling \$710,000. In addition, the bank continues to service community development loans originated prior to the current evaluation. The following community development loans were extended since the last evaluation:

- \$150,000 affordable housing development loan to construct ten single-family residences for low-income elderly or disabled individuals in Madison, South Dakota.
- \$350,000 commercial real estate loan to expand and remodel a for-profit nursing home in Madison, South Dakota. Approximately 55% of the nursing home's funding is derived from Medicaid and 2% from Medicare. As such, a majority of the residents are considered low and moderate income.

- \$210,000 commercial real estate loan to an economic development agency to acquire real estate in Canton, South Dakota, for the development of a small business industrial park.

Based on the quarterly average net loan-to-deposit ratio, the bank's overall level of lending reflects active responsiveness to the credit needs in the assessment areas. The bank's quarterly average net loan-to-deposit ratio is high and has remained relatively stable since the end of 2001. Although it is lower than the ratios of local competitors, it compares favorably with the bank's national peer group. The bank's overall lending activity, as evidenced by the quarterly average net loan-to-deposit ratio and level of community development lending, is strong and reflects that the bank is an active lender in its assessment areas.

#### COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREAS

The bank originated a substantial majority of loans in its assessment areas. Table 5 shows the number and dollar amount of residential real estate, small business, and consumer loans that the bank extended within the assessment areas.

<b>TABLE 5</b>		
<b>LOANS ORIGINATED INSIDE THE ASSESSMENT AREAS</b>		
<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Total Dollar Amount of Loans</i>
Residential real estate	87%	89%
Small business	86%	94%
Consumer	89%	90%

As the data in the table indicates, the bank originates more than a substantial majority of its loans in the assessment areas. Based on the concentration of lending within the assessment areas, the bank's record of lending exceeds the standard for satisfactory performance in this category.

#### LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

Overall, the bank's level of lending to borrowers of different income levels and to businesses of different sizes is excellent and reflects its very active responsiveness to community credit needs. The bank's performance in each assessment area will be discussed in detail in the following sections.

#### SIOUX FALLS MSA ASSESSMENT AREA

The bank's level of lending to borrowers of different income levels and to businesses of different sizes in the Sioux Falls assessment area is excellent. The borrower distribution analysis in the Sioux Falls assessment area is based on a loan sample of 44 consumer loans, 244 residential real estate loans, and 39 small business loans. This is the portion of the total loan sample originated to borrowers residing in the Sioux Falls assessment area.

Table 6 shows the distribution of families in the Sioux Falls assessment area as well as the distribution of the bank's lending by borrower income. According to 1990 census data, 36,631 families resided within the Sioux Falls assessment area.

<b>TABLE 6 DISTRIBUTION OF LOANS IN THE SIOUX FALLS ASSESSMENT AREA BY BORROWER INCOME LEVELS*</b>								
<b><i>Loan Category</i></b>	<b><i>Low-Income Borrowers</i></b>		<b><i>Moderate-Income Borrowers</i></b>		<b><i>Middle-Income Borrowers</i></b>		<b><i>Upper-Income Borrowers</i></b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Residential real estate	13%	9%	31%	26%	26%	28%	30%	38%
Consumer	41%	21%	16%	26%	30%	28%	14%	26%
Percentage of families**	16%		20%		29%		36%	
*Based on the 2002 median family income of \$58,800 for the Sioux Falls MSA.								
**Based on 1990 census data.								

*Residential real estate lending.* The bank's residential real estate lending is excellent. The bank's level of residential real estate lending to low-income borrowers does not meet the demographic distribution of low-income families in the Sioux Falls assessment area, but it is reasonable given the average home price within the assessment area. As discussed in the description of the assessment area section, affordable housing is limited in the Sioux Falls assessment area. A low-income family in 2002 had an annual income of less than \$29,400. As of December 31, 2001, the median sales price for a home in Sioux Falls was \$114,500. Monthly payments for a home at this median sales price totaled nearly 40% of a low-income family's gross monthly income. This calculation assumes the borrower has no other debt and was based on a 30-year term mortgage with an interest rate of 7.0%, a 5% down payment, and an additional 20% of the payment amount for taxes and insurance. Given this scenario, prices in the Sioux Falls assessment area often preclude low-income families from purchasing residential real estate.

The bank's residential real estate lending to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the Sioux Falls assessment area. As mentioned, moderate-income individuals' annual income would equate to less than \$47,040 and more than \$29,400. As such, these individuals can qualify for residential homes based on the median sales price in the Sioux Falls assessment area. Also, the bank facilitated its residential real estate lending by applying for and receiving a first-time homebuyer housing grants through the Federal Home Loan Bank Board ("FHLBB"). The FHLBB program provides matching funds to low- and moderate-income first-time homebuyers saving for a down payment. The bank is also an active lender in the SDHDA's first-time homebuyer program. The program makes lower-interest rate loans available to borrowers meeting income restrictions. Accordingly, the bank used the grant monies and loan program to facilitate its lending to low- and moderate-income individuals. During 2001 and 2002, the bank originated 189 and 122 SDHDA first-time homebuyer residential real estate loans, respectively. The bank originated 17 loans to recipients of the FHLBB grant monies.

The bank's residential real estate lending compares favorably with the lending performance of financial institutions reporting data for HMDA purposes. In accordance with HMDA, financial institutions with assets of \$32 million or more with an office in an MSA must report mortgage loan data. Within the Sioux Falls MSA for 2001, aggregate lenders originated 9% to low-income borrowers and 22% to moderate-income borrowers. According to the bank's 2002 residential real estate data, the bank's lending to low- and moderate-income borrowers exceeds the performance of HMDA aggregate lenders to borrowers in these income categories.

The bank's distribution of residential real estate loans to low- and moderate-income borrowers is excellent. Participation in the SDHDA loan program and obtaining FHLBB grant monies demonstrates the bank's willingness to address the home loan needs of low- and moderate-income borrowers. In addition, the bank's performance exceeds that of aggregate HMDA lenders.

*Consumer lending.* The bank's level of consumer lending to individuals of different income categories is excellent. As shown in Table 7, the bank's consumer loans to low-income borrowers greatly exceeds the relative percentage of low-income families in the assessment area. The bank's consumer lending to moderate-income borrowers closely follows the percentage of moderate-income families in the assessment area. The bank originated a total of 57% of its consumer loans to low- and moderate-income borrowers. This level of lending demonstrates the bank's willingness to extend loans to all residents in the Sioux Falls assessment area. As such, the percentage of consumer lending to low- and moderate-income individuals exceeds the standard for satisfactory performance.

*Small business lending.* The bank has a strong record of providing small business loans to entities with gross annual revenues of \$1 million or less. As defined by CRA, small business loans are most commercial loans with original principal amounts of \$1 million or less. Please refer to the Appendix on page 17 for more definitions concerning small business lending. Table 7 shows the bank's distribution of small business loans by dollar amount in the Sioux Falls assessment area.

<i>Small Business Originations</i>	<i>Less Than \$100,000</i>	<i>More Than \$100,000 to Less Than \$250,000</i>	<i>More Than \$250,000 to Less Than \$1,000,000</i>	<i>Total Originations</i>
Percentage of the Number of Small Business Loans	56%	13%	31%	100%
Percentage of the Amount of Small Business Loans	4%	9%	87%	100%

The bank originates the majority of its small business loans to small businesses as defined by CRA. Based on the sample, the bank originated 100% of its small business loans to entities with gross annual revenues of less than \$1 million. According to 2002 small business data compiled by Dun & Bradstreet, approximately 75% of the business entities in the Sioux Falls assessment area had gross annual revenues of less than \$1 million. The bank facilitates its small business lending by originating small business loans through SBA. At this time, the bank has seven outstanding SBA-guaranteed loans in the Sioux Falls assessment area. As mentioned, the banking environment in the Sioux Falls assessment area is very competitive. Community contacts indicated entrepreneurs can readily secure small business financing in the assessment area. Usually, entrepreneurs with developed business plans receive multiple financing offers from local banks. Based on a comparison of the bank's small business lending to Dun & Bradstreet data and the number of small business loans originated through SBA, the bank's small business lending to small business entities exceeds the standard for satisfactory performance.

### **MADISON ASSESSMENT AREA**

The bank's level of lending to borrowers of different income levels and to businesses of different sizes in the Madison assessment area is very good. The borrower distribution analysis in the Madison assessment area is based on a loan sample of 66 consumer loans, 42 residential real estate loans, and 16 small business loans. Table 8 identifies the distribution of the consumer and residential real estate loan sample originated to borrowers residing in the Madison assessment area.

**TABLE 8  
DISTRIBUTION OF LOANS IN THE MADISON ASSESSMENT AREA  
BY BORROWER INCOME LEVELS\***

<i>Loan Category</i>	<i>Low-Income Borrowers</i>		<i>Moderate-Income Borrowers</i>		<i>Middle-Income Borrowers</i>		<i>Upper-Income Borrowers</i>	
	#	\$	#	\$	#	\$	#	\$
Residential real estate	10%	3%	19%	10%	26%	21%	45%	66%
Consumer	21%	21%	21%	15%	34%	28%	23%	36%
Percentage of Families**	13%		18%		26%		43%	
*Based on the 2002 median family income of \$27,602 for the nonmetropolitan areas of South Dakota.								
**Based on 1990 census data.								

*Residential real estate lending.* The bank's distribution of residential real estate loans exceeds the standard for satisfactory performance. The bank's level of lending to low-income borrowers is slightly less than the percentage of low-income families in the assessment area. The level of lending to moderate-income borrowers slightly exceeds the percentage of moderate-income families in the assessment area. Community contacts indicated that the median sales price of residential housing in the Madison assessment area is \$80,000. The real estate community contact classified affordable housing in the Madison assessment area as anything less than \$100,000. According to the contact, individuals in the Madison assessment area earn relatively low wages and housing in excess of the median sales price effectively eliminates these individuals from qualifying for housing in this price range. The bank facilitated its real estate lending in this assessment area by using SDHDA and FHLBB grant monies for qualified first-time homebuyers. A comparison of the bank's 2002 performance to HMDA aggregate lenders is not available because the Madison assessment area is not classified as an MSA. HMDA only requires lenders to report activity in MSAs.

The bank's distribution of residential real estate loans is very good. This is based on the percentage of residential real estate loans to low- and moderate-income borrowers in comparison to the demographic characteristics, the loan programs offered by the bank to facilitate real estate lending, and the competitive banking market of the assessment area.

*Consumer lending.* The bank's level of consumer lending to individuals of different income levels is excellent. The bank's consumer lending exceeds the percentage of low- and moderate-income families in the assessment area. As mentioned, the bank operates in an extremely competitive banking market. Bank management attributes the lending pattern to reasonable but flexible underwriting standards and the fact that the majority of jobs in the assessment area pay relatively low wages. Based on the level of consumer loans to low- and moderate-income borrowers, the bank's performance in this category exceeds the standard for satisfactory performance.

*Small business lending.* The bank has a strong record of providing small business loans to businesses with gross annual revenues of \$1 million or less. Table 9 describes the distribution of the bank's small business lending according to loan amount.

<i>Small Business Originations</i>	<i>Less Than \$100,000</i>	<i>More Than \$100,000 to Less Than \$250,000</i>	<i>More Than \$250,000 to Less Than \$1,000,000</i>	<i>Total Originations</i>
Percentage of the Number of Small Business Loans	75%	0%	25%	100%
Percentage of the Amount of Small Business Loans	13%	0%	87%	100%

The bank extended 88% of its small business loans to entities with gross annual revenues of \$1 million or less. Demonstrated by the data in Table 9 is the bank's willingness to extend relatively small-dollar amount loans. Nearly all of the bank's small business loans were for amounts less than \$100,000. The remaining small business loans were originated for amounts between \$250,000 and \$1,000,000. Table 9 shows that the bank did not originate any small business loans in the amount of \$100,000 to \$250,000 because the sample data did not include a small business loan amount in this range. However, the bank does offer small business loans in amounts over \$100,000 but less than \$250,000.

According to 2002 small business data compiled by Dun & Bradstreet, approximately 72% of the business entities in the Madison assessment area had gross annual revenues of less than \$1 million. The bank also facilitates its small business lending by originating small business loans through SBA. According to SBA data provided by the bank, the bank has one outstanding SBA loan originated in the Madison assessment area. As mentioned, the banking environment in the Madison assessment area is very competitive. The contact indicated that all of financial institutions in the Madison assessment area are extremely active and that there are no unmet credit needs. The distribution of the bank's small business lending in the Madison assessment area is satisfactory. The rating is based on the distribution of small business loans, the percentage of small business loans as compared to Dun & Bradstreet data, and information provided by community contacts.

Overall, the distribution of loans to borrowers of different income levels and business entities of different sizes in the Sioux Falls and Madison assessment areas is excellent. This rating is based on the percentage of residential real estate and consumer lending to low- and moderate-income borrowers, the competitive banking market in the Sioux Falls and Madison assessment areas, and the loan programs used to facilitate lending to low- and moderate-income borrowers and small businesses.

#### GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout the assessment area reflects a reasonable penetration in the CTs and BNAs which comprise the two assessment areas. Dispersion of loans across geography income levels is satisfactory given the location of the bank's offices. As mentioned, there are no low-income geographies in the Sioux Falls and Madison assessment areas and no moderate-income geographies in the Madison assessment area. Further detail will be given for each assessment area reviewed.

#### SIoux FALLS MSA ASSESSMENT AREA

The distribution of the bank's loans throughout the Sioux Falls assessment area is satisfactory. Overall, the loan sample data reveals that the bank extended loans in the majority of census tracts that comprise the Sioux Falls assessment area. Tracts near its branch locations generally had the highest percentage of loan activity. The other loans in the sample were reasonably distributed throughout the assessment area.

	<i>Moderate Income</i>	<i>Middle Income</i>	<i>Upper Income</i>
Number of Geographies	7	19	7
Percentage of Total Geographies	21%	58%	21%
Population	24,678	88,270	26,288
Percentage of Total Population	18%	63%	19%
Percentage of Owner-Occupied Housing Units	13%	65%	22%
Percentage of Families	15%	65%	20%

Table 10 also shows the distribution of population and families by income levels of the CT. The income level of the CT is determined by the 1990 median family income. Table 11 shows the distribution of the bank's loans by income level of CT in the Sioux Falls assessment area.

<i>Loan Type</i>	<i>Moderate Income</i>		<i>Middle Income</i>		<i>Upper Income</i>	
	<b>Number of Loans</b>	<b>Amount of Loans</b>	<b>Number of Loans</b>	<b>Amount of Loans</b>	<b>Number of Loans</b>	<b>Amount of Loans</b>
Real estate	11%	7%	63%	70%	26%	23%
Consumer	7%	4%	86%	88%	7%	8%
Small business	5%	1%	90%	96%	5%	4%

\*The bank's Sioux Falls assessment area does not have any low-income CTs.

*Residential real estate lending.* The bank's geographic distribution of residential real estate loans is satisfactory. Table 11 shows that the bank originated 11% of the residential real estate loans in the moderate-income CTs. Institutions reporting loan activity under HMDA for 2001 extended 9% of mortgage loans in the moderate-income tracts. Based on loan data, a tract-by-tract analysis reveals that the bank is lending in moderate-, middle-, and upper-income CTs. The analysis reveals a reasonable dispersion of loans among geographies of different income levels with no unexplained gaps in lending patterns.

The bank's performance in this category is reasonable due to the assessment area characteristics and the bank's office location. According to 1990 census data, owner-occupied housing units in the moderate-income tracts constitute 14% of the assessment area's total owner-occupied housing units. The demand for home loans in these areas would be lower when compared to the middle- and upper-income tracts that together account for 87% of the owner-occupied housing in the assessment area. As noted in this evaluation, the bank's Sioux Falls office is located in a moderate-income CT, which is largely the downtown business district. Also as mentioned, the Sioux Falls assessment area is an extremely competitive banking market.

Based on the dispersion of the bank's residential real estate loans in comparison to aggregate HMDA lenders, the competitive nature of the banking market, and the location of the bank's Sioux Falls office, the geographic distribution of loans is satisfactory.

*Consumer lending.* The geographic distribution of the bank's consumer loans is satisfactory. Table 11 shows that the bank originated 7% of its consumer loans in the moderate-income CTs. Based on loan data, a tract-by-tract analysis shows that the bank originated consumer loans in the moderate-, middle-, and upper-income CTs in the Sioux Falls assessment area. The analysis reveals a reasonable dispersion of loans among geographies of different income levels. The bank's Sioux Falls office is the only branch in the Sioux Falls city limits. The city of Sioux Falls is a highly competitive banking market with numerous financial institutions. The competitor banks located in Sioux Falls (mentioned in Table 4) operate multiple branch locations in the Sioux Falls assessment area. A number of these branch locations are located in the moderate-income CTs and provide easier access than the bank's downtown office location.

The bank's geographic distribution of consumer loans is satisfactory. The rating is based on the bank's consumer lending as compared to demographic characteristics and considering the competitive banking market in the Sioux Falls assessment area.

*Small business lending.* The geographic distribution of the bank's small business loans is reasonable. The bank's small business lending in the moderate-income tracts is less than the distribution of businesses in these tracts, approximately 31% according to Dun & Bradstreet data. The small business loan data shows that the bank originated small business loans in the moderate-, middle-, and upper-income CTs in the Sioux Falls assessment area. The bank's distribution of small business loans did not reveal any gaps in the bank's lending and reflects a reasonable dispersion of small business loans. The bank considers small business lending as its niche in the Sioux Falls assessment area. The bank is a relatively new financial institution in this market as it opened the branch in July 1998. The competitive banking characteristics that impact the bank's residential real estate and consumer lending performance also impact the bank's small business lending.

Overall, the distribution and dispersion of residential real estate, consumer, and small business lending is satisfactory. The analysis did not reveal any unexplained gaps and showed that the bank actively originates loans in geographies of different income levels. The bank extends a reasonable number of consumer and residential real estate loans in the moderate-income tracts given the demographics of the assessment area. Further, the bank's small business lending to entities in the moderate-income tracts is reasonable given the competitive nature of the assessment area.

### **MADISON ASSESSMENT AREA**

The distribution and dispersion of the bank's loans in the Madison assessment area is reasonable and does not reveal any unexplained gaps in lending patterns. As mentioned, the bank's Madison assessment area consists solely of middle-income and upper-income BNAs. Discussions with bank management and the community contact did not reveal any significant concentrations of low- and/or moderate-income families in any of the BNAs that comprise the assessment area. Therefore, further analysis of the bank's lending in geographies of different income levels is not meaningful. The loan sample indicates that the bank actively originates loans in the BNAs that comprise the Madison assessment area. As such, the geographic distribution and dispersion of sampled loans are satisfactory.

Overall, the geographic distribution of residential real estate, small business, and consumer loans in the Sioux Falls and Madison assessment areas is satisfactory. The rating is based on the geographic distribution and dispersion of loans and the bank's office location in comparison to the moderate-income geographies. As mentioned, greater weight was assigned to the bank's residential real estate lending and its lending activity in the Sioux Falls assessment area in determining the overall ratings.



## INVESTMENTS

Since the last CRA evaluation, the bank purchased a qualified community development investment and made several community development contributions. The bank's community development investment activity enhances its lending performance. The bank purchased the following community development investment:

- In February 2002, a \$100,000 investment in a qualified Community Development Financial Institution.

This \$100,000 note is the bank's only qualified CRA investment in its investment portfolio. This investment represents 1% of the bank's investment portfolio, based on September 30, 2002, ROC data.

In addition, from January 1, 1999, to the current evaluation date, the bank has provided qualified community investment grants and donations totaling \$19,494 to various organizations. These organizations include the United Way; Main Street Sioux Falls-Downtown Economic Development Incentive Fund; Habitat for Humanity; Forward-Sioux Falls; and Volunteers of America, Dakotas-Turning Point.

The bank's investment activity since the previous CRA evaluation enhances its CRA performance.

## SERVICES

The bank's retail and community development services enhance its lending activity in the assessment areas. Since the last CRA evaluation, the bank opened new branch offices in Sioux Falls, Canton (2), and Watertown, South Dakota. The Sioux Falls office is located in a moderate-income CT in the Sioux Falls downtown business district. During the same time period, the bank closed branch offices in Fairview and Canton. According to the bank, the Fairview office was closed because of its proximity to the Canton offices. In addition, the bank closed the Canton Plaza office, but compensated by expanding office hours at its other Canton branch. The bank's Madison-Jubilee office provides flexibility for consumers as it is open on Sunday. The bank facilitates its lending by providing 24-hour telephone banking and Internet banking through its web site. It also offers a no-minimum free checking account and a business checking account specifically for nonprofit entities.

The bank applied for and received two large grants from the Federal Home Loan Bank of Des Moines, Iowa. The grants facilitated the bank's residential real estate lending to first-time homebuyers in its assessment areas.

In addition, several of the bank's officers serve on the board of directors or provide their financial expertise to qualified community development organizations in the assessment area. An officer at the Sioux Falls office serves on the board for Every Citizen Counts Organization ("ECCO"). ECCO assists the mentally and physically disabled in the Sioux Falls assessment area. Another officer in the Sioux Falls office serves on the Downtown Economic Development Incentive Fund Corporation, which is a non-profit organization that is designed to revitalize the downtown Sioux Falls business district. An officer in the Madison office is on the board for the Lake County Food Pantry, and a second officer in Madison serves on the board of the Interlakes Area United Way.

Overall, the bank expanded its presence by opening new offices in Sioux Falls, Canton, and Watertown. As a result of the closing of the Fairview and Canton Plaza offices, the bank expanded its hours at the remaining Canton office. The bank provides alternative delivery methods of its products and services in its assessment areas and facilitates its community activities through the use of low-cost checking accounts. As such, the bank's community development services enhance its CRA performance in the assessment areas.

GENERAL

The evaluation did not reveal any violations of the substantive provisions of the fair lending and housing laws and regulations. Also, the bank has not received any CRA-related complaints since the previous evaluation.

## Appendix A Glossary of Common CRA Terms

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)

**Assessment Area** - The geographic area(s) delineated by the bank and used in evaluating the bank's record of helping to meet the needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated teller machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

**Block Numbering Areas (BNAs)** - BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

**Census Tracts** - Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

**Community Development** - Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

**Community Development Loan** - A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank):

- has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan, and
- benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

**Community Development Service** - A service that has as its primary purpose community development is related to the provision of financial services, has not been considered in the evaluation of the bank's retail banking services, benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area, and has not been claimed by other affiliated institutions.

**Consumer Loans** - Loans to individuals for household, family, and other personal expenditures. These loans do not include real estate-secured loans.

**Dun & Bradstreet Data** - Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. This data can be sorted by geographies.

**Income Level** - Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In non-MSA areas, the level is based on the statewide, non-MSA median income.

- **Low Income** - Less than 50 percent of the area median income.
- **Moderate Income** - At least 50 percent and less than 80 percent of area median income.

- **Middle Income** - At least 80 percent and less than 120 percent of the area median income.
- **Upper Income** - At least 120 percent or more of the area median income.

**Metropolitan Statistical Area (MSA)** - A federally designated geographical unit consisting of an urbanized area with a central city of at least 50,000 residents and a regional population of 100,000. MSAs may cross state boundaries.

**Qualified Investment** - A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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

**Small Business Loan** - A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by nonfarm nonresidential properties" or "Commercial and industrial loans."

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

**Small Farm Loan** - A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category "Loans secured by farmland" or "Loans to finance agricultural production and other loans to farmers."