

# **PUBLIC DISCLOSURE**

**February 1, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Rushmore Bank & Trust  
Certificate number 25259**

**14 St. Joseph Street  
Rapid City, South Dakota 57709**

**Federal Deposit Insurance Corporation**

**2345 Grand Avenue, Suite 1500  
Kansas City, Missouri 64108**

**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.

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## 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 Community Reinvestment Act (CRA) performance of **Rushmore Bank & Trust**, Rapid City, South Dakota, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **February 1, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

**INSTITUTION'S CRA RATING:** This institution is rated *Outstanding*.

The bank's CRA performance depicts an outstanding practice of providing for the credit needs of its assessment area. This rating is supported by the following:

- The bank has achieved a good penetration of loans among commercial borrowers of different revenue levels and has originated many residential loans to low- and moderate-income borrowers.
- The bank lends throughout its assessment area, including in moderate-income areas.
- The bank originates a significant majority of its loans within the assessment area.
- The bank's average net loan-to-deposit ratio since the last evaluation indicates an excellent responsiveness to area credit needs.
- The bank has made many investments that benefit low- and moderate-income individuals.

## DESCRIPTION OF INSTITUTION

Rushmore Bank & Trust operates from its main office and two branches in Rapid City, South Dakota, along with its branch in Spearfish, South Dakota. The bank serves portions of three counties in southwestern South Dakota. The bank offers basic loan products including commercial, residential, and consumer loans. These products are consistent with its size, financial capacity, and geographic location. The bank is primarily owned by Rushmore Financial Services, Inc., a one-bank holding company, which is in turn owned by Spectrum Bancorporation, Inc., a two-tiered multi-bank holding company.

As of the September 30, 1998, Report of Condition (“Call Report”), the bank reported total assets of \$164,580,000, gross loans of \$122,402,000, and total deposits of \$138,865,000. The bank’s legal lending limit as of the same date is \$2,094,000 as set by state law.

As displayed in Table 1, more than half of the bank’s loan portfolio consists of commercial related loans. While residential real estate loans make up only about a quarter of the bank’s outstanding loans, Rushmore Bank & Trust sells many of the residential loans it originates on the secondary market. Thus, residential lending is also a major activity of the bank. This is consistent with the loan portfolios of assessment area lenders and with the credit needs of the area. This information was used in evaluating the bank’s performance under one of the lending performance criteria described later in this evaluation. No financial or legal impediments are evident which would restrict the bank’s ability to meet the credit needs of the community.

**Table 1—Loan Portfolio Distribution**

Loan Type	Dollar Volume	Percent of Gross
Multifamily Real Estate	\$1,569	1%
Residential Real Estate	\$27,287	22%
Commercial Real Estate	\$53,134	43%
Construction & Land Development	\$2,131	2%
Commercial Operating	\$21,985	18%
Consumer	\$16,362	14%
Other	\$353	0%
GROSS LOANS	\$122,821	100%

*Source: Report of Condition (“Call Report”)—September 30, 1998. Dollars in 000s.*

## **DESCRIPTION OF RUSHMORE BANK & TRUST'S ASSESSMENT AREA**

*The Community Reinvestment Act of 1977, as amended, requires banks to identify one or more Assessment Areas within which its regulatory agency will evaluate the bank's performance. The area(s) defined by the bank must include its main office, branches, and other deposit taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. The assessment area always consists of one or more whole geographies identified as Census Tracts (CTs) in metropolitan areas or Block Numbering Areas (BNAs) in non-metropolitan areas.*

The bank defines its assessment area as all but one of the CTs that comprise Pennington County, the BNAs that comprise Lawrence County, and one BNA in Meade County, South Dakota. The assessment area is composed of seven moderate-income, 11 middle-income, and eight upper-income geographies. These income classifications are defined based on the 1990 state nonmetropolitan (for BNAs) or metropolitan statistical area (for CTs) median family income (MFI). Moderate-income is defined as 50 to less than 80 percent of the related MFI, middle-income as 80 to less than 120 percent of the related MFI, and upper as greater than 120 percent of the related MFI. The appendix displays the BNAs and CT in the bank's assessment area and their respective median family income and population statistics. The bank offices are located in CTs 102, 112, and 110.01 and in BNA 9962.

The local economy remains healthy. The area is in the northern Black Hills, a popular tourist destination. The area was somewhat affected by light snowfalls in 1998, hurting the winter recreation business, but the gaming industry continues to attract visitors. Overall, local investment in tourism is growing and 1998 was a strong year.

Despite the reduction in personnel assigned to Ellsworth Air Force Base, the area's single largest employer, the unemployment rate in Pennington County is declining and is only 1.8 percent for the third quarter of 1998, below the state average of 2.5 percent. Lawrence County's unemployment rate is 2.9 percent, somewhat above the state average, partly due to the financial trouble of a major employer, Homestake Mining, and due to reductions in the timber industry. Meade County's unemployment rate is 2.2 percent, close to the state average.

The area is less dependent on agriculture than most of South Dakota. There is little grain farming in the area, and most livestock operations are cow-calf. Prices are low, but most ranchers seem better positioned than when prices fell in the 1980s.

The area's population is growing, reflecting a shift in the state's population from rural areas to larger communities. The area has a lower percentage of households below the poverty level and a generally younger population than the average population of the state. Housing is both newer and more expensive than state averages. Table 2 displays additional demographic data regarding the bank's assessment area.

**Table 2—Demographic Information**

	<b>Assessment Area</b>
Population	107,102
Number of Families	28,821
Percent Owner-Occupied Housing	57%
Percent of Renter-Occupied Housing	33%
Median Housing Value	\$55,671
Median Gross Rent	\$369
Percent Families Below Poverty	9%

*Source: 1990 Census Bureau*

A community contact was conducted with two people in Rapid City to learn more about the area. The individuals did not have any specific comments about Rushmore Bank & Trust.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Lending to Borrowers of Different Income Levels

The bank has achieved a good penetration among commercial borrowers of different sizes. Information from Dun & Bradstreet's Market Searches for Pennington, Lawrence, and Meade Counties was used for the borrower distribution analysis. Table 3 provides information on how revenue levels for businesses are distributed in the three counties.

**Table 3—Distribution by Revenue—Pennington, Lawrence, and Meade Counties**

Gross Revenue	Number	Percentage
\$0 to \$100	2,024	37%
>\$100 to \$250	1,673	31%
>\$250 to \$500	777	14%
>\$500 to \$1,000	478	9%
>\$1,000	506	9%
TOTALS	5,458	100%

*Source: Dun & Bradstreet's Market Searches, 1998 data. Dollars in 000s.*

This evaluation of the bank's lending performance is partially based upon an analysis of a sample of loans to commercial borrowers originated July through December 1998. The sample consisted of 82 loans totaling \$11,120,245 from a potential universe of 344 loans totaling \$56,795,151. Table 4 reflects the lending distribution of the commercial loan sample reviewed. The percentage by number of loans is considered more meaningful than the percentage by dollar volume, since businesses with higher revenue will tend to borrow larger sums of money. As the analysis reveals, the bank's performance in lending to businesses of various revenue categories appears strong. Of the loans sampled, over a third were to businesses with revenues less than \$250,000. Only loans in the assessment area were considered in this analysis.

**Table 4—Loan Distribution by Borrower’s Revenue—Commercial Loans**

<b>Gross Revenue</b>	<b>Number</b>	<b>Percentage</b>	<b>Dollar Volume</b>	<b>Percentage</b>
\$0 – <\$100	13	18%	\$660	7%
\$100 – <\$250	13	18%	\$1,878	19%
\$250 – <\$500	5	7%	\$185	2%
\$500 – <\$1,000	8	11%	\$659	7%
\$1,000+	34	46%	\$6,213	65%
TOTALS	73	100%	\$9,595	100%

*Source: FDIC sample from computer-generated loan trial balance. Dollars in 000s.*

The bank uses guaranteed loan programs in circumstances where traditional financing is not feasible. The bank has displayed its commitment to the community by participating in programs which benefit borrowers who might otherwise have been unable to obtain financing. The bank has originated six Small Business Administration loans totaling \$1,356,000 since the last evaluation.

Additionally, the bank originated many loans under programs of the South Dakota Housing Development Authority, which benefit low- and moderate-income residential borrowers. The Authority also made grants available to assist first-time home-buyers with their down payment. The bank made 20 grants available under this program.

During 1998, the bank originated 27 residential loans for \$752,000 to low-income borrowers and 101 residential loans for \$4,897,000 to moderate-income borrowers. This is additional evidence of the bank’s practice of lending to low- and moderate-income borrowers.

The results of the loan analysis, the bank’s use of guaranteed loan programs, and the banks considerable lending to low- and moderate-income customers demonstrate the bank’s strong commitment to assisting borrowers of all income levels.

### **Geographic Distribution of Loans**

The bank lends throughout its assessment area, including to moderate-income areas. Table 5 displays population of the assessment area’s CTs and BNAs. It then shows the location of the loans the bank originated in its assessment area since the last evaluation. The bank identifies the location of each loan by a geographic code. Using this code, bank officials produced a report showing the location of all loans originated since the last evaluation.

**Table 5—Geographic Distribution of Loans by CT or BNA Income Classification**

CT or BNA Income Level	population		loans by number		loans by dollar	
	Number	Percent	Number	Percent	Amount	Percent
Moderate	28,111	26%	452	11%	\$19,389	9%
Middle	41,743	39%	1,741	44%	\$107,921	50%
Upper	37,248	35%	1,798	45%	\$88,619	41%
TOTALS	107,102	100%	3,991	100%	\$215,929	100%

*Source: Computer-generated loan trial balance. Dollars in 000s.*

Table 5 demonstrates that the bank lends throughout its assessment area. Over 10 percent of its loans were to customers living in moderate-income areas.

The bank originated 116 residential loans for \$5,087,000 in 1998 to customers living in moderate-income CTs in the bank’s assessment area. This shows that the bank is actively lending throughout their community.

The bank’s commitment to the moderate-income areas in their assessment area are further demonstrated by the bank’s location of its offices. The bank’s main office is in a moderate-income CT. Further, the bank has applied to open a new branch in another moderate-income CT.

The bank’s volume of lending, particularly residential real estate lending, in moderate-income areas demonstrates its commitment to lending throughout its assessment area.

### **Lending in Assessment Area**

The bank originates a significant majority of its loans within the assessment area. The bank’s geographic coding described above was used to measure the bank’s performance in this criterion. That analysis reveals that 78 percent by number and 81 percent by dollar of all bank lending since the last evaluation was in the bank’s assessment area. This demonstrates the bank’s intent to serve communities in their area.

### **Loan-to-Deposit Ratio**

The bank’s average net loan-to-deposit ratio indicates an outstanding responsiveness to area credit needs. The bank’s average net loan-to-deposit ratio, based on 11 quarter-ends since the last evaluation, is 89 percent. Considering the volume of participations purchased and sold, the September 30, 1998, net loan-to-deposit ratio is increased from 87 percent to 89 percent. Not reflected in the net loans used to calculate the net loan-to-deposit ratio are 423 residential loans originated since January 1997 for \$38,215,000 which were sold on the secondary market. Had those loans been included, the September 30, 1998, net loan-to-deposit ratio is increased from 87

percent to 116 percent. The effect of considering both the participated and referred loans is to increase the net loan-to-deposit ratio about 31 percentage points.

Of the local competitors, three are similar to the bank in terms of size, branching, asset structure, and loan products. The average net loan-to-deposit ratios for the last 11 quarters of these three institutions are shown in alphabetic order below in Table 6.

**Table 6—Net Loan-to-deposit Ratios, Similarly Situated Lenders**

<b>Institution</b>	<b>Location</b>	<b>Average Net Loan-to-Deposit Ratio</b>
American State Bank of Rapid City	Rapid City, South Dakota	78%
Pioneer Bank & Trust	Belle Fourche, South Dakota	53%
The First Western Bank Sturgis	Sturgis, South Dakota	76%

*Source: Reports of Condition ("Call Report"), March 31, 1996 through September 30, 1998*

The bank's ratio is far superior to the competitors' average and, subject to seasonal fluctuations, is fairly stable. The above information demonstrates that the bank is reinvesting deposits as loans. Thus, the bank is aggressively responding to area credit needs.

### **Response to Complaints**

The bank has not received any CRA-related complaints since the last evaluation; therefore, this performance criteria was not evaluated.

### **Compliance with Anti-discrimination Laws and Regulations**

No violations of the substantive provisions of the anti-discriminatory laws and regulations were identified during the evaluation.

### **Qualified Investments and Services**

The bank has made many investments that benefit low- and moderate-income individuals. The primary qualified investments are discussed below.

The bank is a member of the Federal Home Loan Bank (FHLB). This membership allows the bank to participate in a variety of programs targeted at low- and moderate-income borrowers. The FHLB's regulator, the Federal Housing Finance Board, reviewed the bank's Community Support Statement as of August 11, 1998. The Board concluded that the bank had "demonstrated a commitment to community investment and service." This conclusion allows the bank to borrow funds at low rates for the purpose of financing housing for low- and moderate-income individuals.

FHLB membership also allowed the bank to participate in the FHLB's Affordable Housing Program. By doing so, the bank financed four homes for low-income individuals sponsored by the Black Hills Area Habitat for Humanity.

The bank helped finance a workshop in June 1998 called "The Way to the American Dream." The workshop was sponsored by the Rapid City Housing Coalition and was designed to help low- and moderate-income home buyers qualify for financing.

In 1997, the bank was a founding member and donated \$25,000 to the Rapid City Community Development Corporation (RCCDC). Every year RCCDC builds three to four houses and rehabilitates one to two houses. The bank's investment is part of a \$200,000 pool that provides interest-free construction loans and other subsidies for low- and moderate-income buyers.

In November 1996, the bank sponsored an Import/Export Financing Conference with the Rapid City Area Economic Development Partnership. The conference had representatives from the Small Business Administration (SBA). SBA programs help small and start-up businesses obtain financing that is not available through traditional routes.

**Appendix—Block Numbering Areas and Census Tract in the Bank’s Assessment Area**

<b>BNA/ CT</b>	<b>County</b>	<b>Median Family Income (MFI)</b>	<b>Percent of Applicable MFI</b>	<b>Income Category</b>	<b>Population</b>
101	Pennington	\$27,750	94%	middle	389
102	Pennington	\$29,769	70%	moderate	1,546
103	Pennington	\$21,029	71%	moderate	6,263
104	Pennington	\$20,934	71%	moderate	5,080
105	Pennington	\$18,309	62%	moderate	2,049
106	Pennington	\$23,969	81%	middle	3,143
107	Pennington	\$26,570	90%	middle	4,270
108	Pennington	\$31,235	106%	middle	4,065
109.01	Pennington	\$36,639	124%	upper	5,942
109.02	Pennington	\$23,081	78%	moderate	2,995
109.03	Pennington	\$26,981	91%	middle	5,607
110.01	Pennington	\$40,714	138%	upper	2,838
110.02	Pennington	\$49,133	166%	upper	3,963
110.03	Pennington	\$46,431	157%	upper	3,601
111	Pennington	\$31,677	107%	middle	2,632
112	Pennington	\$31,343	106%	middle	2,976
113	Pennington	\$37,791	128%	upper	5,232
114	Pennington	\$21,307	72%	moderate	7,371
115	Pennington	\$18,561	63%	moderate	2,807
117	Pennington	\$31,392	106%	middle	5,214
9961	Lawrence	\$29,556	116%	middle	4,704
9962	Lawrence	\$29,242	115%	middle	4,464
9963	Lawrence	\$32,412	127%	upper	5,952
9964	Lawrence	\$30,552	120%	middle	4,288
9965	Lawrence	\$36,917	145%	upper	1,247
203	Meade	\$30,720	120%	upper	8,473

*Source: 1990 Census Bureau*