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Comptroller of the Currency  
Administrator of National Banks

**LARGE BANK**

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Midwestern District  
2345 Grand Avenue, Suite 700  
Kansas City, Missouri 64108

**PUBLIC DISCLOSURE**

**October 5, 1998**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**First National Bank in Brookings  
Charter Number 12838  
424 Fifth Street  
Brookings, South Dakota 57006**

Supervisory Agency: Office of the Comptroller of the Currency  
Sioux Falls Field Office  
300 North Dakota Avenue, Suite 504  
Sioux Falls, South Dakota 57104

<p>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.</p>
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## **GLOSSARY OF TERMS AND COMMON ABBREVIATIONS**

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

**Assessment Area** - *The geographic area in which an institution's CRA performance is assessed. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.*

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

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

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

**Community Development Service** - *A service, related to the provision of financial services, with a **primary** purpose of community development.*

**Income Levels** - *The regulation prescribes various income levels, relating to individuals, families and geographies: low-income = less than 50% of the median; moderate-income = at least 50%, but less than 80% of the median; middle-income = at least 80%, but less than 120% of the median; and, upper-income = 120% or more of the median.*

**Large Bank** - *A financial institution with total assets of \$250 million or more, or an institution of any size that is an affiliate of a bank holding company with banking and thrift assets of \$1 billion or more.*

**Median Family Income** - *The median family income is determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.*

**Qualified Investment** - *A lawful investment with a **primary** purpose of community development.*

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

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

## **GENERAL INFORMATION**

The Community Reinvestment Act (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 in Brookings, Brookings, South Dakota (FNB)** prepared by the **Office of the Comptroller of the Currency (OCC)** as of **October 5, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. 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."**

The following are strengths of FNB's performance that contributed to its "Satisfactory" rating:

- FNB is a leader in community development lending in the assessment area. Community development loan volume is substantial and directly meets identified area credit needs.
- The bank is active in providing community development investments and services for the assessment area. Again, these investments and services directly meet identified needs in the community.
- FNB's lending levels are high and reflect excellent responsiveness to community credit needs. The bank's net loan-to-deposit ratio is 92 percent as of June 30, 1998.
- The bank is responsive to small business needs in the community. A strong majority (84 percent) of FNB's reported business loans were to small businesses. Of those loans, 87 percent had origination amounts of less than \$100,000.

The following table indicates the bank's performance level with respect to the lending, investment and service tests.

<b>First National Bank in Brookings CRA Performance Tests*</b>			
<b>Performance Levels</b>	<b>Lending Test</b>	<b>Investment Test</b>	<b>Service Test</b>
Outstanding			
High Satisfactory	<b>x</b>	<b>x</b>	<b>x</b>
Low Satisfactory			
Needs To Improve			
Substantial Noncompliance			

\*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## **DESCRIPTION OF THE INSTITUTION**

First National Bank in Brookings (FNB) is a \$378 million commercial bank located in East Central South Dakota. The bank has four full-service branches and operates nine automated teller machines (ATMs).

FNB offers a full-range of credit products and financial services, but its two main products are commercial and residential loans. As of June 30, 1998, FNB's loan portfolio totaled \$268 million and represented 94 percent of bank deposits. By outstanding dollars, the loan portfolio consisted of commercial (29 percent), residential real estate (29 percent), consumer (24 percent), agricultural (15 percent) and other loans (3 percent).

FNB is 100 percent owned by Fishback Financial Corporation (FFC), a \$399 million holding company headquartered in Brookings, South Dakota. FFC has three commercial bank charters throughout Eastern South Dakota. Bank and holding company subsidiaries include two community development corporations, and credit card, insurance, and day care services.

There are no financial, legal or other factors which impede the bank's ability to perform under the CRA. In 1997, FNB had net income of \$4 million and a return on average assets (ROAA) of 1.19 percent. As of June 30, 1998, the bank had net income of \$1,752,000, a ROAA of 0.98 percent, and Tier I Capital of \$31.6 million.

## **DESCRIPTION OF THE ASSESSMENT AREA**

FNB designated its assessment area as Brookings and Clay Counties in South Dakota. Neither county is located in a Metropolitan Statistical Area. While these counties are not contiguous, substantially all demographic characteristics are similar. Therefore, these two counties are combined as one assessment area for the purposes of this report. Major communities located within the assessment area include Brookings, Vermillion, Aurora, Elkton, Sinai, Volga, and White. The assessment area complies with regulatory requirements. It includes all branch offices and ATMs, as well as a majority of the bank's loans. The area does not arbitrarily exclude any low- or moderate-income block numbering areas (BNAs).

The total population of the assessment area is 38,393 according to 1990 U.S. Census Data. The Department of Housing and Urban Development's 1998 updated statewide non-MSA median family income estimate is \$36,800. In 1990, the statewide non-MSA median family income was \$25,547. FNB serves a predominantly middle- and upper-income market, as shown in the following table.

<b>Income Distribution of Block Numbering Areas (BNAs) and Families</b>				
Income Level	BNAs		Families	
	Number	% of Number	Number	% of Number
Low-Income	0	0%	1,471	18%
Moderate-Income	0	0%	1,191	14%
Middle-Income	5	71%	1,762	21%
Upper-Income	2	29%	3,885	47%
Total	7	100%	8,312	100%

Source: U.S. Census Data (1990)

Education, manufacturing, and services are all major sources of employment in the area. The largest employers in the assessment area include South Dakota State University (1,897 employees), University of South Dakota (1,327), Daktronics Inc. (735), Larson Manufacturing (721), and 3M Corporation (710). Unemployment rates are at historically low levels, and are below regional, state and national averages. In August 1998, the unemployment rate in Brookings County was 1.4 percent. Current economic conditions are strong. The downturn in the agricultural economy is not expected to have a major impact on the area due to the diversification in employment.

The two universities have a substantial effect upon the demographics of the assessment area. Rental units comprise 42 percent of total housing units. Monthly gross rent is reasonably affordable at \$290. Although BNA income levels are middle- and upper-income, there are a significant number of low- and moderate-income families in the assessment area. About 12 percent of families and 21 percent of households have income below the poverty level (less than 30 percent of median family income).

Competition is strong among financial institutions in the assessment area. More than one dozen banks and savings associations serve the area. Competition includes a branch of a large regional bank and several credit unions. FNB has the largest deposit market share (54 percent) of 10 banks operating in Brookings County and the fourth largest deposit market share (13 percent) of six banks operating in Clay County.

Area credit needs include loans for small business and housing, particularly affordable housing for low- and moderate-income individuals. Building permits for residential and commercial real estate are at record highs for the third consecutive year. We determined these needs from two community contacts made during the examination, as well as one recent contact conducted by another regulator. These contacts represent economic development and affordable housing organizations. All three contacts stated that local financial institutions are doing a good job of meeting credit needs and specifically identified FNB as a leader in community development projects, many of which are discussed in this report.

## **EXAMINATION SCOPE**

We examined FNB Brookings using the Lending, Investment, and Service Tests for large banks pursuant to the revised CRA regulations. These tests were used to assess the bank's record of helping to meet community credit needs. We analyzed FNB's residential mortgage, small business, and community development lending. We also reviewed the number and types of qualified investments, branch distribution and accessibility, and retail and community development services.

The current evaluation covers lending, investment, and service activities from November 1, 1994, through September 30, 1998, with the following exceptions/notations:

- Analysis of small business lending focused on originations from January 1996 through September 1998. Prior to 1996, banks were not required to collect small business loan data. FNB correctly reported the number of loans originated and the revenues of its business customers. However, FNB used only the origination amount when reporting lines of credit, instead of the total approved amount. The result is an under reporting of total originated loan dollars. This error does not have a material impact on our findings as most errors were small and did not result in an incorrect size categorization for the loan.
- Aggregate small business loan data released by the Federal Financial Institutions Examination Council (FFIEC) was available for 1996 and 1997 at the time of this examination. Information for 1998 was not available.
- Our analysis of residential mortgage lending focused on originations since January 1996. FNB is not required to report data under the Home Mortgage Disclosure Act. Information prior to that date was not readily available due to a change in the bank's data collection procedures. Data for 1996 reflects most, but not all, origination activity. For example, any loans sold or paid in full were deleted by the built-in purge function in the bank's software.
- We evaluated all residential mortgage loans as one product. A change in FNB's data processing systems in 1998 precluded a more detailed analysis by loan type (i.e., home purchase, refinance, home improvement, and multifamily). Loans are listed only as "residential" without more specific codes to further differentiate the loan purpose.
- In the lending test, we weighted small loans to businesses slightly more than residential loans. Business loan originations, by both number and dollar volume, were nearly double those of residential loan originations. Both types of lending represent identified credit needs in the community. We did not review agricultural loan originations as this is a slightly declining business for the bank and there are many other agricultural lenders serving the assessment area. Management elected not to provide consumer loan information.



## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### *LENDING TEST*

#### *Lending Activity*

FNB shows very good responsiveness to small business and residential mortgage credit needs. The bank is a leader in community development lending.

As of June 30, 1998, FNB's net loan-to-deposit ratio was 92.45 percent. FNB's average net loan-to-deposit ratio since the last CRA exam (15 quarters) is 89.11 percent with an increasing trend. There are six other banks chartered within the assessment area, with net loan-to-deposit ratios ranging from 74 percent to 99 percent. However, only one of those six banks is similar to FNB in asset size and loan mix. That bank has a net loan-to-deposit ratio of 76 percent.

FNB originated 1,816 small loans to businesses totaling \$106 million since January 1, 1996. A majority of these loans were in the assessment area; 1,243 loans totaling \$67 million. The percentage of loans inside the assessment area was 68 percent by number and 64 percent by dollar volume.

According to 1997 FFIEC Aggregate Small Business Loan information, the bank was the top producer of small loans to businesses among 14 lenders reporting in Brookings County, and second among 11 lenders reporting in Clay County. FNB originated 60 percent of the reported small loans to businesses by number and 64 percent by dollar volume for the combined counties. No other lender exceeded 15 percent market share, by number or dollar. This information is based on data supplied by lenders subject to CRA reporting requirements, i.e., financial institutions with assets of \$250 million or more, or affiliated with a bank holding company that has assets of \$1 billion or more. The data do not represent all lenders who provide small loans to businesses in the assessment area. There are at least five other banks in the assessment area with assets less than \$250 million. A review of these banks shows that their primary lending focus is mostly agricultural and residential.

FNB originated approximately 958 residential loans totaling \$67 million since January 1, 1996. A large majority of these loans were in the assessment area; 795 loans totaling \$57 million. The percentage of loans inside the assessment area was 83 percent by number and 86 percent by dollar volume.

FNB was the top mortgage producer in Brookings County in 1997. Of the 1,519 mortgages filed that year, FNB filed 687 of those mortgages, or 45 percent. A local competitor filed 228 mortgages, or 15 percent. No other lender had 10 percent of the mortgage filings in Brookings County.

***Borrower Distribution - Small Loans to Businesses***

A large majority of FNB’s reported business loans were to small businesses. Of the 1,008 businesses in Brookings and Clay Counties reporting revenues, 91 percent had revenues less than \$1 million. In comparison, 84 percent of the bank’s reported loans were to small businesses. FNB’s willingness to make smaller business loans is further evidenced by the size distribution of its originations. Of all small loans to businesses in the assessment area originated since January 1996, 87 percent had origination amounts less than \$100,000. The following table details the size distribution of small loans to businesses and revenue characteristics of those businesses in the assessment area.

<b>DISTRIBUTION OF SMALL LOANS TO BUSINESSES IN THE ASSESSMENT AREA</b>					
Loan Amount	Originations Dated January 1, 1996 through September 30, 1998				Percent of Number of Loans to Businesses with Revenues <\$1,000,000
	Number	Percent of Number	Amount (\$000)	Percent of Amount	
\$0 to \$100,000	1,076	87%	\$19,245	29%	87%
\$100,001 to \$250,000	107	8%	\$19,055	28%	72%
\$250,001 to \$1,000,000	60	5%	\$29,137	43%	43%
Totals	1,243	100%	\$67,437	100%	84%

Source: Bank Records (verified by examiners)

***Borrower Distribution - Residential Loans***

FNB’s distribution of residential loans by borrower income was reasonable. In our sample, the percentage of originations to moderate-income families (10 percent) nearly equaled the percentage of moderate-income families in the assessment area (14 percent). The percentage of lending to low-income families (2 percent) was substantially less than the percentage of low-income families in the assessment area (18 percent). However, we still considered this level reasonable primarily due to two factors. First, the number of families living below the poverty level is 12 percent. These families earn less than \$11,040 per year. At this income level, it would be difficult to afford a home at the assessment area’s median value of \$47,266. Second, many of the low-income persons are college students living off campus. These individuals are less likely to be interested in purchasing a permanent home due to the temporary nature of their residence in the assessment area. The next table details the borrower distribution results of our residential sample.

<b>BORROWER INCOME DISTRIBUTION OF RESIDENTIAL LOANS IN THE ASSESSMENT AREA</b>			
Borrower Income Level	Originations Dated January 1, 1995 through September 30, 1998		Percent of Families in Income Category
	Number	Percent of Number	

<b>BORROWER INCOME DISTRIBUTION OF RESIDENTIAL LOANS IN THE ASSESSMENT AREA</b>					
	<b>Number</b>	<b>Percent of Number</b>	<b>Amount (\$000)</b>	<b>Percent of Amount</b>	
<b>Low-Income</b>	16	2%	\$573	1%	18%
<b>Moderate-Income</b>	75	10%	\$3,629	6%	14%
<b>Middle-Income</b>	171	21%	\$9,644	17%	21%
<b>Upper-Income</b>	533	67%	\$43,480	76%	47%
<b>Totals</b>	795	100%	\$57,326	100%	100%

Source: Bank Records (verified by examiners)

### *Geographic Distribution*

Analysis of the geographic distribution of the bank’s lending is not meaningful. FNB’s assessment area does not contain any low- or moderate-income BNAs.

### *Flexible Loan Programs*

FNB provides a flexible loan program for housing. The bank offers Rural Economic Community Development (RECD) loans to help low- and moderate-income individuals in rural areas obtain affordable housing. RECD is a state program which allows for a low or no down payment, low guarantee fees, and financing of certain closing costs. Beginning in 1995, the bank originated 80 RECD loans totaling \$4.5 million. These loans are included in the residential analysis shown above.

### *Community Development Lending*

FNB is a leader in community development lending. Community development loans total \$13,944,700, including loans for economic development and affordable housing.

Beginning in late 1994, FNB extended credit in the amount of \$10.4 million to bring a light manufacturing business to Brookings and to provide for its expansion. Relocating from another state, the company initially created 65 jobs, of which 75 percent were required to be filled by low- and moderate-income employees. The company continues to grow and currently has 151 employees, with a goal of 200 employees by year-end 1998. FNB worked closely with the Brookings Area Development Corporation on this project and used a state government low-interest loan program to obtain \$400,000 of the \$10.4 million in funding.

The following community development loans are for affordable housing, which meet an identified assessment area credit need:

- An out-of-area bank placed \$1.5 million on deposit with FNB to be used for community development. The bank used this money to provide funding for construction of a 28-unit assisted

living center in Brookings. Upon completion, at least one-third of the units will be occupied by individuals who qualify for income assistance, including Title XIX funds.

- The bank financed five duplex units, three four-plex units, and a five-bedroom house for a nonprofit corporation in Brookings which provides housing for low-income, developmentally disabled individuals. These loans total \$702,000. FNB also provided this corporation with working capital and construction funds totaling an additional \$200,000.
- In 1995, the bank financed two separate privately-owned apartment complexes in Brookings, exclusively for low- and moderate-income individuals. FNB extended an \$80,000 loan for an eight-unit apartment building and \$475,000 for construction of a 22-unit apartment building.
- First National Community Development Corporation (FNCDC) is a wholly-owned nonprofit subsidiary of FNB. The purpose of FNCDC is to purchase and renovate housing for low- and moderate-income individuals. FNB made loans to FNCDC totaling \$322,700 to purchase five homes, and \$25,000 for operating expenses. FNCDC sold four of these renovated homes; the remaining home is currently a rental property.
- FNB worked with the Elkton Housing and Redevelopment Board to fund construction of a four-unit moderate-income housing project in Elkton. The bank's loan was \$240,000.

### ***INVESTMENT TEST***

FNB makes substantial qualified investments in the community. Investments totaled \$714,506, including community development corporation investments, bond purchases, and monetary donations. FNB's investments directly meet the identified assessment area needs for small business and affordable housing. Qualified investment opportunities are limited in the area. From our community contacts, we determined that most community development organizations prefer a loan or service rather than a qualified investment. FNB has invested in all available projects in its area.

Prior to the evaluation period, FNB invested \$1 million to purchase 100 percent of a 20-unit assisted living center construction bond in Brookings. Many residents qualify for some form of income assistance, including Title XIX funds. The current outstanding balance on this bond totals \$372,973.

FNB invested a total of \$230,000 in economic development revenue bonds for the expansion and improvement of a dairy production facility. This bond issuance allowed for the addition of 40 new light manufacturing jobs and provided for the retention of existing employees in the community. FNB made an initial investment of \$80,000 in 1993, with an additional investment of \$150,000 during the evaluation period.

First National Venture Capital, Inc. (FNVCI) is a wholly-owned community development corporation (CDC) of FNB. The purpose of this CDC is to encourage economic development by making equity investments in small businesses to retain or create new jobs in the community. FNB uses its board

memberships on various organizations to identify and meet area needs. FNPCI invested \$39,575 of equity in a new soybean processing plant during the evaluation period. This investment brought 68 agricultural-related jobs to the area and provides an important service for local farmers by significantly reducing transportation costs. In 1996, FNPCI also invested \$50,000 of equity in a very small agricultural research, development, and testing firm that works closely with South Dakota State University. Both of these investments were a cooperative effort with two economic development corporations, which also invested in these projects.

The bank donated \$15,400 to assist with housing for low-income, developmentally disabled individuals. FNB also made donations totaling \$6,558 to a charitable organization that provides various community services to low- and moderate-income individuals.

## ***SERVICE TEST***

### ***Retail Banking Services***

FNB's retail delivery systems are readily accessible to all portions of the assessment area. FNB has four full-service branches, three in Brookings and one in Vermillion. In addition, the bank owns and operates nine ATMs, of which four are deposit-taking and five are cash-dispensing only. Four of these ATMs are new since the prior CRA examination, including one located in the 3M manufacturing plant, one of Brookings' major employers. FNB removed one cash-dispensing ATM, but has not closed or opened any branches since the previous CRA examination.

Banking hours are reasonable and tailored to community needs. All locations provide Saturday hours, and the HyVee branch provides Sunday afternoon hours. There are no material differences in the availability, or cost of, services among branches. Alternate delivery systems improve access to customer accounts. These systems include 24-hour toll-free telephone banking, PC banking, Internet banking, and bank-by-mail.

FNB employees provide in-classroom training and tours to students ranging from elementary school through college. Topics include general banking operations and loan and deposit products. The bank also provides students with shadowing and internship opportunities. Another educational program is targeted to persons age 55 and over, with seminars on Medicare and various types of insurance. Bank management estimates that FNB reaches 300 people per year through its various educational programs.

### ***Community Development Services***

FNB provides community development services through administration of its two CDCs, FNCDC and FNPCI, discussed above. Bank staff also provide financial expertise to other community organizations

servicing affordable housing and small business needs. FNB facilitated funding for a large community development loan. All of these services directly meet identified needs in the assessment area.

FNB is actively involved in Habitat for Humanity, which provides low cost housing to low-income individuals who would otherwise not be able to own a home. Several FNB employees and board members are involved in both local and state chapters of Habitat for Humanity. One employee serves on the local Selection Committee, providing financial expertise and mortgage loan underwriting information to the organization. In 1996 and 1997, the bank extended credit to two Brookings home buyers in this program. These loans are included in the analysis of residential lending. The bank allows employees to provide services to this program during bank hours.

The Brookings Housing and Redevelopment Commission (BHRC) is the local housing authority for the Brookings area and deals directly with low- and moderate-income individuals in the assessment area. BHRC administers certifications and vouchers for rental and housing assistance as approved by HUD. It also inspects housing projects for HUD. A bank employee serves on the board of BHRC.

The Brookings Economic Development Corporation (BEDC) was formed in January 1996 to recruit industries to Brookings using state and local incentives and to provide local expansion assistance. To date, BEDC has successfully recruited four businesses to the City of Brookings and Brookings County. Another major project has been the development of a business industrial park in Brookings. A member of bank management has been a BEDC director since its inception. FNB played an integral part in bringing the largest of these businesses to Brookings (refer to “Community Development Lending”).

The Brookings Area Development Corporation (BADC) is primarily involved in increasing employment opportunities in the Brookings area by providing financing to both start-up and existing businesses of all sizes. Several companies have purchased land and equipment using BADC funds. A member of bank management has been a BADC director for 15 years and is the only banking industry representative on the Board.

FNB facilitated a \$1.5 million community development loan using a deposit from an out-of-area bank (refer to “Community Development Lending”).

### ***FAIR LENDING REVIEW***

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