

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 the 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 BANKFIRST, Sioux Falls, South Dakota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of February 2, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Needs to Improve."

The bank's CRA performance was evaluated using the small bank CRA evaluation procedures adopted in November 1995. The primary factor considered in rating the bank's overall CRA performance was the percentage of loans made inside its two assessment areas compared with the percentage of loans made outside its two assessment areas. Specifically, the bank makes the vast majority of its loans outside its assessment areas despite indications of strong credit demand in the assessment areas. This pattern results from the bank's heavy emphasis on its national credit card program as the primary loan product. Based on December 31, 1997, Report of Condition ("ROC") information, credit card loans constitute 73% of the total assets in the bank's loan portfolio. Although the credit card program is by far the dominant loan product, the bank has not sought designation as a limited purpose bank nor has it sought to meet its obligations under CRA through activities that would meet the community development test applied to limited purpose banks. Of the large number of credit card loans sampled, the bank did not originate any within its assessment areas. Moreover, the evaluation revealed very limited activity in consumer and commercial loans in the Sioux Falls assessment area. The bank operates in an area with a strong economy and apparent high demand for credit. As such, the bank's lack of lending in its assessment areas is not reasonable.

Because of the very low lending levels in the assessment areas, Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes and the Geographic Distribution of Loans categories were accorded minimal weight in the evaluation. Performance in these categories is measured using loan activity that occurs within an assessment area. Loans from outside the assessment area may be evaluated in these categories only if a financial institution has adequately served assessment area borrowers. Although the bank's loan-to-deposit ratio meets satisfactory standards, it is only an initial indicator of loan performance. The bank's level of lending in its assessment areas is given significantly more weight in evaluating the bank's performance in meeting community credit needs.

DESCRIPTION OF INSTITUTION

This is the bank's first evaluation since it became a member of the Federal Reserve System ("FRS") on March 31, 1997. The bank received a satisfactory CRA rating from the Office of the Comptroller of the Currency as a result of the evaluation performed on April 8, 1996. Since the previous evaluation, the bank has focused its growth on a national credit card program.

The bank operates three full-service offices. Its main office is located in Sioux Falls. The branch offices are located in Brookings, South Dakota, approximately 50 miles north of Sioux Falls, and Toronto, South Dakota, approximately 25 miles northeast of Brookings. The bank owns one automated teller machine ("ATM"), which is located at the main office in Sioux Falls. Based on the location of the bank's offices and its lending territories, the bank has defined two assessment areas for the purposes of CRA. The Sioux Falls assessment area includes the counties of Lincoln and Minnehaha and follows the boundaries of the Sioux Falls metropolitan statistical area ("MSA"). The Brookings-Toronto assessment area includes the following counties: Brookings, Codington, Deuel, Grant, Hamlin, Kingsbury, Lake, McCook, and Moody.

According to the December 31, 1997, ROC, the bank's assets totaled \$122 million. The bank experienced tremendous growth in 1997. The March 31, 1997, ROC indicated that the bank's total assets were \$85 million. Bank management attributes this growth to its credit card portfolio. The bank has two areas of lending operations. The first area involves more common types of lending, such as closed-end consumer loans, generated by the branches in the two assessment areas; this is referred to as core bank operations. The second area is the credit card loan program. According to ROC data, consumer loans have more than doubled since the bank became an FRS member. Specifically, credit card loans increased 166%, or \$32,063M, in this time period. As of December 31, 1997, all consumer loans represented 75.2% of the portfolio, as compared with 43.7% as of March 31, 1997. Deposits have also shown a substantial increase for the time period. Total deposits grew from \$69.9 million in March 1997 to \$94.8 million in December 1997. Deposit growth has been concentrated in money market savings accounts and certificates of deposit. While the bank has advertised its deposit products nationally, the majority of the bank's deposits still come from within its two assessment areas.

The December 31, 1997, ROC data reflect the bank's growing consumer loan portfolio. It is composed of 75.2% consumer, 10.4% agricultural, 6.9% residential real estate, 4.5% commercial, and 3% other loans. The bank's credit card portfolio comprises almost all of the bank's consumer lending. As of December 31, 1997, credit cards were approximately 73% of the total loan portfolio. According to bank management, the bank's credit card products are offered on a national basis and are not specifically directed toward customers in the bank's assessment areas. In June 1997, the bank began offering a preapproved credit card product through a national marketing program. The credit cards are directed toward individuals who are trying to reestablish credit, and the majority of the cards have credit lines of \$350 or less. Since the bank moved to the preapproved card program, the volume of new cards issued has been substantial, although very few have been originated in the bank's assessment areas. Although the bank provides take-one credit card applications in its office lobbies, it does not make its preapproved credit card product available to core bank customers. In general, the bank's preapproved credit cards constitute the predominant credit card product offered and promoted by the bank.

The bank is not an active lender in the residential real estate market. The bank is involved with government-guaranteed loans for commercial and agricultural purposes. It has been a participant in Farm Service Agency and Small Business Administration loan programs. In addition to its commercial and agricultural loan products, the bank also offers loans for general consumer purposes. The bank also offers home equity and overdraft checking lines of credit. There are no apparent factors relating to the bank's

financial condition and size or local economic conditions that prevent the bank from meeting the credit needs of the assessment areas.

DESCRIPTION OF BANKFIRST'S ASSESSMENT AREAS

The bank's two separate assessment areas include the cities and surrounding areas of Brookings, Toronto, and Sioux Falls. The bank's combined assessment area consists of 33 census tracts and 24 block numbering areas ("BNA"). According to 1990 U. S. Census data, the combined assessment area has a population of 233,679. Approximately 27% of the population is under the age of 17, 59% is between the ages of 18 and 64, and 14% of the population is over the age of 65. There are no low-income census tracts or BNAs in either assessment area. The moderate-income tracts are located in the Sioux Falls assessment area. Census data indicates that for the combined assessment areas, approximately 10% of the population lives in moderate-income tracts, 71% lives in middle-income tracts or BNAs, and 19% lives in the upper-income tracts or BNAs. Of the 88,906 households in the assessment areas, 21% are classified as low income, 17% are moderate income, 21% are middle income, and 41% are upper income. According to census data, there are 61,048 families in the assessment areas, 16% of which are classified as low income, 19% of which are moderate income, 27% of which are middle income, and 39% of which are upper income. (This number totals more than 100% as a result of rounding.) Economic conditions in the combined assessment areas are strong. Unemployment is at historically low levels, especially in Brookings and Sioux Falls. Each assessment area will be discussed in detail in later sections of the evaluation.

The Sioux Falls assessment area, which contains the bank's main office, is substantially larger than the Brookings assessment area. While 59.5% of the combined population resides in the MSA assessment area according to the 1990 census, 5,062 (64%) of the 7,886 business establishments in the assessment area as reported in 1994 county business pattern data are located in the MSA. In the Brookings assessment area, the bank has made the vast majority of its loans in two counties, Brookings and Deuel, which account for 12.7% of the combined assessment areas' population and 9.4% of the total business establishments.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment areas is rated needs to improve. This evaluation is based on a review of the bank's CRA performance in the two assessment areas. The analysis on the following pages was based on a combined statistical sample of 108 consumer, 107 commercial/agricultural, and 200 credit card loans. The consumer and commercial/agricultural loans were originated since the bank's FRS membership date of March 31, 1997. During this time, the bank made 236 noncredit card consumer loans and 229 commercial/agricultural loans. The credit card loans represent a sample of the 30,404 loans originated within the six months preceding the evaluation. Of the 415 loans statistically sampled, only 7% were originated in the Sioux Falls assessment area, and only 38% were originated in the Brookings-Toronto assessment area. Based on financial data provided by the bank, the branches in the Brookings-Toronto assessment area hold the majority of the bank's core loans. The following table shows the percentages of the loans sampled in each assessment area by loan category.

Assessment Area	Core Bank Consumer Loans	Commercial/ Agricultural Loans	Credit Card Loans
Sioux Falls	12%	17%	0%
Brookings-Toronto	88%	83%	0%

The criteria discussed below were reviewed in determining the bank's overall rating. As mentioned previously, the bank's credit card loan portfolio comprises 73% of the bank's total loan portfolio; however, almost all such loans are originated outside the bank's assessment areas. The bank does not actively market its credit card product to residents of its two assessment areas. The regulation states the bank is evaluated on its performance in meeting the credit needs of residents of the defined assessment areas. As such, the bank's overall lending in its assessment areas is not satisfactory because the bank makes the vast majority of its loans outside its assessment areas. This factor is given the most weight in evaluating the bank's overall CRA rating. The borrower income and business size and geographic distribution categories evaluate only loans made in the assessment area. Because the bank makes most of its loans outside its assessment areas, these lending categories have minimal weight on the overall rating. Of the two assessment areas being evaluated, the bank makes the majority of its core loans in the Brookings-Toronto assessment area. However, these loans are largely made in only two of the nine counties included in the assessment area. Moreover, the bank's main office is located in Sioux Falls which contains over one-half the population and nearly two-thirds of the business establishments in the combined assessment areas. In light of the location of the bank's loans, the strong economy in both assessment areas, and the predominance of opportunities in the Sioux Falls assessment area, equal emphasis is placed on the bank's lending in both assessment areas.

OVERALL INSTITUTION ANALYSIS

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's overall net loan-to-deposit ratio meets the standards for satisfactory performance. The quarterly average net-loan-to-deposit ratio is 66% for the four quarters since the bank's membership date. The following table illustrates the bank's dramatic growth since March 31, 1997.

Date	Net Loans (in thousands)	Deposits (in thousands)	Net Loan-to- Deposit Ratio
December 31, 1997	\$64,913	\$94,794	68.5%
September 30, 1997	\$61,311	\$86,455	70.9%
June 30, 1997	\$47,482	\$78,175	60.7%
March 31, 1997	\$44,536	\$69,875	63.7%

All of the bank's growth in the loan portfolio has been concentrated in credit cards. Lending in agricultural and commercial loans decreased over the four quarters. Part of the decrease in these categories is attributed to loan participations that were sold to the bank's affiliate in Minnesota. Bank management stated that loan growth has been funded by the growth in deposits. According to the September 30, 1997, Uniform Bank Performance Report ("UBPR"), the bank's net loan-to-deposit ratio of 70.9% was below the peer average of 72.2%, which places it in the 46th percentile.

The following chart lists the bank's total assets and quarterly average loan-to-deposit ratios in comparison with some competitor financial institutions located in the bank's two assessment areas.

Bank And Location	Total Assets (December 31, 1997) (in thousands)	Quarterly Average Net Loan-To-Deposit Ratio
BANKFIRST Sioux Falls, South Dakota	\$122,470	66%
First PREMIER Bank Sioux Falls, South Dakota	\$338,894	78%
The First National Bank in Sioux Falls Sioux Falls, South Dakota	\$469,621	71%
Marquette Bank South Dakota, National Association Sioux Falls, South Dakota	\$563,235	72%
Founders Trust National Bank Sioux Falls, South Dakota	\$33,393	80%
First National Bank in Brookings Brookings, South Dakota	\$362,144	87%
Deuel County National Bank Clear Lake, South Dakota	\$48,373	61%
Farmers State Bank Flandreau, South Dakota	\$47,812	53%
First National Bank White, South Dakota	\$24,367	68%

The bank's loan-to-deposit ratio is at the low end of the range when compared with these competitor banks located in the two assessment areas. It is significantly lower than banks with total assets greater than \$300 million. The Sioux Falls and Brookings areas are very competitive banking markets. There are a number of subsidiary operations of large commercial banks located in Sioux Falls. Financial information is not available on the branch operations of these banks. In addition, the information that is available for some of the superregional competitors does not offer meaningful comparisons for the bank because they maintain very large credit card subsidiary operations in the Sioux Falls assessment area. Included in these operations are limited-purpose credit card banks. These banks do not offer any retail banking services. As a result, some of these competitors have loan-to-deposit ratios that exceed 100%. Community contacts for each assessment area did not indicate that loan demand was low or that the area was "overbanked." Competition is intense; however, the strong economy and generally high loan-to-deposit ratios in the region indicate that there are ample lending opportunities in the area. The bank's loan-to-deposit ratio is reasonable when compared with the ratios of other area lenders. However, the bank's overall lending levels do not compensate for the fact that the bank makes most of its loans outside the assessment areas, as will be discussed next.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its combined assessment areas does not meet the standards for satisfactory performance and, as a result, this CRA lending category is rated needs to improve. In general, the bank makes the vast majority of its loans outside the assessment areas. As mentioned in the Description of the Institution section, approximately 73% of the bank's loan portfolio consists of credit card loans. Of the 200 credit card loans statistically sampled during the evaluation, none were originated within the bank's combined assessment areas. Further, of the 30,404 loans originated in the six months

preceding the evaluation, only .13% were originated within all of South Dakota. Bank management confirmed that it does not actively market the bank's preapproved credit card to residents of its assessment areas. Customers are unable to request this product at any of the branch office locations.

The bank's low level of lending in its assessment areas is not satisfactory, particularly considering economic and credit demand issues. In general, community contacts described the economies of both assessment areas as strong. As discussed in the Description of BANKFIRST's Assessment Areas, both of the bank's assessment areas have historically low unemployment levels. The Sioux Falls area has an unemployment rate of about 1.4%; Brookings County has a similar unemployment rate. Credit demand in both assessment areas is also strong. The competitor loan-to-deposit ratio data discussed in the Overall Institution Loan-to-Deposit Ratio Analysis section show that the majority of assessment area banks analyzed had loan-to-deposit ratios that exceeded 70%. The primary competitor in Brookings had a loan-to-deposit ratio of 87%. The Sioux Falls banks with activities heavily concentrated in that area had loan-to-deposit ratios of 78% and 80%. Although these ratios do not exclusively show the level of local lending activity, the ratios generally indicate strong credit demand in both assessment areas.

In general, lending in South Dakota is strong. According to the September 30, 1997, UBPR, all insured commercial banks in South Dakota had an average net loans-to-assets ratio of 63%. Such a ratio indicates that ample lending opportunities exist in the state. The bank's assessment areas encompass two of the state's strongest economic areas. Given the areas' strong economies and strong demand for credit, the bank's lack of loans in its assessment areas is not satisfactory. These issues will be discussed further in the subsequent analysis of the bank's lending patterns in the individual assessment areas.

The majority of core bank loans are originated within the assessment areas. The following table shows the percentages of loans within the bank's combined assessment areas for each sampled category by total number and dollar amount.

PERCENTAGE OF LOANS ORIGINATED IN THE ASSESSMENT AREAS		
Product Lines	Total Number of Loans	Total Amount of Loans
Credit Cards	0	0
Commercial/Agricultural	84	94
Consumer	89	82

Although the bank makes most of its core loans in its assessment areas, it makes virtually no credit card loans in its assessment areas. Because credit card loans constitute almost three-fourths of the bank's loan portfolio, the bank makes most of its loans outside the assessment areas. Both assessment areas have strong economies and strong credit demand. Although the bank's primary product line is a national credit card program, it has not sought designation as a limited purpose bank. Such a designation would result in different procedures being used to evaluate the bank's CRA performance. These procedures focus on reviewing the level of qualified community development loans, investments, and services. A review conducted at this evaluation indicated that the bank did not engage in qualified community development activities in a manner calculated to meet CRA requirements. Rather, the evaluation revealed only one commitment for a \$30M grant that meets the definition of community development. Accordingly, there are no factors compensating for the low level of loans in the assessment areas. Given these factors, the bank's low level of lending in the assessment areas, particularly the Sioux Falls assessment area, is not reasonable and, accordingly, a needs to improve rating is assigned.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

As discussed in detail for each of the bank’s assessment areas, the distribution of loans to borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance. As discussed previously, however, this category has little weight in the overall CRA performance rating. The table on the following page reflects the combined percentages of loans originated to low-, moderate-, middle-, and upper-income assessment area borrowers in the CRA loan sample.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
<u>Consumer</u>				
Total Number of Loans	31%	34%	25%	10%
Total Amount of Loans	19%	27%	27%	28%
<u>Credit Cards</u>				
Total Number of Loans	0%	0%	0%	0%
Total Amount of Loans	0%	0%	0%	0%
*Income level is determined based on the 1997 median family income of \$45,700 for the Sioux Falls MSA and \$34,500 for the nonmetropolitan areas of South Dakota.				

In assessing the bank’s performance in this category, the greatest weight was placed on the consumer loans originated in the Brookings-Toronto assessment area. The number of consumer loans originated in the Sioux Falls assessment area for the sample period is minimal and therefore not large enough to draw conclusions about the bank’s performance in that assessment area.

The bank actively extends loans to small businesses and small farms in the Brookings assessment area. As with the consumer loans, the bank makes few small business loans in the Sioux Falls assessment area. As the above chart shows, the bank made no credit card loans in the assessment areas.

Additional detail about the bank’s assessment areas as well as the bank’s lending to borrowers of different income levels and to small businesses and small farms is provided in the discussion of the bank’s operations in its metropolitan and nonmetropolitan assessment areas on the following pages of this evaluation.

GEOGRAPHIC DISTRIBUTION OF LOANS

As discussed in more detail for each of the bank’s assessment areas, the distribution of the bank’s loans throughout its assessment areas is reasonable and meets the standards for satisfactory performance. As discussed previously, however, this category has little weight in the overall CRA performance rating. The census tracts and BNAs that comprise the bank’s assessment areas are classified as moderate, middle and upper income. The assessment areas do not include any low-income census tracts or BNAs. The following table illustrates the combined geographic distribution percentages of the loans in the CRA sample in the two assessment areas.

Loan Type	Moderate-Income Census Tracts	Middle-Income Census Tracts or BNAs	Upper-Income Census Tracts or BNAs
<u>Consumer</u>			
Total Number of Loans	1%	97%	2%
Total Amount of Loans	2%	92%	6%
<u>Commercial/Ag</u>			
Total Number of Loans	4%	93%	2%
Total Amount of Loans	2%	94%	5%
<u>Credit Cards</u>			
Total Number of Loans	0%	0%	0%
Total Amount of Loans	0%	0%	0%

The data in the table indicate that the bank lends in all of the different income geographies that comprise the assessment areas. However, the only moderate-income tracts are located in the Sioux Falls assessment area. In the Brookings-Toronto assessment area, two of the 24 BNAs are classified as upper income, while the remainder are classified as middle income. Because the bank made very few loans in the Sioux Falls assessment area, conclusions regarding the distribution of lending in that assessment area are not meaningful. Again, the chart indicates the lack of credit card lending in the assessment areas.

Additional detail about the bank's performance in the Sioux Falls and Brookings-Toronto assessment areas, including geographic distribution, is provided on the following pages of the evaluation.

GENERAL

The bank has not received any CRA-related complaints since the last evaluation. The evaluation did reveal violations of technical aspects of fair housing and fair lending laws and regulations. Bank management promised to establish procedures to correct each of the exceptions noted during the evaluation and to prevent their recurrence.

METROPOLITAN STATISTICAL AREA

DESCRIPTION OF BANKFIRST'S OPERATIONS IN THE SIOUX FALLS, SOUTH DAKOTA, ASSESSMENT AREA

The bank's Sioux Falls assessment area includes 33 census tracts in Minnehaha and Lincoln counties, which comprise the Sioux Falls MSA. The Sioux Falls assessment area does not contain any non-MSA census tracts. Because of the bank's size and location in the Sioux Falls MSA, it is subject to the requirements of the Home Mortgage Disclosure Act ("HMDA").

According to 1990 census data, the Sioux Falls assessment area and MSA have a total population of 139,236. Members of the community familiar with housing, small business, and economic development issues and activities in the assessment area were interviewed as part of the CRA evaluation. Community contacts stated that the economy in the Sioux Falls assessment is very strong. They stated unemployment is approximately 1.4%, and the 1997 population in the Sioux Falls MSA is approximately 159,000. Community contacts attribute this growth to the strong national and local economies. As a result, the Sioux Falls assessment area has experienced sizable job growth. Economic data provided by the Sioux Falls Development Foundation ("SFDF") shows the labor force in Minnehaha County totaled 74,228 in

1990. As of 1996, the labor force had increased to 82,910. Contacts indicated that strong employment had caused increased wages and a shortage of housing.

An affordable housing contact in Sioux Falls stated that housing prices have been increasing approximately 5% to 7% annually. Residential housing with acreage available has been increasing by approximately 10% annually. The contact stated residential real estate development has been strong all over the area, but most predominant on the eastern side of the Sioux Falls interstate bypass and in the southwest section of the city. The affordable housing contact stated that ample loan programs are available.

As a result of the strong economic growth in the Sioux Falls assessment area, community contacts stated Sioux Falls is in need of housing, especially affordable housing. Contacts indicated that the majority of developers were constructing residential homes priced around \$100,000. According to the contacts, some residential real estate developers are unwilling to construct affordable housing because they can earn a higher profit meeting the demand for higher-cost housing.

According to the 1990 U.S. Census data, 28% of the Sioux Falls assessment area's population is 17 years old or younger, 61% of the population is between 18 and 64 years old, and 12% of the population is 65 and over. The updated economic and demographic data provided by SFDF closely follow the census demographic percentages. SFDF data indicate a median age for the Sioux Falls metropolitan area of 33. Two colleges are located in the Sioux Falls assessment area: Augustana College and the University of Sioux Falls. The two institutions have a combined student population of approximately 2,650. According to SFDF economic data, the major employers in the Sioux Falls assessment area are Citibank (South Dakota) N.A., Sioux Valley Hospital, John Morrell & Company, McKennan Hospital, and the Sioux Falls public school system.

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower or geography's income level is determined relative to the MSA median family income for an MSA and the statewide nonmetropolitan median family income for non-MSA areas. Low-income individuals have incomes of less than 50% of the MSA or statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of these amounts. The regulation defines middle-income individuals as people with at least 80% but less than 120% of the median family income. Individuals with incomes of 120% or more of the MSA or statewide nonmetropolitan median family income are considered upper income. Census tracts and BNAs are classified using similar categories based on the level of the median family income in the geography. According to 1990 census data, the Sioux Falls MSA median family income was \$27,843. According to 1997 updated census data, the Sioux Falls median family income has increased to \$45,700. The updated figures are used to classify borrowers' income levels.

The Sioux Falls assessment area includes 33 census tracts in two counties. Seven of these tracts are classified as moderate income: 1, 3, 5, 7, 8, 9, and 15. They are all located in the central city sections of Sioux Falls, which is located in Minnehaha County. According to 1990 census data, the total population in the moderate-income census tracts is 24,678, which is 18% of the Sioux Falls assessment area population. Census tract 1 consists primarily of various industrial parks, the Sioux Falls airport, and a correctional facility. Census tracts 7, 8, and a portion of 5 contain the small business districts of Sioux Falls. Census tract 7 is the downtown Sioux Falls business district. The University of Sioux Falls is located in census tract 15.

Nineteen assessment area census tracts are classified as middle income. These census tracts are 2, 4.01, 4.03, 4.04, 6, 10, 11.01, 11.04, 13, 17, 18.01, 101, 102, 103, and 104 in Minnehaha County, and 101, 102,

103, and 104 located in Lincoln County. Middle-income geographies constitute the largest segment of the Sioux Falls assessment area. According to 1990 U.S. census data, the middle-income census tracts have a total population of 88,270, which is 63% of the assessment area population. Augustana College is located in census tract 13.

The remaining seven census tracts are classified as upper income. These tracts are 11.03, 12, 14, 16, 18.02, 19.01, and 19.02. The upper-income census tracts have a total population of 26,288, or 19% of the assessment area's population. The distribution of families and households by income level is shown in the table below.

	Low Income		Moderate income		Middle income		Upper income	
	#	%	#	%	#	%	#	%
Assessment Area								
Households	11,253	21.1	9,338	17.5	11,606	21.8	21,163	39.6
Families	5,740	15.7	7,213	19.7	10,450	28.5	13,228	36.1

According to 1990 census data, approximately 9% of the households and 5% of the families have incomes below the poverty level. This is significantly lower than the statewide averages for South Dakota.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA performance in the Sioux Falls assessment area is rated needs to improve. As discussed previously, the bank makes the vast majority of its loans outside its two assessment areas. The bank makes relatively few of its assessment area loans in the Sioux Falls assessment area. As previously mentioned in the overall institution analysis section, out of the 415 loans selected for the sample, only 27, or 7%, of the loans sampled were originated in the Sioux Falls assessment area.¹ The Sioux Falls assessment area sample included 12 consumer loans and 15 commercial loans. The sample period was the nine months preceding the evaluation since the bank's FRS membership date of March 31, 1997. In assigning the rating, the greatest weight was placed on the low number of the bank's total loans originated within the assessment area.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's overall loan-to-deposit ratio meets the standards for satisfactory performance. The bank's overall net loan-to-deposit ratio as of December 31, 1997, was 68.5%. As mentioned in the description of the institution section, the bank's primary focus has been the growth of the national credit card loan portfolio. Lending in agricultural and commercial loans decreased since the bank's membership date. While the bank is not an active residential real estate lender, no apparent financial or legal impediments exist that would prevent bank management from actively providing loans in this assessment area.

¹The percentage of sampled loans made in this assessment area does not represent the bank's overall lending levels in this assessment area. As discussed, the bank made none of the sampled credit card loans in its assessment areas. Because of statistical sampling techniques, these sampled credit card loans constituted only a fraction of the bank's total credit card loans originated during the sample period.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's level of lending in the Sioux Falls assessment area is nominal and does not meet the standards of satisfactory performance. Community contacts characterized local economic conditions in the Sioux Falls assessment area as very good and indicated that loan demand was strong. Aggregate data reported by banks subject to the data-reporting requirements of CRA also indicate strong loan demand. In 1996, reporting institutions originated 931 loans totaling \$76.8 million to businesses with revenues under \$1 million in the assessment area. During the same period, these lenders also made 640 loans with original balances totaling \$30.5 million to farms with revenues under \$1 million. The CRA data include loans from only the financial institutions subject to the regulation's data-reporting requirements. As such, the data reflect commercial and agricultural loans originated by financial institutions with \$250 million or more in assets or financial institutions that belong to bank holding companies with \$1 billion or more in total assets. The Sioux Falls assessment area includes a large number of other financial institutions not required to report this data. Between March 31, 1997, and the date of the evaluation, the bank extended a total of 229 commercial/agricultural loans. Only 28 of these loans were in the Sioux Falls assessment area. In addition, only 22 of the 236 consumer purpose loans were made in the MSA.

Real estate lending is also active in the Sioux Falls assessment area. In 1996, aggregate HMDA lenders made 6,249 loans in the Sioux Falls MSA. Aggregate lenders made about 1,000 more HMDA loans in the MSA in 1996 than in 1995. Eighty-four lenders originated HMDA loans in the MSA in 1996. Eight of these lenders made more than 200 HMDA loans in the MSA, which accounted for 73% of the total MSA loans. The bank does not make consumer real estate loans in the Sioux Falls area.

As discussed, the bank made only 7% of the total loans sampled during the evaluation to residents of the Sioux Falls assessment area. The bank made only 12% of the total sampled core consumer and 17% of the total sampled commercial/agricultural loans to residents of the Sioux Falls assessment area. The extremely low lending levels noted above are not reasonable given the strong demand for credit in the Sioux Falls assessment area. As discussed, community contacts indicated the area has a strong economy. Lending by other financial institutions in Sioux Falls appears to be strong based on loan-to-deposit ratio figures. In addition, aggregate CRA lenders made a significant number of small business and small farm loans in the Sioux Falls MSA in 1996. Aggregate HMDA lenders also made a significant number of real estate loans in the MSA in 1996. Given the apparent strong demand for credit in the Sioux Falls area, the bank's low level of lending in this assessment area does not meet the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

Based on the very small number of loans sampled in the Sioux Falls assessment area, it is difficult to make any substantive conclusions regarding the bank's performance in this category. While 63% of the bank's consumer loans were to low- or moderate-income borrowers, this represents only seven loans.

The bank also appears to originate the majority of its commercial loans to small businesses with gross annual revenues of \$1 million or less. All of the loans in the sample were for amounts of \$100,000 or less. Fourteen of the 15 loans in the sample were to businesses with annual revenues of less than \$1 million. The small sample size, however, makes it difficult to draw substantive conclusions regarding the bank's lending to borrowers of different incomes and businesses of different sizes in this assessment area. Accordingly, this category is not rated.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank’s loans throughout the assessment area is not rated. As previously discussed, the Sioux Falls assessment area includes 33 census tracts. Seven of the tracts are classified as moderate income, 19 are classified as middle income, and 7 are classified as upper income. There are no low-income census tracts in the assessment area.

According to 1990 census data, 18% of the assessment area’s population lives in the moderate-income tracts, 63% lives in the middle-income tracts, and 19% lives in the upper-income tracts. The following chart shows the bank’s lending within the assessment area’s census tracts based on the income level of the census tracts.

DISTRIBUTION OF LOANS IN THE SIOUX FALLS ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL			
Loan Type	Moderate-Income Census Tracts	Middle-Income Census Tracts	Upper-Income Census Tracts
<u>Consumer</u>			
Total Number of Loans	8%	75%	17%
Total Amount of Loans	13%	48%	38%
<u>Commercial</u>			
Total Number of Loans	27%	60%	13%
Total Amount of Loans	12%	53%	35%
<u>Credit Cards</u>			
Total Number of Loans	0%	0%	0%
Total Amount of Loans	0%	0%	0%

The data in the table indicate that of the small number of loans made in the Sioux Falls assessment area, the bank is willing to make loans in census tracts of different income levels. Again, because of the small sample size, it is difficult to draw substantive conclusions about the bank’s performance and, as a result, this category is not rated. There were 27 core bank loans in the sample. The bank did not have any lending activity in several tracts in the assessment area. The bank’s overall low lending levels in this assessment area make it difficult to assess the reasonableness of the bank’s loan dispersion among the assessment area’s census tracts.

NONMETROPOLITAN AREA

**DESCRIPTION OF BANKFIRST’S OPERATIONS IN THE BROOKINGS-TORONTO
ASSESSMENT AREA**

The bank’s Brookings-Toronto assessment area consists of nine counties in eastern South Dakota. The counties are generally located along Interstate Highway 29 and north of the Sioux Falls MSA. The nine counties in the assessment area are Brookings, Codington, Deuel, Grant, Hamlin, Kingsbury, Lake, McCook, and Moody. There are 24 BNAs in the assessment area, two of which are classified as upper income; the remainder are classified as middle income. According to 1990 census data, the population for the assessment area is 94,443. The most populated counties are Brookings and Codington. Both counties have a regional city as a hub: Brookings in Brookings County and Watertown in Codington County. One

of the upper-income BNAs is located within the Brookings city limits, while the other upper-income BNA is located within the Watertown city limits. The bank has branch offices in Brookings and Toronto. Toronto is a small agricultural community in Deuel County approximately 25 miles northeast of Brookings. Many of the communities within this assessment area, aside from Watertown and Brookings, serve as bedroom communities for Sioux Falls, Brookings, or Watertown, depending on the location. According to census data, 27% of the population in the assessment area lives in Brookings County, while 24% lives in Codington County.

The Flandreau Santee Sioux Indian Reservation (“Reservation”) is located in Moody County. The Reservation has no defining boundaries; the tribal lands generally surround the town of Flandreau. The economic conditions on the Reservation were described as fair to good. The Flandreau Santee Sioux Tribe (“Tribe”) operates a casino on the Reservation that employs about 400 individuals. The Tribe is the county’s largest employer. An influx of tribal members back to the Reservation has created a housing shortage on the Reservation.

A government official familiar with economic development issues in Brookings County and tribal representatives were interviewed as part of the CRA evaluation. Information received from these contacts as well as from bank management was used in evaluating the bank’s performance in this assessment area.

As previously mentioned in the Metropolitan Statistical Area section, CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower or geography’s income level is determined relative to the statewide nonmetropolitan median family income for non-MSA areas. As mentioned, the majority of BNAs in this assessment area are classified as middle income. According to 1990 census data, 82% of the population in the assessment area lives in the middle-income BNAs and 18% lives in the upper-income BNAs. The census data also reveals that the median family and household incomes for the assessment area were \$27,338 and \$21,807, respectively. According to 1997 updated census data, the statewide nonmetropolitan median family income for South Dakota increased to \$34,500. This updated figure is used to classify borrowers’ income levels.

According to 1990 census data, of the 35,546 households in the assessment area, 22% are classified as low income, 16% are classified as moderate income, 19% are classified as middle income, and 43% are classified as upper income. The income distribution of the assessment area’s families is 16% low income, 17% moderate income, 24% middle income, and 43% upper income. Approximately 15% of the households and 10% of the families have incomes below the poverty level.

Most of the discussion in this section will be centered on Brookings and Deuel counties, where the majority of the bank’s lending activity in this assessment area is centered. The city of Brookings is the home of South Dakota State University and several manufacturing companies. The economy in the Brookings area is as strong as it is in the Sioux Falls metropolitan area. A community contact noted that unemployment in Brookings County is currently 1.4%. The largest employers in Brookings are the university, Larson Manufacturing, and 3M Company. The robust economy has led to a shortage of affordable housing in the area. As in many areas, developers concentrate on building more expensive housing because of the profit margins. The contact stated that there are a number of organizations in Brookings working to address the affordable housing issue. Current projects include the development of retirement communities. The hope is that older homeowners will move into the new developments and make the existing housing available for first-time homebuyers.

Toronto is an agricultural community with a population of approximately 200. In addition to agriculture, it serves as a bedroom community for Brookings and, to a lesser extent, Watertown. Agricultural conditions in the area have been improving. It was a good year for cash crops, and livestock farmers have been getting higher prices for beef cattle than in recent years.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA performance in the Brookings-Toronto assessment area is rated needs to improve. As discussed previously, the bank makes the vast majority of its loans outside its two assessment areas. Of the 415 loans selected for the sample, only 38% were originated in the Brookings-Toronto assessment area.² The Brookings-Toronto assessment area sample included 84 consumer loans and 75 commercial/agricultural loans. The sample period was the nine months preceding the evaluation since the bank's FRS membership date of March 31, 1997. In assigning the rating, the greatest weight was placed on the low number of the bank's total loans originated within the assessment area.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's overall loan-to-deposit ratio meets the standard for satisfactory performance. As of December 31, 1997, the bank's overall net loan-to-deposit ratio was 68.5%. As mentioned in the Description of the Institution section, the bank's primary focus has been the growth of the national credit card loan program. Lending in agricultural and commercial loans decreased since the date of the bank's FRS membership. As indicated previously, community contacts did not indicate low loan demand or that the area was "overbanked." According to the September 30, 1997, UBPR, the bank's loan-to-deposit ratio of 70.9% ranked the bank in the 46th percentile of its national peer group. Of the four competitor banks located in the Brookings-Toronto assessment area, the bank's 68.5% loan-to-deposit ratio as of December 31, 1997, was lower than one and higher than three.

COMPARISONS OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's level of lending in the Brookings-Toronto assessment area does not meet the standards of satisfactory performance. As discussed previously, the bank makes few of its total loans in its assessment areas. Although the bank provides a greater percentage of its loans in this assessment area than in the Sioux Falls assessment area, the loans originated in this assessment area still constitute a relatively small percentage of the bank's total loans. Community contacts indicated that the Brookings-Toronto assessment area also has a strong economy. Loan demand in the assessment area also appears to be strong. As discussed in the Overall Loan-to-Deposit Ratio Analysis section, one local competitor in Brookings had a loan-to-deposit ratio of 87%. Such a ratio indicates strong credit demand in the Brookings area.

Aggregate small business and small farm CRA data from 1996 also indicate strong credit demand levels for these types of loans. Specifically, aggregate large-bank CRA lenders originated 625 small business and 747 small farm loans in Brookings County in 1996. Such lenders originated an additional 31 small business and 104 small farm loans in Deuel County in 1996. These numbers are more reflective of the

²The percentage of sampled loans made in this assessment area does not represent the bank's overall lending levels in this assessment area. As discussed, the bank made none of the sampled credit card loans in its assessment areas. Because of statistical sampling techniques, these sampled credit card loans constituted only a fraction of the bank's total credit card loans originated during the sample period.

number of Deuel County lenders required to report CRA data rather than the level of lending in this county. Almost all of the bank's 75 commercial/agricultural loans were made in these two counties. The small number of loans made in the non-MSA assessment area is inadequate in light of the demand illustrated by the number of loans made by reporting lenders.

As discussed, the bank makes the vast majority of its loans outside its assessment areas. Of the loans made in the assessment areas, the bank made 88% of the sampled consumer and 83% of the sampled commercial/agricultural loans in the Brookings-Toronto assessment area. These percentage figures indicate that the bank makes most of its core loans in this assessment area. Despite this fact, the bank makes a relatively small percentage of its total loans in either assessment area.

The bank's lending levels in the Brookings-Toronto assessment area are not reasonable given the apparent demand for credit in this assessment area. Competitor lending data, including loan-to-deposit information and CRA aggregate data, indicate strong credit demand in the assessment area. Given the demand for credit in the assessment area, the bank's relatively low lending levels in this assessment area are not reasonable.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

Based on the loans sampled, the bank actively lends to borrowers of different income levels and to businesses and farms of different sizes. As discussed, however, this lending category has little weight in the overall CRA performance rating. The following table shows the distribution by borrower income level for the bank's consumer loans in the assessment area.

DISTRIBUTION OF LOANS IN THE BROOKINGS-TORONTO ASSESSMENT AREA BY BORROWER INCOME LEVEL*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
<u>Consumer</u>				
Total Number of Loans	30%	35%	26%	9%
Total Amount of Loans	16%	30%	31%	23%
*Income level is based on the 1997 nonmetropolitan statewide median family income of \$34,500 for South Dakota				

As the data in the table indicate, the bank originated 65% of its consumer loans to low- and moderate-income borrowers. The bank's consumer loans to low- and moderate-income borrowers exceed the demographic characteristics of the assessment area. In addition, a number of loans in the sample (23%) were for amounts under \$1,000. Low- and moderate-income individuals generally qualify for these types of credits.

The bank originates a large percentage of its commercial and agricultural loans to entities with gross annual revenues of \$1 million or less. The statistical sampling of commercial and agricultural loans indicates that all but one of the commercial/agricultural loans sampled were made to entities with gross annual revenues of \$1 million or less. Of loans to these entities, 96% had amounts of \$100,000 or less. The distribution of commercial and agricultural loans is consistent with the bank's asset size, legal lending limit, and the size of the businesses in the Brookings-Toronto assessment area.

Based on the percentage of core bank consumer loans originated to low- and moderate-income borrowers and the large number of commercial and agricultural loans to small businesses and small farms, the bank's performance is adequate in this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout the middle- and upper-income BNAs in the Brookings-Toronto assessment area appears reasonable. As discussed, however, this lending category has little weight in the overall CRA performance rating. As previously mentioned, the assessment area includes 24 BNAs, two of which are classified as upper income and the remainder are middle income. There are no moderate- or low-income BNAs in the assessment area.

The 1990 census data show that 82% of the assessment area's population resides in the middle-income BNAs and 18% in the two upper-income BNAs. The following table illustrates the bank's lending pattern within its assessment area based on the income level of the BNAs.

DISTRIBUTION OF THE LOANS IN THE BROOKINGS-TORONTO ASSESSMENT AREA BY BNA INCOME LEVEL		
Loan Type	Middle-Income BNA	Upper-Income BNA
<u>Consumer</u>		
Total Number of Loans	100%	0%
Total Amount of Loans	100%	0%
<u>Commercial/ Agricultural</u>		
Total Number of Loans	100%	0%
Total Amount of Loans	100%	0%
<u>Credit Cards</u>		
Total Number of Loans	0%	0%
Total Amount of Loans	0%	0%

As the data in the table indicate, the bank did not originate any loans in the upper-income BNAs of the assessment area. This is not unreasonable for several reasons. First, the bank did not originate any loans in four of the nine counties in the assessment area. The counties without lending activity are Codington, Grant, Hamlin, and McCook. These counties are located the farthest distance from any of the branch offices. Second, in Codington County, the city of Watertown is the main population center and the location of one of the upper-income BNAs. There are several financial institutions with offices in the Watertown vicinity that are more convenient to assessment area residents. Third, the second upper-income BNA is within the city limits of Brookings. There are few commercial entities located in this BNA. Competition in the Brookings market is very strong. Community contacts also indicated that low- and moderate-income residents are not concentrated in any particular area but dispersed throughout the assessment area. Examiners determined that proxies, which might enable a meaningful geographic analysis, were not available. Based on the distribution of the bank's loans in the assessment area, it appears that the bank has an adequate penetration throughout the assessment area.

PUBLIC DISCLOSURE

February 2, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BANKFIRST
Name of Depository Institution

094612770000
Identification Number of Institution

Sioux Falls, South Dakota
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

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.