



**LIMITED PURPOSE**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **Public Disclosure**

July 13, 2005

# **Community Reinvestment Act Performance Evaluation**

**Target National Bank  
Charter Number: 22549**

**3901 W. 53rd Street  
Sioux Falls, SD 57106**

**Comptroller of the Currency  
Credit Card Bank Supervision  
1117 Perimeter Center West, Suite W401  
Atlanta, GA 30338**

**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.**

## **Institution's CRA rating:**

**This institution is rated "Satisfactory".**

The conclusions for the three rating criteria are:

- Target National Bank (TNB) had an adequate level of community development activities over the evaluation period.
- The bank demonstrates occasional use of innovative qualified investments and community development services.
- Bank activities are responsive to the identified needs in the assessment area.

## **Scope of the Examination**

This evaluation considers the level and nature of qualified investments and community development services from November 23, 1999 through July 13, 2005. At the bank's request, we also included qualified grants by affiliates for the period February 1, 2000 through January 31, 2005. Bank affiliates over the evaluation period included Target Corporation (TC), Target Foundation and affiliated retail stores (Target, Marshall Field's, and Mervyn's). Bank performance was rated "Outstanding" at the previous CRA examination dated November 22, 1999.

Qualified investments that benefit areas outside the Sioux Falls Metropolitan Statistical Area (MSA) (the bank's assessment area) were also considered in this evaluation because the bank has adequately addressed needs inside this area. The OCC considers such activities only when a bank requests such consideration and has adequately addressed needs within its assessment area. The limited number of equity investment opportunities, the highly competitive banking environment, and the specialized nature of the TNB's operations were performance context factors that weighed heavily this conclusion.

## **Description of Institution**

TNB - formerly known as Retailers National Bank - is a Competitive Equality Banking Act (CEBA) credit card bank, headquartered in Sioux Falls, South Dakota. The OCC designated the bank as a limited purpose institution for CRA purposes on April 16, 1996.

Legal restrictions limit the activities of CEBA banks and their available means to fulfill CRA obligations. CEBA banks may only have one office facility and may only engage in credit card activities. Refer to the **Definitions** section of this Report for a more detailed description of CEBA. Due to these legal constraints, TNB may only engage in community development investment and service activities.

TC - formerly known as Dayton Hudson Corporation – owns the bank. TC is one of the nation’s largest discount retailers (second only to Wal-Mart), operating more than 1,300 Target and SuperTarget stores in 47 states. TNB historically issued private label credit cards for affiliated retailers (Marshall Field’s, Mervyn’s, and Target). In November 2001, a new co-branded product (Target VISA) was launched and credit card receivables increased significantly. TC divested of the Mervyn’s and Marshall Field’s business segments in 2004. TNB now exclusively issues Target branded cards which include a co-brand Target VISA card and a private label Target card.

Table 1 below details financial information that provides perspective regarding the bank’s capacity to help meet the community development needs of its assessment area. TNB’s business focus is the origination of branded credit cards for affiliated retail stores. The bank sells the receivables associated with the cards to an affiliate on a daily basis. Consequently, TNB’s income is primarily derived from merchant fees (for sales transacted with the cards) and servicing fees, rather than interest income. Pass-through receivables (detailed below) represent the outstanding balance of all accounts originated, subsequently sold, and presently serviced by TNB. Refer to the **Definitions** section of this Report for a more detailed description of the financial terms in the following table.

**Table 1: Financial Information (000s)**

	Year-end 2000	Year-end 2001	Year-end 2002	Year-end 2003	Year-end 2004	Average for Evaluation Period
<b>Tier 1 Capital</b>	16,272	34,012	53,067	87,075	130,913	64,268
<b>Total Income</b>	161,968	177,371	279,669	357,003	374,425	270,087
<b>Net Operating Income</b>	8,046	17,740	19,055	34,009	43,837	24,537
<b>Total Assets</b>	119,850	176,610	173,343	239,680	227,793	187,455
<b>Pass-Through Receivables</b>	3,079,266	4,058,540	6,040,642	6,339,499	5,435,265	4,990,642

*Source: Consolidated Report of Condition and Income and bank reported data.*

## Description of Assessment Area

The bank's assessment area is the entire Sioux Falls MSA. It consists of four counties in the southeast corner of South Dakota - Minnehaha, Lincoln, McCook, and Turner.

The Sioux Falls MSA is the largest urbanized area in South Dakota with a population of 187,093 according to 2000 census data. The MSA includes Sioux Falls, the state's most populous city. Outside city limits, the area is predominately rural land dotted with smaller farm communities. Per 2000 census data, 35% of the families in the area have low- or moderate-incomes with just 4.8% of all families living below poverty. The Department of Housing and Urban Development estimates the area's median family income at \$59,450 for the year 2005.

The assessment area meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts. The Sioux Falls MSA contains no low-income tracts. Five of the area's seven moderate-income census tracts are located in the City of Sioux Falls (Minnehaha County). McCook and Turner Counties both have a moderate-income census tract, which roughly covers the southern half of each county.

The following table summarizes additional select demographics for the Sioux Falls MSA:

**Table 2: Sioux Falls MSA Demographics**

	<b>Number</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
<b>Tracts</b>	37	0.00%	18.92%	67.57%	13.51%
<b>Families by Income Level</b>	48,663	15.28%	19.59%	28.64%	36.48%
<b>Businesses</b>	12,222	0.00%	24.16%	67.94%	7.90%

*Source: Demographic Data - 2000 U.S. Census, 2004 Dun & Bradstreet Data.*

The Sioux Falls economy remains healthy. The area is experiencing population growth (24 percent from 1990 to 2000). The employment base is diversified with a small manufacturing base and a broad range of services including finance, retail, and health care. Sioux Falls is a regional provider of medical and retail services and is the largest retail center between Denver and Minneapolis/St. Paul.

Unemployment rates remain below state and national averages according to information from the Department of Labor. As of May 2005, the unemployment rate for the Sioux Falls MSA was 3.4%, compared to state and national averages of 3.9% and 4.9%, respectively (rates not seasonally adjusted).

The banking environment is highly competitive. There are 33 financial institutions and at least 15 credit unions that serve the area. South Dakota has liberal usury laws and, consequently, Sioux Falls is home to several credit card banks with limited purpose CRA designations - including Citibank South Dakota, Citibank USA, BANKFIRST, TNB, and Wells Fargo Financial Bank. These institutions provide strong competition for community development activities, particularly qualified investment opportunities. Over the evaluation period, OCC representatives met with several community contacts including a city official, a private real estate developer, an affordable housing organization, and a nonprofit provider of services to low- and moderate-income children.

We also reviewed a representative sample of public evaluations for competing financial institutions in the area.

Credit and community development needs in the assessment area continue to be somewhat limited given the area's favorable demographics, strong economy, and highly competitive banking environment. Nonetheless, contacts did cite ongoing needs for:

- Affordable housing and rental stock to accommodate a growing employment base;
- Small business loans to encourage economic growth in rural areas;
- Financial education of youth, homebuyers, and small business owners; and
- Social services for economically disadvantaged individuals.

We identified less than a dozen community development organizations at the local level including community development corporations, community foundations, community action agencies, community housing organizations, and Habitat for Humanity affiliates. Some financial institutions in the area have resorted to equity investments in regional organizations or "targeted" investments in national organizations to meet investment performance goals. Some institutions have also utilized qualified mortgage-backed securities and certificates of deposit in community development financial institutions.

In the course of our performance context research, we did not identify any adverse comments regarding local banks' responsiveness to area credit needs or participation with community development initiatives. TNB has not received any CRA complaints over the evaluation period.

## Conclusions About Performance

### Summary

- TNB had an adequate level of community development activities over the evaluation period. The level of qualified investments is particularly good at \$41 million, \$398 thousand of which directly benefited the Sioux Falls MSA.
- The bank's community development activities occasionally involve innovative or complex characteristics. Notable activities include partnerships formed to address community needs for childcare and self-sufficiency loans for low- and moderate-income families.
- Bank activities are responsive to identified needs - in particular, social services for economically disadvantaged individuals and affordable housing.

### Qualified Investments

TNB's qualified investments totaled \$398,267 inside the Sioux Falls MSA and \$40.4 million outside this area over the evaluation period. Almost all investments were charitable grants (\$40.6 million or 99%). Table 3 summarizes the bank's investment activity.

**Table 3: Qualified Investment Activity**

	<b>Benefits Assessment Area</b>	<b>Outside Assessment Area</b>	<b>Totals</b>
<b>Originated Investments</b>	\$100,000	\$0	\$100,000
<b>Originated Grants</b>	\$128,267	\$40,435,913	\$40,564,180
<b>Prior-Period Investments that Remain Outstanding</b>	\$170,000	\$0	\$170,000
<b>Total Qualified Investments</b>	\$398,267	\$40,435,913	\$40,834,180

The bank's level of investments is good in light of the unique nature of its operations and financial capacity. Table 4 shows qualified investments as a percentage of various financial capacity indicators.

**Table 4: Qualified Investment Percentages**

	<b>Benefits Assessment Area (%)</b>	<b>Outside Assessment Area (%)</b>	<b>Total (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	0.62%	62.92%	63.54%
<b>Total Investments/Average Total Income</b>	0.15%	14.97%	15.12%
<b>Total Investments/Average Pass-Through Receivables</b>	0.01%	0.81%	0.82%

The following examples illustrate the bank's most significant community development investments and grants in the Sioux Falls MSA.

- TNB continues to have a \$75 thousand investment in the Sioux Falls Community Development Corporation (CDC). This innovative, cooperative effort of TNB and six other local banks originated in 1998 to address a community need for affordable, quality childcare. The lack of adequate childcare presented a barrier to self-sufficiency and often contributed to high unemployment among low-income families. The bank's investment represents approximately 10% of the CDC's capital (six investors contributed \$75 thousand each, with the remainder funded by the lead bank). Contributions helped finance the construction of a multi-purpose facility, which is used by Inter-Lakes Community Action, Inc. (a community action agency) to provide comprehensive child development services to low-income children, including childcare, Head Start, and Early Head Start. The programs serve up to 72 low-income children at a time.
- The bank continues to have a \$70 thousand investment in the Self-Help Loan Fund, a low-interest loan pool for low-income individuals. TNB partnered with another local financial institution and the local Consumer Credit Counseling Services (CCCS) organization to initiate this program in 1996. The program is designed to meet small loan needs of low-income individuals who are unable to obtain traditional bank financing. Borrowers can obtain up to \$2 thousand for such items as used car purchases, auto repairs, moving expenses and work-related necessities. During this evaluation period, the pool funded 74 loans totaling \$100 thousand. In addition, the bank splits the program's administrative costs with the other financial institution to help ensure the ongoing viability of the program. TNB provided approximately \$10 thousand to cover these administrative costs over this evaluation period.
- TNB continues to have a \$25 thousand investment in the Downtown Economic Development Incentive Fund (DEDIF). The DEDIF is a loan pool that provides low-interest loans to downtown business and property owners in an effort to revitalize downtown Sioux Falls, a moderate-income area. These loans provide gap financing for projects to make them financially feasible for both the borrower and the lender. Over the evaluation period, DEDIF originated approximately 51 loans totaling \$1.4 million – all to small businesses.
- In 2004, the bank purchased a \$100 thousand South Dakota Housing Development Authority (SDHDA) Homeownership Mortgage Bond. The bond supports affordable housing opportunities in South Dakota, primarily for first-time low- and moderate-income homebuyers.
- Over the evaluation period, the bank made four donations totaling \$50 thousand to the local Habitat for Humanity. These monies help defray the costs of building homes for low- and moderate-income families in Sioux Falls.
- TNB also made seven grants totaling more than \$31 thousand to Heartland House, a 15-unit apartment complex that provides transitional housing for homeless families with children.

- In addition to the previous investments and grants, the bank provided \$37 thousand to other organizations that serve Sioux Falls or a larger regional area. The contributions primarily facilitated social services for people in need.

Most contributions outside the Sioux Falls MSA (\$22 million or 54%) are grants to non-profit consumer credit counseling agencies throughout the United States. Credit counseling agencies provide financial education and debt management counseling assistance to borrowers who are delinquent in their payments, and/or at risk of going into default, on their consumer loans (including credit cards). TNB provides funding to these agencies, in the form of fair share grants, for assisting its customers with financial difficulties.

Other contributions outside the Sioux Falls MSA primarily supported emergency food and shelter services, provided school supplies and educational opportunities for economically disadvantaged children, and facilitated affordable housing for low- and moderate-income families.

### **Community Development Lending**

TNB may not engage in community development lending due to CEBA banking constraints. The bank did not submit any lending activity by affiliates for consideration.

### **Community Development Services**

TNB provided two examples of community development service activities over the evaluation period - both involve providing technical expertise (as Board or committee members) to organizations that promote social services for low- and moderate-income families:

- A bank officer serves as Board member for the Sioux Falls Community Development Corporation.
- A bank officer serves on the loan committee for the Self Help Loan Fund.

## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices.



## 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 with 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)** – A geographic area that consists 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.

**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.

**Block Numbering Area (BNA)** – Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

**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 corporation becoming subject to the limitations of a "bank holding company" 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 \$100,000 (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 10-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.

**Geography** – A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**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 and for which a designation as limited purpose bank is in effect.

**Median Family Income (MFI)** – The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

**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.

**Net Operating Income** – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, "PreTax Operating Income (TE)"*]

**Pass-Through Receivables** – Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8. [*If not already reported to the OCC, the bank provides this information.*]

**Primary Metropolitan Statistical Area (PMSA)** - Area defined by the director of the United States Office of Management and Budget. A PMSA may exist in an MSA which has more than one million persons. PMSAs consist of a large urbanized county or cluster of counties that demonstrate very strong internal, economic and social links.

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

**Tier 1 Capital** – The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, "Net Tier One".*]

**Total Assets** – Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, "Total Assets".*]

**Total Income** – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, "Total Interest Income" and "Noninterest Income".*]