



# LIMITED PURPOSE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

May 16, 2011

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Target National Bank  
Charter Number: 22549

3901 West 53<sup>rd</sup> Street  
Sioux Falls, SD 57106

Office of the Comptroller of the Currency

Credit Card Bank Supervision  
7101 College Boulevard, Suite 1600  
Overland Park, KS 66210

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## **INSTITUTION'S CRA RATING:**

**This institution is rated “Satisfactory”.**

The conclusions for the three rating criteria are:

- The bank demonstrates an adequate level of community development (CD) services and qualified investment activity.
- The bank demonstrates rare use of innovative or complex qualified investments, or CD services.
- The bank demonstrates excellent responsiveness to credit and CD needs in its assessment area (AA).

## **Scope of the Examination**

In evaluating the bank’s performance under the CRA, we reviewed CD activities from July 14, 2005 through April 30, 2011. We reviewed the level and nature of qualified investments and CD services. At the bank’s request, we also considered qualified investments provided by its affiliates. At the prior examination dated July 13, 2005, we rated the bank Satisfactory.

If a bank has adequately addressed its AA needs, the OCC considers CD activities the bank submits that benefit areas outside of its AA in the evaluation of its performance. The bank has adequately addressed the needs of its AA, and therefore, outside of AA qualified investments were considered in evaluating its performance.

## **Description of Institution**

Target National Bank (TNB) is a Competitive Equality Banking Act (CEBA) credit card bank. On April 16, 1996, TNB received its designation as a limited purpose institution for CRA purposes. CEBA banks are restricted from participation in most activities common to full service banks and primarily engage in credit card operations. CEBA banks may only accept savings and time deposits in amounts of \$100,000 and greater. Additionally, they may not engage in the business of making or purchasing commercial, residential, or retail oriented loans, with the exception of credit card loans. This prohibition limits TNB’s ability to help meet community credit needs within its AA. See pages nine through eleven for a definition of a CEBA bank and other terms. TNB may only engage in CRA CD activities relating to qualified investments and CD services due to legal restrictions. TNB’s ability to provide CD services is also affected due to the specialized financial expertise of bank employees. TNB’s affiliates (i.e. Target Corporation and Target Foundation) have provided qualified investments within the bank’s AA.

TNB is a \$112 million financial institution located in Sioux Falls, SD. It has no branch offices. Table 1 provides financial information relating to TNB's financial capacity to help meet the needs of its AA. TNB's assets are primarily centered in credit card receivables and investment securities. TNB's business focus is the origination of private label credit cards for affiliated Target retail stores. The average amount of pass-through receivables (\$7.6 billion), detailed below, represents the outstanding balance of all accounts originated, subsequently sold, and presently serviced by TNB.

TNB is a wholly owned subsidiary of Target Corporation, a \$43 billion retailer located in Minneapolis, Minnesota. Target Corporation operates approximately 1,750 stores in all fifty states with the exception of Vermont.

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

	Year-end 2005	Year-end 2006	Year-end 2007	Year-end 2008
<b>Tier 1 Capital</b>	\$50,540	\$70,323	\$58,502	\$62,394
<b>Total Income</b>	\$337,991	\$376,695	\$408,151	\$443,080
<b>Net Operating Income</b>	\$31,660	\$48,733	\$52,096	\$59,940
<b>Total Assets</b>	\$162,532	\$281,361	\$137,170	\$142,635
<b>Pass-Through Receivables</b>	\$6,276,467	\$6,890,590	\$8,732,045	\$9,321,253

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

	Year-end 2009	Year-end 2010	Most Recent Quarter-end 03/31/2011	Average for Evaluation Period
<b>Tier 1 Capital</b>	\$61,625	\$55,581	\$54,275	\$59,034
<b>Total Income</b>	\$430,143	\$361,522	*\$339,964	\$385,364
<b>Net Operating Income</b>	\$57,592	\$28,681	*\$17,264	\$42,281
<b>Total Assets</b>	\$111,083	\$131,182	\$111,670	\$153,948
<b>Pass-Through Receivables</b>	\$8,299,753	\$7,127,044	\$6,328,926	\$7,568,011

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

## Description of Assessment Area

TNB's AA consists of the entire Sioux Falls, SD metropolitan statistical area (MSA) #43620, consisting of Lincoln, McCook, Minnehaha, and Turner Counties. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The Sioux Falls, SD MSA #43620 is the largest MSA within the state. The geographies located outside the Sioux Falls city limits are predominately rural farm communities. According to 2000 census information, 7 (19 percent) of the geographies in TNB's AA are moderate-income, 25 (68 percent) are middle-income, and 5 (13 percent) are upper-income. There are no low-income geographies. As a whole, the AA consists of 25 percent of total South Dakota geographies and 16 percent of the state's population.

The Sioux Falls economy is improving. A majority of industries are displaying minimal job creation after a pause early in the year. The three largest contributors to the local

recession were manufacturing, construction, and financial activities. Of the three, only financial activities are still shedding jobs. Manufacturing’s improvement will play an important role in the recovery’s continuation. Through the recession, manufacturing was responsible for nearly half of job losses, thus its recent stabilization has played a key part in the resumption of overall job gains. Major industries consist of educational and health services, followed by financial activities, retail trade, and leisure and hospitality services. Major employers include Sanford Health, Avera McKennan Health Services, John Morrell & Company, and Wells Fargo & Company.<sup>1</sup>

In the AA, non-agricultural wage and salaried employment increased from 118,033 in July 2005 to 121,971 in March 2011, an increase of 3.4 percent. During this same period, the unemployment rate increased from 2.9 percent to 5.5 percent. The state of South Dakota’s unemployment rate was 4.8 percent, as of March 2011. Five percent of families live below the poverty level in the AA based on 2000 Census Data. It is especially difficult for this segment of the population to afford and maintain a home.

As of 2000, the AA had 48,663 families. Fifteen percent of families were low-income, 20 percent were moderate-income, 29 percent were middle-income, and 36 percent were upper-income. The 2011 Department of Housing and Urban Development’s (HUD) adjusted median family income for the AA is \$69,100.

In 2011, the National Low Income Housing Coalition estimated that 45 percent of the area median income was needed to afford the fair market rent for a two-bedroom unit. An individual would either need to earn 175 percent of the federal minimum wage (based on a 40-hour work week) or work a 70-hour work week to afford the fair market rent of \$661.

**Table 2: Assessment Area Description**

	Number	Low	Moderate	Middle	Upper
<b>Tracts</b>	37	0%	19%	68%	13%
<b>Families</b>	48,663	15%*	20%*	29%*	36%*
<b>Businesses</b>	15,755	0%**	20%**	71%**	9%**

Source: Demographic Data – 2000 U.S. Census, Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract.

We determined the community’s needs by contacting representatives from a housing organization and an economic development organization. We also reviewed HUD’s Consolidated Housing and CD Plan for Sioux Falls, SD. HUD Consolidated Housing and CD Plans are comprehensive planning documents that identify community needs.

We identified the following credit and non-credit related needs in this AA:

- Neighborhood revitalization for low- and moderate-income geographies.
- Housing rehabilitation assistance for low-income homeowners.
- Home ownership assistance for low-income households.
- Rental assistance and subsidized housing, including security deposit grants, for low-income households.

<sup>1</sup> Moody’s Analytics, June 2010, Economy.com

- Permanent housing for low-income households and special needs clientele including the chronically homeless and mentally ill.
- Emergency shelters for the homeless.
- Private pay assisted living facilities for low-income senior citizens.
- Programs to increase self-sufficiency for low-income individuals.
- Social services for low-income individuals including homeless prevention services, services for victims of domestic violence, substance abuse services, services for the mentally ill, and financial education and debt management services.
- Social services for at risk abused and neglected children from low-income households.
- Affordable public transportation for low-income individuals.
- Small business venture capital loans that promote economic development.

Opportunities for CD services and qualified investments other than grants and donations do exist within TNB's AA. However, TNB's ability to take advantage of these opportunities is somewhat limited due to the nature of its operations and tremendous competition from approximately 35 FDIC insured institutions. Opportunities include low-income housing tax credits, community development financial institutions (CDFIs), community development corporations (CDCs), and securities backed by mortgages to low- and moderate-income individuals. Opportunities to make grants and donations are abundant.

## Conclusions about Performance

### Summary

- TNB's level of qualified investments and CD services, including those from its affiliates, is adequate given available opportunities, competition from full service banks, legal restrictions, its financial condition, and the unique nature of its banking operations. TNB and its affiliate have made \$810 thousand in qualified investments that have directly benefited its AA. See Table 3 on page five.
- TNB's use of innovative or complex qualified investments or CD services is rare, but did meet an identified credit need. A TNB representative was one of three individuals who established a CDC with the express purpose of purchasing and renovating a 10-unit efficiency apartment complex that provides transitional housing and social services for homeless youths. TNB's participation consisted of both qualified investments and community services. This CD activity was complex since it required obtaining funding from both private and government agencies and a significant amount of time and effort to bring this activity to fruition. This activity is also innovative since it is the first shelter of its kind within the bank's AA. See page six and seven for further information.
- TNB exhibits excellent responsiveness to CD needs within its AA. TNB's qualified investments and CD services provided affordable housing and social service programs targeted to low- and moderate-income individuals and economic

development activities. These CD activities were in direct response to identified community needs.

### Qualified Investments

Qualified investments within and outside TNB’s AA totaled \$810 thousand and \$48.4 million, respectively. This level of qualified investments is adequate given the nature of TNB’s operations, its financial condition, tremendous competition, and available opportunities. Table 4 details TNB’s amount of qualified investments as a percentage of Average Tier 1 Capital, Average Total Income, and Average Pass-Through Receivables. TNB’s qualified investments are detailed below.

**Table 3: Qualified Investment Activity (000s)**

	Benefits AA	Outside AA	Totals
<b>Originated Investments</b>	\$297	\$0	\$297
<b>Originated Grants</b>	338	48,398	48,736
<b>Prior-Period Investments that Remain Outstanding</b>	175	0	175
<b>Total Qualified Investments</b>	\$810	\$48,398	\$49,208
<b>Unfunded Commitments*</b>	\$0	\$0	\$0

\* "Unfunded Commitments" means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system.

**Table 4: Qualified Investment Percentages**

	Benefits AA (%)	Outside AA (%)	Total (%)
<b>Total Investments/Average Tier 1 Capital</b>	1.37	81.98	83.35
<b>Total Investments/Average Total Income</b>	.21	12.56	12.77
<b>Total Investments/Average Pass-Through Receivables</b>	.01	.64	.65

### **Affordable Housing: \$3 million**

<Current Period>

- TNB made a \$60 thousand capital contribution to a housing partnership for the construction of 70 single family and 7 duplex homes for low- or moderate-income first time homebuyers that completed an affordable housing education program. The bank’s investment represents 10 percent of the partnership’s capital. The partnership’s funds are replenished after houses are completed and sold. Five other local banks participated in this endeavor located within the bank’s AA.
- TNB donated \$54 thousand to a non-profit housing organization that constructs and provides new single-family housing to low- and moderate-income families residing within the bank’s AA. This organization also provides interest free financing and training (i.e. budgeting, financial literacy, home ownership, and maintenance) for families accepted in their program.

- TNB donated \$56 thousand to a community action agency that provides transitional housing for homeless families with children. The agency operates a 15-unit apartment complex located within the bank's AA.
- TNB's affiliates donated \$2.7 million to 12 organizations that provide affordable housing to low- and moderate-income individuals residing in the state of Minnesota.

<Prior Period>

- In 2004, TNB purchased a mortgage-backed security secured by mortgages to low- and moderate-income individuals residing within the state of South Dakota. The outstanding balance is \$100 thousand.

***Activities that Promote Economic Development: \$200 thousand***

<Current Period>

- TNB made a \$200 thousand equity investment in a non-profit CDFI that make loans to CD organizations within South Dakota. Twenty-two financial institutions and/or their wholly owned CDCs have invested in this activity. As of December 31, 2010, there were 21 economic development loans outstanding to 10 CDCs totaling \$10 million.

***Community Services for Low- and Moderate-Income Individuals: \$46 million***

<Current Period>

- TNB made a \$37 thousand capital contribution and donated \$15 thousand to establish a CDC. These funds and funds from other sources (i.e. other equity investors, private grants, and Federal Home Loan Bank grants) totaling \$366 thousand were used to purchase and renovate a 10-unit efficiency apartment complex which is leased to Volunteers of America (VOA) for \$1 per year. The complex provides transitional housing for homeless youths between the ages of 17 to 20 within the bank's AA. The youths may stay at the shelter for up to 12 months. VOA also provides social services including life skills education, interpersonal skill building, mental and physical healthcare, and case management services. This activity was responsive to community needs and complex since it required obtaining funding from various sources and a significant amount of time and effort to bring this activity to fruition.
- TNB donated \$81 thousand to seven organizations that operate a food bank or provide free meals to low- and moderate-income individuals residing within the bank's AA.
- TNB donated \$25 thousand to two organizations that provide temporary shelter for the homeless within the bank's AA.

- TNB donated \$83 thousand to approximately 20 organizations within the bank's AA that provide other community services to low- and moderate-income individuals. The organizations supported after school programs, financial education programs, day care, health care, reading improvement programs, and programs to reduce teen violence.
- TNB made donations totaling \$24.6 million to organizations that provide free consumer credit counseling services primarily to low- and moderate-income individuals across the United States. A portion of this amount (\$24 thousand) was used for individuals residing within the bank's AA.
- TNB and affiliates donated \$21.1 million to approximately 100 organizations that have a CD purpose. These organizations provide various social services to low- and moderate-income individuals residing in the state of Minnesota and non AA geographies of South Dakota.

<Prior Period>

- In 1998, TNB made a \$75 thousand equity investment in a CDC that provides affordable, quality childcare for up to 75 children from low-income families residing within the bank's AA. Six other banks participated in this activity. TNB's equity investment represents 10 percent of the CDC's capital.

## Community Development Services

TNB provided CD services to four organizations that provide community services to low- and moderate-income individuals residing within the bank's AA. These CD services are listed below.

- A TNB representative was one of three individuals who established the *Sioux Empire CDC* with the express purpose of purchasing and renovating a 10-unit efficiency apartment complex that provides transitional housing and social services for homeless youths. TNB's representative used his financial expertise to establish the CDC, obtain funding from various sources (i.e. investors, private grants, and Federal Home Loan Bank grant), and establish the lease with VOA.
- A TNB representative is the chairperson of the board for a CDC that owns and leases a facility to the Interlakes Community Action Partnership (CAP) for \$1 per year. CAP operates a day care for up to 75 head start children from low- and moderate-income families. TNB's representative used his financial expertise to allocate funds for needed repairs, solicit additional capital from current stockholders, and review financial statements on a quarterly basis.
- A TNB representative is a member of the Homeless Advisory Board that supports six homeless shelters within Minnehaha County serving approximately 2,000 individuals a year. TNB's representative used his financial expertise by providing guidance to the homeless shelters on the best way to solicit funds from financial institutions by educating them on CRA requirements.



- A TNB representative chaired the Sioux Empire United Way Counseling Impact Team from 2006 through 2010. He used his financial expertise to evaluate grant requests from eight social service agencies that provided psychological counseling to approximately 4,000 to 5,000 low-income individuals per year residing within the bank's AA. The United Way provided annual grants totaling \$750 thousand to \$850 thousand per year to these eight agencies.
- A TNB representative taught personal finance classes to approximately 20 children from an elementary school located within the bank's AA. The children are predominantly from low- and moderate-income families. The classes were for 1 hour per week for 12 weeks.

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

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## Definitions and Common Abbreviations

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

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

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

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

**CEBA:** Competitive Equality Banking Act of 1987, which permitted corporations to form limited-purpose credit card banks, whose operations are restricted to credit card activities, without the corporation becoming subject to the limitations of a "bank holding company" under the Bank Holding Company Act. A CEBA credit card bank engages only in credit card operations, does not accept demand deposits or savings or time deposits of less than \$100,000 (other than to secure extensions of credit), maintains only one office and does not engage in the business of making commercial loans.

**Census Tract (CT):** Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

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

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Limited Purpose Institution:** An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect.

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

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

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Net Operating Income:** As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments.

**Pass-Through Receivables:** Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 C.F.R. § 8.

**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 listed in the Consolidated Report of Condition and Income.

**Total Income:** From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income.