

Public Disclosure

November 30, 1998

Community Reinvestment Act Performance Evaluation

**Axsys National Bank
Charter Number: 23083**

**3904 West Technology Circle, Suite 102
Sioux Falls, South Dakota 57106**

**Office of the Comptroller of the Currency
Midwestern District Office
2345 Grand Boulevard, Suite 700
Kansas City, Missouri 64108**

NOTE: This evaluation is not, and should not 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 **Axsys National Bank, Sioux Falls, South Dakota (ANB)**. ANB's supervisory agency, the **Office of the Comptroller of the Currency (OCC)**, prepared the evaluation as of **November 30, 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 the 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 CFR Part 25.*

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA) - Must consist generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Axsys National Bank (ANB) - The Comptroller of the Currency approved ANB's (formerly known as Fingerhut National Bank) request for designation as a limited purpose bank on July 18, 1996, during the new national bank charter application process. ANB received its national bank charter and commenced business on November 11, 1996.

Benefit to Assessment Area - A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

CEBA - Competitive Equality Banking Act of 1987 which permitted corporations to form limited purpose credit card banks, whose operations are restricted to credit card activities, without the bank being considered a bank under the Bank Holding Company Act. A CEBA credit card bank engages only in credit card operations, does not accept demand deposits or savings or time deposits of less than \$100M (other than to secure extensions of credit), maintains only one office and does not engage in the business of making commercial loans.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301)) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Fingerhut Companies, Inc. (FCI) - FCI owns 100% of Minnesota Telemarketing, Inc., which owns 100% of Axsys National Bank. FCI sells brand name and private label merchandise through direct mail catalogues to customers throughout the United States.

Income Levels - These relate to individuals, families, households, or the census tracts in an MSA.

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

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

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

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

Limited Purpose Institution - An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market. A limited purpose institution continues to meet the narrow product line requirement if it only infrequently provides other types of loans.

Low- and moderate-income (LMI) - Geographies (e.g., census tracts) which have, and individuals who have, low- or moderate-incomes.

Managed Assets - The total assets managed or serviced by the bank, including any off-balance sheet assets. Off-balance sheet assets generally consist of loans the bank originates, or purchases, and subsequently removes from financial statements through an asset securitization and sale to a trust. In some instances, the loans are sold directly to a third party through a participation agreement with the originating bank retaining servicing rights.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Minnesota Telemarketing, Inc. (MTI) - MTI owns 100% of ANB's stock. MTI is an operating subsidiary of Fingerhut Companies, Inc. MTI conducts telemarketing for Fingerhut Companies' merchants and provides customer services for those merchants and ANB credit customers.

SCOPE OF THE EXAMINATION

In evaluating the bank's performance under the CRA, we reviewed the level and nature of ANB's qualified investments and community development services. At the bank's option, we also considered community development activity provided by an affiliate. ANB has not had a prior CRA evaluation.

Time Period Reviewed	November 11, 1996 to November 30, 1998	
Financial Institution		Products Reviewed
Axsys National Bank Sioux Falls, South Dakota		Community development investments, grants, contributions, and services
Affiliate	Affiliate Relationship	Products Reviewed
Fingerhut Companies, Inc.	Holding company affiliate	Grants and contributions

CRA RATING

The OCC rated ANB's CRA performance "**Outstanding.**"

The primary factors supporting the bank's overall rating are:

- Ë ANB and its affiliate made a high level of qualified investments during this evaluation period. ANB, in conjunction with Fingerhut Companies, Inc. (FCI), adequately addressed the community development needs within its assessment area (AA), which allowed us to consider the affiliate's activities outside the AA. The bank's performance, together with the significant level of qualified investments from FCI, resulted in strong CRA performance.
- Ë ANB demonstrated an adequate response to the need for community development services in its AA.
- Ë The bank did not use particularly innovative or complex qualified investments or community development services.

DESCRIPTION OF INSTITUTION

ANB, formerly known as Fingerhut National Bank, was chartered November 11, 1996 as a Competitive Equality Banking Act (CEBA) credit card bank. During the charter application process, the OCC approved the bank's request for designation as a limited purpose bank. As a result of ANB's status as a CEBA bank, it can engage only in credit card activities. ANB cannot: (1) accept demand deposits or other checkable accounts; (2) accept savings or time deposits of less than \$100,000; (3) maintain more than one office that accepts deposits; or (4) engage in the business of making commercial loans.

ANB is wholly owned by Minnesota Telemarketing, Inc., which in turn is wholly owned by Fingerhut Companies, Inc. (FCI). FCI is headquartered in Minnetonka, Minnesota, with assets of approximately \$1.8 billion and net income of \$69.3 million at year-end 1997. FCI sells brand name and private label merchandise through direct mail catalogues to a predominantly low- and moderate-income customer base. ANB provides revolving credit card lines to FCI customers and then sells those receivables daily on a nonrecourse basis to FCI. FCI securitizes most of the receivables and sells them in the secondary market. Managed assets range from \$1.5 billion to \$2 billion and represent about 5 million accounts. [Subsequent to our analysis, FCI was purchased by Federated Department Stores, Inc. (FDS), Cincinnati, Ohio. FDS is one of the nation's leading department store retailers. FDS also operates direct-to-consumer catalog and electronic commerce subsidiaries, including FCI.]

ANB has one office on the outskirts of Sioux Falls, South Dakota. The bank does not advertise for or accept deposits from the public. It is funded solely by FCI. The only banking functions performed at the Sioux Falls location are manual credit decisions which affect current account holders. Most of the functions related to credit card operations (issuing accounts, processing customer billing statements and payments, providing customer services for account holders) are outsourced to affiliates in the greater Minneapolis area. ANB had total assets of \$11.6 million and net income of \$1.4 million at year end 1997. Through September 30, 1998, the bank reported \$21.3 million in total assets and net income of almost \$1 million. ANB's assets consist mostly of federal funds sold, from which the bank derives most of its income.

DESCRIPTION OF THE ASSESSMENT AREA

ANB delineated the Sioux Falls, South Dakota metropolitan statistical area (MSA) as its assessment area (AA). The MSA consists of Lincoln and Minnehaha Counties and has an estimated 1998 population of 161 thousand. The table in the Appendix shows several important demographic characteristics for the Sioux Falls MSA. Most of the information in the table is based on 1990 U.S. Census data, but the median family income and median cost of a newly built single family dwelling have been updated with appropriate inflation factors.

The Sioux Falls MSA is the largest urbanized area in South Dakota and home to 20% of the State's population. Since 1990, Sioux Falls has had a 2% population increase each year fueled by continued job creation from local companies. Local economic conditions are good. Major employers in Sioux Falls include the health care industry, retail trade, and financial services. Agriculture also remains a significant part of the local economy. Sioux Falls is the largest medical center in the region and the largest retail center between Minneapolis and Denver.

Competition for banking services is strong in the Sioux Falls MSA. Approximately 20 full-service financial institutions, including branches of two large interstate banks, and 15 credit unions vie to serve the local customer base. These financial institutions help meet the day-to-day credit needs of individuals, small farms, and small businesses. Also, due to South Dakota's liberal usury laws, seven credit card banks with limited purpose CRA designations base their operations out of Sioux Falls. These include: Citibank, the second largest credit card issuer in the United States; Dial Bank, an affiliate of Norwest Financial, Inc., now Wells Fargo; Hurley State Bank, an affiliate of the Associates; BANKFIRST; United Credit National Bank; Retailers National Bank, an affiliate of the Dayton Hudson Corporation whose retail stores include Dayton's, Hudson's, Marshall Field's, Mervyn's, and Target; and ANB.

These financial institutions provide strong competition for community development activities. Competition among the limited purpose institutions is particularly keen for qualified investment opportunities. Four of the seven credit card banks are CEBA-chartered institutions, which restricts their ability to assist in meeting the credit needs of the AA through traditional lending. In addition to the competition, the favorable economy and the demographic characteristics of the Sioux Falls MSA contribute to very few unmet community development needs.

We reviewed public evaluations for local banks and recent community contact forms prepared by representatives of the OCC, Federal Reserve System, and the Federal Deposit Insurance Corporation. These contacts encompassed organizations engaged in affordable housing, city planning, and community services targeted toward LMI individuals. The contacts cited the creation of additional affordable housing, access to capital and technical assistance for small businesses, and other support services for LMI individuals as community development needs. LMI services included: affordable childcare, basic home maintenance, job training, budgeting, parenting skills training, and drug and alcohol rehabilitation. In addition, the 1995 Sioux Falls Consolidated Plan Executive Summary cited the following primary goals: to increase the number of affordable low-income housing units and to expand public facilities and services to low-income individuals. The largest limited purpose institution in Sioux Falls and its affordable housing development subsidiary created several affordable multi- and single-family housing developments during this evaluation period. These projects created some limited opportunities for other local financial institutions to participate through equity investments in the housing partnerships.

CONCLUSIONS WITH RESPECT TO PERFORMANCE

Summary

Overall, ANB and its affiliate made a high level of qualified investments during the evaluation period, based on their size and capacity. ANB and its affiliate, FCI, demonstrated satisfactory performance within the bank's assessment area with qualified investments totaling \$169 thousand. Due to its limited purpose designation and satisfactory performance in the assessment area, ANB can receive credit for qualified investments, contributions and grants made outside the Sioux Falls MSA by FCI. The affiliate attributed to ANB an additional \$20.9 million in qualified investments that were made in a broader regional area and nationally. No other affiliate of FCI received CRA credit for these investments. The attributed investments were contributions to community service agencies and were made primarily in communities in which FCI has a presence. None of the direct or attributed investments were considered particularly innovative or complex.

Community Development Investments

During the evaluation period, ANB made three investments in affordable housing projects in its assessment area. The bank provided a \$10 thousand grant to Timothy's House of Hope to fund the ongoing renovation and expansion of this non-profit facility. Timothy's House of Hope is a transitional home for very low-income people who are trying to attain self-sufficiency. Many of the residents are recovering addicts and most have an annual income of about \$4 thousand. ANB provided a \$5 thousand grant to American Indian Services (AIS) to fund a housing needs survey for Native Americans living in the Sioux Falls MSA. Preliminary research by AIS showed that a majority of Native Americans living in Sioux Falls had incomes less than 30 percent of the MSA median, two-thirds were unemployed, and about 130 families were on a waiting list for subsidized housing. The bank also provided a \$35 thousand grant to Habitat for Humanity to fund the construction of an affordable, single-family dwelling in Sioux Falls. Habitat requires that the purchaser of the home have an income from all sources, including public assistance, around 50 percent of the current year MSA median income.

During the evaluation period, ANB made three investments in two organizations that provide community services in Sioux Falls. The bank made a \$75 thousand equity investment in the Sioux Falls Community Development Corporation (SFCDC). In 1998, the bank partnered with six other banks to form the CDC and address the need for affordable, quality childcare for low-income families. The center provides family development assistance, including health, education, nutrition, and social services, to homeless and low-income families in Sioux Falls. ANB provided \$4 thousand in cash contributions to the local United Way agency. The bank designated the funds to benefit organizations that help low- and moderate-income people in the Sioux Falls MSA.

FCI also made four qualified investments in two organizations that provide community services in the assessment area. During the evaluation period, FCI donated \$36 thousand of merchandise to Sioux Falls Toys for Tots, an organization serving primarily low- to moderate-income children. FCI also contributed \$4 thousand to the local nonprofit Consumer Credit Counseling Service to help fund consumer financial education programs and credit counseling services.

During the evaluation period, FCI attributed to ANB a substantial amount of qualified investments made in a broader regional area, including Sioux Falls, and nationally where FCI has a presence. These investments totaled \$20.9 million. Most of the investments consisted of donated merchandise to national and regional agencies that provide community services for low-and moderate-income persons. FCI also contributed over \$1 million to other Consumer Credit Counseling Service agencies throughout the country.

Community Development Services

ANB demonstrated an adequate response to the need for community development services in its Sioux Falls assessment area. The bank's current CRA Officer serves on the Board of the SFCDC to which he provides financial expertise. He also sits on the Family Selection Committee for the local chapter of Habitat for Humanity. The committee members are responsible for recommending low-income families who have applied to purchase homes to Habitat's board. The bank's previous CRA Officer served on the board of AIS and provided financial expertise. The CRA Officer and three local bank board members have been active in visiting local community service groups, soliciting information on credit needs and potential, future investments.

FAIR LENDING REVIEW

We reviewed the bank's compliance with fair lending laws and regulations during our November 30, 1998 examination. We identified no violations of the substantive provisions of anti-discrimination laws and regulations. The review included a comparative analysis of account holder "overlimit" requests where account holders seek to purchase catalog items in excess of their current credit limit. Our sample included 100% of the denied female overlimit requests (70) and 100% of the approved male overlimit requests (37) from two weeks in October 1998. We found no instances where similar denied female and approved male account holders received different treatment.

APPENDIX

DEMOGRAPHIC INFORMATION FOR SIOUX FALLS, SD MSA # 7760						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (CTs)	33	0%	21%	58%	21%	0%
Population by Geography	139,236	0%	18%	63%	19%	0%
Owner-Occupied Housing by Geography	34,014	0%	13%	65%	22%	0%
Businesses by Geography	5,872	0%	37%	53%	10%	0%
Farms by Geography	184	0%	13%	80%	7%	0%
Family Distribution by Income Level	36,631	16%	20%	28%	36%	0%
Median Family Income (1990)		\$34,101	Median Housing Value (1990)			\$57,234
HUD Adjusted Median Family Income (1998)		\$48,500	Median Cost New Single Family Dwelling (1997)			\$90,000
Families Below the Poverty Level		5%	Unemployment Rate			2%

Source: 1990 U.S. Census and 1998 HUD updated median family income

QUALIFIED INVESTMENTS				
Beneficiary	Affordable Housing		Community Service	
	#	\$ (000)	#	\$ (000)
INSIDE ASSESSMENT AREA				
American Indian Services	1	\$5		
Consumer Credit Counseling Services (A)			2	\$4
Habitat for Humanity	1	\$35		
Sioux Falls CDC			1	\$75
Timothy's House of Hope	1	\$10		
Toys for Tots (A)			2	\$36
United Way			2	\$4
BROADER REGIONAL/NATIONAL AREA				
Consumer Credit Counseling Services (A)			2	\$1,030
Various Charitable Agencies (A)			32	\$19,833
TOTAL INVESTMENTS	3	\$50	41	\$20,982

(A) = Affiliate investment attributed to ANB

Source: Bank records