



Comptroller of the Currency
Administrator of National Banks

Limited Purpose

Public Disclosure

November 22, 1999

Community Reinvestment Act Performance Evaluation

**Retailers National Bank
Charter Number 22549**

**3901 West 53rd Street
Sioux Falls, South Dakota 57106**

**Office of the Comptroller of the Currency
District Office
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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 **Retailers National Bank, Sioux Falls, South Dakota**, prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **November 22, 1999**. 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 C.F.R. 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) - A geographic area which 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 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 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. A limited-purpose institution continues to meet the narrow product line requirement if it only infrequently provides other types of loans.

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 that is 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.

Low-Income Family or Geography - An income level that is less than 50% of the MFI.

Moderate-Income Family or Geography - An income level that is at least 50% and less than 80% of the MFI.

Middle-Income Family or Geography - An income level that is at least 80% and less than 120% of the MFI.

Upper-Income Family or Geography - 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 defined by the Consolidated Report of Condition and Income, income before adjusting for extraordinary items.

Pass Through Receivables - Outstanding receivables tied to all accounts issued or owned by the bank regardless of the balances of those receivables being carried on the bank's books or sold to another entity.

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.

Total Assets - Total bank assets as defined by the Consolidated Report of Condition and Income.

Total Income - From the Consolidated Report of Condition and Income -- Interest income plus noninterest income.

Scope of the Examination

We reviewed Retailers National Bank's (RNB) Community Reinvestment Act (CRA) activities from May 16, 1996 through November 22, 1999. Since RNB is a limited purpose bank, we evaluated its CRA performance under the community development test. RNB provided qualified investments and community development service activities for consideration under the community development test of the CRA. At the bank's option, we also considered community development grants which the bank's affiliates made during the evaluation period. RNB's affiliates include: Dayton Hudson Corporation (DHC); its foundation, Dayton Hudson Foundation; and its retail store affiliates, Dayton's, Hudson's, Marshall Field's, Mervyn's and Target. The OCC assigned a rating of "Satisfactory" for the bank's CRA performance at the last CRA evaluation, May 16, 1996.

Institution's CRA rating:

This institution is rated "Outstanding."

The major characteristics that support this rating are:

- RNB and its affiliates provided a high level of community development activities during this evaluation period, particularly qualified investments and community development services that were not routinely provided by private investors in the Sioux Falls Assessment Area (AA). RNB adequately addressed the community development needs within its AA, which allowed consideration of its affiliates' activities outside the AA. The bank's performance, coupled with the significant level of qualified grants from its affiliates, resulted in strong CRA performance.
- The bank demonstrated occasional use of innovative qualified investments and community development services.
- The bank demonstrated excellent responsiveness to community development needs in its Sioux Falls AA.

Description of Institution

RNB is a credit card bank chartered under the Competitive Equality Banking Act of 1987 (CEBA). As a CEBA-chartered bank, RNB can maintain only one office and its banking operations are restricted to credit card activities. The bank can not accept savings or time

deposits of less than \$100 thousand and can not engage in lending activities other than credit card lending. These restrictions preclude the bank from participating in traditional lending activities to assist in meeting the credit needs of its assessment area. No other legal or financial impediments preclude the bank from meeting its obligations under the CRA. The OCC approved the bank's request for a limited purpose CRA designation effective April 16, 1996.

RNB's sole office is located in Sioux Falls, South Dakota. The bank is a wholly owned subsidiary of Dayton Hudson Corporation (DHC), headquartered in Minneapolis, Minnesota. DHC is the nation's fourth largest merchandise retailer with over one thousand stores and total sales exceeding \$30 billion in 1998. DHC's operating companies include Dayton's, Hudson's, Marshall Field's, Mervyn's and Target.

RNB issues proprietary credit cards for customers of DHC's retail stores. The bank has over 12 million active cardholders throughout the U.S., with balances outstanding of \$2.2 billion as of September 30, 1999. Most of the cardholders reside in the states of California, Illinois, Michigan, Minnesota and Texas, where the greatest concentration of retail stores are located.

RNB has approximately 182 employees, including a seven-member management team, who work out of the Sioux Falls location. The bank performs limited credit card operations out of its Sioux Falls location. DHC and other subsidiaries provide data processing and operational support for the bank. As of September 30, 1999, RNB reported total assets of \$113 million. The bank's asset size is small relative to its credit card receivables. RNB retains only two percent of the credit card receivables and sells the remaining 98 percent to Dayton Hudson Receivables Corporation on a daily basis. Table 1 details the bank's pertinent financial information.

Table 1: Financial Information (000s)

	Year-end 1997	Year-end 1998	Most Recent Quarter-end September 30, 1999	Average for Evaluation Period
Tier 1 Capital	\$38,580	\$33,279	\$40,486	\$37,448
Total Income	\$144,893	\$155,584	*\$148,753	\$149,743
Net Operating Income	\$7,900	\$15,948	*\$9,609	\$11,152
Total Assets	\$149,203	\$128,193	\$112,815	\$130,070
Pass Through Receivables	\$2,580,600	\$2,638,650	\$2,238,500	\$2,485,917

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

* Annualized data reported.

Description of Assessment Area

RNB designated the entire Sioux Falls, South Dakota Metropolitan Statistical Area (MSA) #7760 as its assessment area (AA). The CRA requires the bank to define an AA that includes its branch facility. The AA surrounds the bank's sole banking facility and complies with the regulatory

requirements of the CRA. The Sioux Falls MSA consists of two counties, Minnehaha and Lincoln. The AA consists of 33 census tracts, of which 79 percent are middle- and upper-income. There are only seven moderate-income census tracts and no low-income census tracts. Per the 1990 U. S. Census, 36 percent of the families in the MSA were considered low- or moderate-income and only five percent of all families live below poverty. The 1999 updated HUD Median Family Income for the Sioux Falls MSA is \$49,600. Refer to Table 2 for other demographic data.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
CTs	33	0%	21%	58%	21%
Families	36,631	16%	20%	28%	36%
Small Businesses*	4,862	0%	32%	57%	11%

Source: Demographic Data - 1990 U.S. Census, June 1999 Dun & Bradstreet Data

*Includes businesses with annual revenues of \$1 million or less.

Sioux Falls is the most populous city in the state of South Dakota with approximately 115 thousand residents. The city accounts for over 20 percent of the state’s population. Sioux Falls serves as the regional provider of medical and retail services for the surrounding rural communities. It is the largest retail center between Denver and Minneapolis/St. Paul.

Sioux Falls’ economy remains strong. The unemployment rate is well below both the state and national averages. Preliminary data for October 1999 from the Department of Labor indicated the unemployment rate for the Sioux Falls MSA was 1.4 percent, compared to 2.7 percent for South Dakota and 4.1 percent for the U.S. The employment base is diverse with health care, retail trade and financial services providing significant employment for the area. Major employers include: Sioux Valley and Avera McKennan Hospitals, Citibank, John Morrell (meatpacking), and the Sioux Falls Public Schools.

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. 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. This includes 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; Axsys National Bank, formerly Fingerhut National Bank; and RNB.

All of 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 by traditional lending

activities. 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 recent community contacts the OCC and other bank regulators conducted in the AA. 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. These 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 About Performance

Summary

- RNB and its affiliates provided a high level of community development activities during this evaluation period. RNB's level of community development activities in its Sioux Falls AA was adequate based on the bank's financial capacity, local resources and the competition for community development opportunities in its AA. RNB significantly increased its level of qualified investments that benefit the AA since the last evaluation. Based on CRA Performance Evaluations of other limited purpose institutions in the AA, the bank's level of investments and community development services was comparable to those banks that have similar resources dedicated to the AA.

In addition, RNB affiliates' CRA-related activities enhanced the bank's CRA performance. The bank's affiliates provided a significant level of qualified community development grants in areas outside the bank's immediate AA, but within the state of South Dakota and in Minnesota where the parent company is headquartered. These grants demonstrated a strong commitment by the parent company to provide financial assistance to programs that help improve the quality of life of disadvantaged youths and families.

- RNB and its affiliates occasionally made investments or provided services that were innovative. The bank provided considerable support for two new community development initiatives in the Sioux Falls AA. The bank partnered with another local financial institution and a community development organization to develop a new medium for providing small loans to low-income individuals who could not otherwise obtain credit. RNB also provided a capital contribution and ongoing technical support to a new Community Development Corporation (CDC) formed by seven local banks to provide affordable childcare for low-

income families. These efforts showed initiative and the willingness to pool resources, financial and technical, with other entities to meet community development needs.

- RNB showed excellent responsiveness to the community development needs in its Sioux Falls AA. The bank participated in community development initiatives that addressed critical issues faced by low-income individuals in the AA, including childcare and the inability of low- and moderate-income (LMI) individuals to obtain small loans through traditional sources.

Consideration of Activities that Benefit Areas Outside of the Bank’s Assessment Area

RNB adequately addressed the needs of its assessment area. Therefore, we considered CRA activities benefiting areas outside the bank’s AA. This is permissible when regulators evaluate the CRA performance of limited purpose institutions.

Qualified Investments

During the evaluation period, the bank provided qualified community development investments of \$416 thousand that benefited the Sioux Falls AA. This is a significant increase over the \$20 thousand investments and grants provided during the prior two-year evaluation period. In addition, the bank’s affiliates provided approximately \$16 million in grants which benefited community development initiatives in the larger statewide area of South Dakota and the state of Minnesota, where the bank’s parent company is headquartered. Table 3 shows the amount of the bank’s qualified investment activities that benefited its AA and other investments via the bank and its affiliates that benefited areas outside the AA. Table 4 shows the financial contributions in relation to RNB’s financial information.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$294	\$0	\$294
Originated Grants	\$122	\$15,817	\$15,939
Prior Period Investments	\$0	\$0	\$0
Totals	\$416	\$15,817	\$16,233

Table 4: Qualified Investment Percentages (000s)

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	1.11%	42.24%	43.35%
Total Investments/Average Total Income	.28%	10.56%	10.84%

Total Investments/Average Receivables	.02%	.64%	.66%
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The following examples illustrate the most significant community development investments and grants RNB and its affiliates provided that benefit the Sioux Falls AA or the greater statewide area which includes the AA.

- a \$75 thousand investment in the Sioux Falls Community Development Corporation (CDC), an innovative, cooperative effort of RNB and six other local banks. In 1998, RNB partnered with six other banks to form the CDC and address the need for affordable, quality childcare for low-income families. Lack of adequate childcare presented a barrier to self-sufficiency and often contributed to high unemployment among low-income families. The bank’s \$75 thousand investment represented approximately 10 percent of the capital contributions to the CDC. Six investors contributed \$75 thousand with the remainder funded by the lead bank. The contributions helped finance the construction of a multi-purpose facility which is used by Inter-Lakes Community Action, Inc. (ICAP), a Community Action Agency. ICAP provides comprehensive child development services, including childcare, Head Start, and Early Head Start, to low-income children. Up to 72 low-income children can be served through the programs. There has been a 75 percent decline in job absenteeism among low-income parents using the facility according to ICAP sources.

- a \$70 thousand investment for the development of the Self-Help Loan Fund, a low-interest loan pool for low-income individuals. This program was designed to meet the small loan needs of low-income individuals who are unable to obtain traditional bank financing. RNB partnered with another local financial institution and the local Consumer Credit Counseling Services (CCCS) organization to initiate this program in 1996. The loan pool provides low-interest loans up to \$2 thousand to qualified individuals who are striving for self-sufficiency. Borrowers use these loans for items such as used car purchases, auto repairs, moving expenses and work-related necessities. Since inception, the loan pool has provided 70 loans totaling over \$78 thousand. In addition, RNB helps ensure the continued viability of the program by splitting the costs of the ongoing administration of the program with the other financial institution. To date, RNB has provided \$14,293 in grants to cover these ongoing administrative costs.

- 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. As of July 1999, DEDIF had made 28 loans totaling over \$655 thousand.

- \$110 thousand representing the purchase of portions of two South Dakota Housing Development Authority (SDHDA) Homeownership Mortgage Bonds. These bonds supported efforts to provide affordable housing opportunities for primarily LMI first-time

homebuyers in South Dakota. Proceeds from the sale of the bonds were used to purchase the mortgages from participating lenders.

- \$40 thousand in annual grants to the local Habitat for Humanity. These monies were used to defray the costs of building homes for LMI families in Sioux Falls.
- \$19 thousand in annual contributions to Heartland House, a 15-unit apartment complex that provides transitional housing for homeless families with children. Opened in March 1996, this program is the only known program of its kind in South Dakota. RNB's contribution covered rent for two apartments in both 1997 and 1998 and the bank increased its contribution in 1999 to cover additional units.

In addition to the previous investments and grants, RNB also provided approximately \$5 thousand in financial support to five other community organizations in Sioux Falls. These contributions helped the organizations provide food, shelter, clothing, counseling, debt management and educational programs to low-income individuals.

Dayton Hudson Corporation, its Foundation, and operating companies provided significant financial support to other community organizations that primarily serve to enhance the lives of economically disadvantaged individuals in South Dakota and Minnesota. During this evaluation period, DHC affiliates provided an additional \$15.8 million in qualified community development grants to approximately 20 organizations in the greater South Dakota area and over 150 organizations in Minnesota. These grants provided financial assistance to further efforts of these organizations to provide vital services for LMI individuals. These services included housing, food, counseling, social and legal services. Several grants also furthered economic development initiatives, including redevelopment and revitalization of LMI areas.

Community Development Services

RNB provided three examples of community development services its employees provided during the evaluation period. The first two examples, in particular, demonstrate management's willingness to participate and provide assistance for developing new community development initiatives that have ultimately benefited the economically disadvantaged individuals of the bank's AA.

- A bank officer provided technical assistance in forming the Sioux Falls CDC and in the development of its first project, the childcare facility for low-income families. A bank officer has provided financial expertise on an ongoing basis to the CDC as a Board member.
- A bank officer served on the loan committee for the low-interest loan pool program for low-income individuals. He also contributed his expertise in reviewing and approving the loan application and underwriting standards for this program.
- A bank officer provided his financial expertise to the Allocations Division of the United

Way, specifically providing assistance to determine subsidies for local childcare facilities.

Compliance with Anti-Discrimination Laws and Regulations

We identified no violations of the substantive provisions of the anti-discrimination laws and regulations. We performed a comparative analysis of recent individual applicants for Target Instant Credit. We determined whether credit decisions were consistently made regardless of gender by comparing the treatment given denied female applicants to that given approved male applicants. We found no evidence of discriminatory practices or disparate treatment.