



Public Disclosure

March 17, 1999

Community Reinvestment Act Performance Evaluation

**Security National Bank of South Dakota
Charter Number 23226**

**600 Stevens Port Drive
Dakota Dunes, South Dakota 57049**

**Office of the Comptroller of the Currency
Omaha North Field Office
11606 Nicholas Street, Suite 201
Omaha, Nebraska 68154**

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.

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 **Security National Bank of South Dakota**, Dakota Dunes, South Dakota, prepared by The Office of the Comptroller of the Currency, as of March 17, 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.

- The bank's lending level is more than reasonable, given the institution's age, size, financial condition, and the credit needs of the assessment area.
- The bank's lending to businesses of different sizes is reasonable. The distribution of residential borrowers by income is deemed acceptable.
- Examiners did not detect illegal discrimination or disparate treatment of applicants during our review of fair lending practices.
- The bank has not received written complaints related to their CRA performance.

Description of Institution

The Security National Bank of South Dakota, Dakota Dunes, South Dakota (SNBSD), is a \$5.7 million bank in Union County in extreme southeastern South Dakota. Dakota Dunes is just across the state line from Sioux City, Iowa. Security National Corporation (SNC), a multi-bank holding company, owns 100% of the bank stock.

SNBSD opened for business May 1, 1997. The bank was chartered with its primary emphasis to provide trust services to customers of the lead bank in the corporation. South Dakota's tax laws have advantages for some trust customers. The chartering of the SNBSD bank was intended to benefit SNC's current customers, and allow SNC and its affiliates to service and grow its trust business. As of December 31, 1998 the bank has \$330 million of trust assets under management.

The bank has no legal impediments limiting its ability to help meet the credit needs of the assessment area. However, because of other impediments described below, SNBSD relies on the assistance of The Security National Bank of Sioux City, Sioux City, Iowa (SNBIA), the lead bank in the SNC, to offer credit products to its community.

SNBSD's current facility, location, and size limit its ability to offer substantial credit services to its community. The bank is located in a leased facility on the third floor of the One River Place office complex. The present location is a full service banking facility with the assistance of SNBIA. The leased facility was chosen to allow the Board time to assess the direction of growth in the area. This would allow the bank to place its permanent facility where it can benefit the community. On April 15, 1998, the bank received regulatory approval to extend its main office into a nearby office complex. Management plans to offer full service banking with an automated teller machine at the extended office location by July or August 1999.

On December 31, 1998, the bank's loan portfolio was 65% of total assets. During the evaluation period, SNBSD originated seven consumer loans and purchased fifteen commercial loans from its affiliate, SNBIA. For the most part, the bank relies on SNBIA to originate loans to help meet credit needs in its assessment area. SNBIA provides agricultural, commercial, and residential loans to the assessment area, and assigns those loans it originates in the southern one-third of Union County to SNBSD. In assessing SNBSD's CRA performance, examiners evaluated nine small business and forty-three residential loans originated by SNBIA in SNBSD's assessment area.

The bank is the smallest institution in the county. The June 30, 1998 Federal Deposit Insurance Corporation's Offices and Deposit Report shows a comparison of the number of offices and deposits per financial institution in Union County, South Dakota. SNBSD is only one of ten banking offices and holds only 2.45% of total deposits within Union County.

Description of Security National Bank of South Dakota's Assessment Area

SNBSD's assessment area (AA) meets all the legal requirements of the Community Reinvestment Act (CRA). The Board of Directors chose block numbering area (BNA) 203 in the southern one-third of Union County, South Dakota for the bank's AA. The AA includes the towns of Dakota Dunes, Jefferson and North Sioux City, including the McCook Lake area. The Dakota Dunes Development Company was organized in August of 1991 and has developed the Dakota Dunes community in the very southern end of the AA. The AA is essentially North Sioux City/McCook Lake and Jefferson to the north, and Dakota Dunes to the south. The AA is reasonable, as the bank is located in the southern portion of the county, nearest Sioux City, Iowa. The AA is a middle-income tract and does not arbitrarily exclude low- or moderate-income areas.

The AA's population was 3,667 people per the 1990 Census. The largest community in the AA is North Sioux City/McCook Lake. Its 1990 population was 2,019 people. The census lists 1,046 families within the AA. The 1998 South Dakota statewide median family income is \$36,800. Family incomes in the AA are 14% low-, 19% moderate-, 23% middle-, and 44% upper-income.

The demographics of the AA have changed dramatically since the 1990 census. The demographics are shifting toward an upper-income area. A recent article, "North Sioux City Starts to Build Again" in the March 21, 1999 Sioux City Journal described the growth of the Dakota Dunes and North Sioux City communities. The article written by staff reporter Michele Linck, with details from the Dakota Dunes Development Company, describes how the area is changing. Dakota Dunes, which is a predominately upper-income housing area, and its business park development have grown. The area has added 1,600 new residents in 350 new upper-income styled homes and 306 new apartments. Over 800 jobs have been added in the Dakota Dunes area. Several companies have moved their corporate offices to the area, and a new surgical center was built at Dakota Dunes. Manufacturing businesses in North Sioux City, especially Gateway, added significantly to its employment.

In contrast, the article states the North Sioux City/McCook Lake portion of the AA has not experienced housing growth in the last 25 years. The North Sioux City/McCook Lake area is just starting to experience growth. The Lakeview Estates subdivision just started. The first house in the subdivision was just placed on the market for \$138,000. The homes are all expected to be priced over \$120,000. Based on industry underwriting standards, only the upper half of the middle-income and upper-income families could qualify for these homes.

One community contact stated the level of moderate-priced housing is declining in the AA. Housing around the lake that sold in the \$40,000 to \$60,000 range, is now selling at a premium. Upper-income individuals are buying the older lake homes, demolishing them, and building homes priced at \$250,000 and higher. The contact stated low- and moderate-income housing is primarily two trailer parks in North Sioux City and McCook Lake. The 1990 Census indicated there were 381 mobile homes in the AA. One contact stated the number of mobile homes has not grown significantly.

The only moderate-income housing development started in Union County since 1990 is near Elk Point, South Dakota. Elk Point is located 15 miles to the north and is not in the bank's AA.

The median housing value in the AA is increasing. The 1990 Census Data stated the median housing value in the AA was \$41,100. One community contact estimated the median priced home in the AA has doubled. Another contact stated homes in Dakota Dunes sell for \$160,000 to over \$1,000,000. The 350 new upper-income homes, added to the AA's existing 1,046 owner-occupied homes, have dramatically changed the median priced housing value. Also, 306 new apartments have been added to the 307 occupied rental units in the AA as of 1990. These new units rent at an average of about \$800 per month, with some as high as \$1,200 per month. These rental rates are much higher than the average monthly rent of \$313 based on the 1990 Census Data.

Contacts stated the primary growth in the North Sioux City area is business growth along Military Road and River Drive, which are the main streets in the North Sioux City area. The growth has been in small service businesses or manufacturing. Several casinos and service related businesses have expanded. A large number of people drive to the area from Elk Point, Sioux City, South Sioux City, and Vermillion for work. New businesses have developed to meet employee needs (restaurants, etc.), and tend to be smaller. The largest employers in the area are manufacturers. They include Gateway 2000, Iams Pet Foods, and Interbake Foods, Inc. Manufacturing is now the largest industry in the AA. The unemployment rate for the AA remains low due to the growth of jobs, especially at Gateway. These service and manufacturing businesses contrast with the new corporate headquarters, medical services, and doctor's offices located in the Dakota Dunes community.

The banking environment in the AA is competitive. Three community banks in the AA compete with SNBSD for loans and deposits. Also, four much larger established financial institutions in Sioux City, Iowa, compete with the banks in the AA. North Sioux City and Dakota Dunes are about six miles from downtown Sioux City.

The primary credit needs for the AA are upper-income residential loans and commercial credit to businesses of all sizes. The AA contains very few agricultural businesses or farms. We determined the credit needs of the AA by contacting a city official from City Hall in North Sioux City, the spokesperson for a local real estate developer, and a local appraiser.

Conclusions with Respect to Performance Criteria

Loan-to Deposit

SNBSD's net loan-to-deposit (LTD) ratio is more than reasonable, given the bank's size. Loans, which include loan participations purchased and direct consumer loans, total \$3,763M. The bank's LTD ratio currently ranks first when compared to the three community banks in Union County. Since June 30, 1997, the bank's LTD ratio quarterly average was 109.8%. During the evaluation period, the four banks, including SNBSD, had an average LTD of 83.2%, and ranged from 69.3% to 109.8%.

Lending in the Assessment Area

Our evaluation focused on the loans originated by SNBIA and assigned to the bank for CRA purposes. As only loans within SNBSD's AA are assigned to it, analysis of the volume of loans made within and outside the AA is not meaningful.

Lending to Businesses of Different Sizes and Individual of Different Income Levels

The table below demonstrates the bank's performance in making loans to businesses of all sizes. The bank's lending performance was compared to data from the 1990 U.S. Bureau of the Census. The census data showed 69% of businesses in Union County, South Dakota had sales less than \$1,000,000.

LOANS TO BUSINESSES OF DIFFERENT SIZES

Commercial customers with loan originations assigned to the bank in 1998.

Gross Revenue of Businesses	# of customers	% of customers	\$ of loans	% of total \$
\$0 - \$250,000	2	22%	\$ 417M	25%
\$250,001 - \$500,000	3	33%	\$ 419M	25%
\$500,001-\$1,000,000	2	22%	\$ 449M	27%
Over \$1,000,000	1	11%	\$ 85M	5%
Revenue not available	1	11%	\$ 279M	17%
Totals	9*	100%	\$1,649M*	100%

* A total of 17 loans were made to these 9 customers during 1998.

The bank's lending to small-, moderate-, and middle-sized businesses appears favorable when compared to the 1990 U.S. Bureau of the Census data. The bank's data shows 77% of its business borrowers are small-, moderate-, and middle-sized compared to 69% per the census data. The bank's percentage of large business borrowers in the AA is 11% and compares directly to the 13% reflected in the census data. The census data showed 18% of business borrowers did not report sales revenue data. Three of the bank's loans were to service related businesses such as a café, day-care center, and laundry. Service related businesses were identified as a need in the community.

The table below shows the bank's performance in making residential loans to individuals of different income levels. The 1990 census data shows 14% low-income, 19% moderate-income, 23% middle-income, and 44% are upper-income families. In light of the updated demographic information detailed in the description of the AA, the bank's lending to borrowers of different incomes is acceptable.

LOANS TO RESIDENTIAL BORROWERS OF DIFFERENT INCOMES

Loan originations assigned to the bank in 1997 and 1998.)

Gross Income	# of customers	% of customers	\$ of loans	% of total \$
\$0 - \$18,400	1	2%	\$ 72M	1%
\$18,401 - \$29,440	1	2%	\$ 44M	1%
\$29,441-\$44,160	2	5%	\$ 89M	1%
Over \$44,161	36	84%	\$5,908M	82%
Income data not available	3	7%	\$1,075M	15%
Totals	43	93%*	\$7,188M*	85%*

The bank, through its affiliate SNBIA, does originate government-sponsored home loans through the Federal Housing Authority (FHA) and the Veterans Administration (VA) in the AA. FHA and VA loans tend to help moderate-income families obtain housing when they can not obtain a conventional home loan. SNBIA processed two Veterans Administration loans in 1998.

Community contacts indicated the housing needs of the AA changed significantly since the 1990 Census. Housing needs have shifted toward the upper-income individuals who are working in the new corporate headquarters and medical clinics. The expansion of the Dakota Dunes community is a response to this need. The major financial activity in the area is financing for construction of new homes, primarily affordable to upper middle-income and upper-income

individuals. One contact stated he completed about 30 to 35 appraisals on new homes in Dakota Dunes in 1998. He stated he was only contacted to complete one home appraisal for an existing house in North Sioux City in 1998.

Geographic Distribution of Loans

We did not complete an evaluation of the distribution of loans between different tracts in the bank's AA. The purpose of the evaluation is to determine if the institution is lending equally to low- and moderate-income tracts compared to middle- and high-income tracts. The bank only has one BNA in its AA, which is a middle-income tract.

Response to Complaints

The bank has not received a written complaint related to its CRA performance.

We did not detect violations of any substantive provisions of anti-discrimination laws or disparate treatment of applicants during our fair lending examination. The bank has satisfactory fair lending policies, procedures, and training programs in place. We did not detect Equal Credit Opportunity Act violations during the examination.