



PUBLIC DISCLOSURE

September 14, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Black Hills Community Bank, National Association
Charter Number 24798

840 Mount Rushmore Road
Rapid City, SD 57701

Office of the Comptroller of the Currency

700 4th Street
Suite 320
Sioux City, IA 51101

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 major factors that support the overall rating include:

- The bank’s loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, assessment area (AA) credit needs, and in comparison to similarly situated banks in and around the Rapid City MSA.
- A substantial majority of the bank’s loans that originated during the evaluation period were within the assessment area (AA).
- The bank’s geographic distribution of business and home loans within the Rapid City assessment area (AA) reflects reasonable dispersion throughout census tracts (CTs) of different income levels.
- The bank has not received any formal complaints related to its Community Reinvestment Act (CRA) performance.

SCOPE OF EXAMINATION

We evaluated BHCB utilizing the Community Reinvestment Act (CRA) Small Bank examination procedures, which includes a Lending Test for the State of South Dakota.

The Lending Test evaluates the bank’s record of meeting the credit needs of its AAs through its lending activities. The lending test for BHCB covers performance from January 1, 2014 through June 30, 2016.

Overall, the bank’s primary loan products are business and home loans for both assessment areas. During the evaluation period, business loans represented 46 percent by number and 65 percent by dollar volume of lending, and home loans represented 36 percent by number and 31% by dollar volume of lending for the overall bank during the evaluation period. See Tables 1 and 2 below to show the breakdown of primary products by AA.

Table 1 - Rapid City MSA				
	Number	% by number	Dollar (in \$1,000s)	% by dollar
Business Loans	451	60%	\$138,347	84%
Farm Loans	21	3%	\$3,081	2%
Home Loans	114	15%	\$18,742	11%
Consumer Loans	161	22%	\$4,389	3%
Total	747	100%	\$164,559	100%

Table 2 - Spearfish Non-MSA				
	Number	% by number	Dollar (in \$1,000s)	% by dollar
Business Loans	113	24%	\$37,561	36%
Farm Loans	2	0%	\$852	1%
Home Loans	322	69%	\$63,762	61%
Consumer Loans	31	7%	\$1,873	2%
Total	468	100%	\$104,048	100%

To evaluate the bank's business lending, examiners selected a sample of loans originated from January 1, 2014 through June 30, 2016 in each AA. Examiners sampled 20 business loans in each AA to evaluate lending in the AAs. Examiners selected additional loans as needed to have sufficient information to analyze borrower and geographic distributions within each AA. For home loans, examiners used Home Mortgage Disclosure Act (HMDA) data supplied by the bank to analyze all home loans originated during the evaluation period.

DESCRIPTION OF INSTITUTION

BHCB is headquartered in Rapid City, South Dakota. As of June 30, 2016, BHCB had total assets of \$205 million and tier one capital of \$22.8 million. The bank is owned by BHCB Holding Company, a one bank holding company. The bank offers a wide variety of personal and business loan and deposit products to meet the needs of residents within the AA.

BHCB opened one additional branch since the previous CRA examination. The Rapid City, SD branch is located within a moderate level income CT, while the Spearfish, SD branch is located within a middle-level income CT.

BHCB is a full-service community bank that offers a wide variety of personal and business loan and deposit products to meet the needs of residents within both AAs. As of June 30, 2016, loans totaled \$168 million, which represents 82 percent of total assets compared to 58 percent of total assets at the last CRA examination. The loan portfolio, as a percentage of average loans, is comprised of business loans at 52 percent, 1-4 family residential at 13 percent, and non-residential construction loans at 8 percent.

The bank has no legal or financial impediments limiting its ability to help meet community credit needs. BHCB was rated Satisfactory during its last CRA examination dated November 26, 2010.

DESCRIPTION OF ASSESSMENT AREA(S)

BHCB operates with two AAs. The AAs comply with all regulatory requirements and include the bank's main office and one branch office. The AAs do not arbitrarily exclude any low- or moderate-income census tracts.

Rapid City, SD MSA

The Rapid City MSA contains two counties, Pennington and Meade, and the largest city in the MSA is Rapid City. This AA includes 28 census tracts of which one tract is low-income, seven are moderate-income, 15 are middle-income, and five are upper-income census tracts. The Rapid City branch is located in a moderate-income tract. The total population recorded in the 2010 U.S. Census for the AA was 126,382. A map of the AA can be obtained from the bank's CRA public file.

This AA accounted for 88 percent of the bank's deposits and 61 percent of the bank's loans (by number) during the evaluation period. BHCB reported \$160 million in deposits within the AA as of June 30, 2016. There are 49,653 households in the AA. Of those households, 0.15 percent are located in low-income CTs, 15 percent are in moderate-income CTs, 61 percent are located in middle-income CTs, and 24 percent are located in upper-income CTs. There are 32,950 families within the AA. Of those families, 18 percent are low-income, 20 percent are moderate-income, 23 percent are middle income, and 40 percent are upper-income.

There are 9,640 businesses in the Rapid City MSA AA. Of those businesses, 0.47 percent are located in low-income CTs, 25 percent are located in moderate-income CTs, 56 percent are located in middle-income CTs, and 19 percent are located in upper-income CTs. Eighty-one percent of all businesses in this AA are small businesses with annual revenues less than or equal to \$1 million.

Competition in the Rapid City MSA AA is satisfactory. Competition includes local community banks and branches of larger regional and national financial institutions. As of June 30, 2016, there were 12 institutions with 36 offices located in Pennington and Meade counties.

The economy in the Rapid City MSA AA was favorable during the evaluation period. According to the South Dakota Department of Labor and Regulation, the unemployment rate in this AA improved from about four percent to three percent during this period. This is below the national unemployment rate of 4.9 percent as of June 30, 2016. Major employers include Ellsworth Air Force Base, Rapid City Regional Hospital, and the Rapid City School District.

Examiners completed a community with two organizations in the AA that focus on promoting economic development and affordable housing in Rapid City, SD. The contacts stated that the AA economy is positive with low unemployment rates, increased business and job growth, and increasing population growth. The contact stated that banks have funded local organizations and development projects targeted towards low- and moderate-income individuals and families.

South Dakota Rural Non-MSA AA

The Spearfish AA contains one county, Lawrence. This AA includes 5 census tracts of which three are middle-income, and 2 are upper-income. There are no low- or moderate-income CTs in this AA. The Spearfish, SD branch is located in a middle-income tract. The total population recorded in the 2010 U.S. Census for this AA was 24,097. A map of the AA can be obtained from the bank's CRA public file.

This AA accounted for 12 percent of the bank's deposits and 39 percent of the bank's loans (by number) during the evaluation period. There are 6,154 families in this AA. Of those families, 17 percent are low-income borrowers, 17 percent are moderate-income borrowers, 22 percent are middle-income borrowers, and 45 percent are upper-income borrowers.

There are 2,163 businesses in the AA. Of those businesses, 86 percent are considered small businesses with annual revenues less than or equal to \$1 million.

Competition in the Spearfish AA is satisfactory. Competition includes local community banks and branches of larger regional and national financial institutions. As of June 30, 2016, there were 6 institutions with 11 offices located in Lawrence county.

The economy in the Spearfish AA was favorable during the evaluation period. According to the South Dakota Department of Labor and Regulation, the unemployment rate in this AA improved from four percent to 3.4 percent during this period. This is below the national unemployment rate of 4.9 percent as of June 30, 2016. Major employers include Spearfish Regional Health, Black Hills State University, and Wal-Mart.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

BHCB's performance under the Lending Test is Satisfactory. Management operates with a more than reasonable loan-to-deposit ratio and originates a substantial majority of its loans by number within the AAs. The geographic distribution of loans is reasonable. The borrower distributions of loans is poor.

Loan-to-Deposit Ratio

BHCB net loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly net LTD ratio averaged 90 percent between September 30, 2010 and June 30, 2016. The ratio ranged from a quarterly low of 82 percent to a quarterly high of 95 percent during this period. The bank's net LTD ratio is higher than other financial institutions of similar size (total assets of \$171 million to \$258 million), and location. BHCB's average LTD ratio is first among a total of six similarly situated institutions. For the similarly situated institutions, the average LTD is 59 percent, the average low LTD ratio is 44 percent, and the average high LTD ratio is 82 percent between the same periods.

Lending in Assessment Area

BHCB originated a substantial majority of its loans to borrowers located inside its designated AAs. Examiners sampled loans of each location's primary product, which included 60 business loans in the Rapid City AA, and 20 business loans in the Spearfish AA. Examiners also analyzed 462 home loans originated or purchased during the evaluation period.

Table 1 details the bank's lending within its AAs by number and by dollar volume of loans sampled.

Table 1 - Lending in BHCB Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000s)	%	\$	%	
Business Loans	37	93%	3	8%	40	8,000	81%	1,901	19%	9,901
Home Loans	408	88%	54	12%	462	73,392	87%	11,080	13%	84,472
Total	445	89%	57	11%	502	81,392	86%	12,980	14%	94,373

Source: 2010 U.S. Census data; 2016 HMDA

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's distribution of loans in South Dakota AAs reflects poor penetration among businesses and home loans of different sizes and individuals of different income levels.

Rapid City MSA AA:

Business Loans:

The bank's distribution of commercial loans reflects poor penetration among businesses of different income levels. The bank originated or purchased 58 percent by number and 28 percent by dollar of business loans to small businesses in the AA. This is considered poor as it is significantly lower than the comparator of 81 percent in the Rapid City AA. Small businesses are businesses with annual gross revenues of one million dollars or less.

Table 2 below shows the distribution of commercial loans to businesses of different sizes in the AA.

Table 2 - Borrower Distribution of Loans to Businesses in Rapid City, SD				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	81.36%	6.54%	12.11%	100.00%
% of Bank Loans in AA by #	58.33%	33.33%	8.33%	100.00%
% of Bank Loans in AA by \$	28.32%	51.35%	20.33%	100.00%

Source: 2010 U.S. Census data

Home Loans:

The bank’s distribution of home loans reflects reasonable penetration among borrowers of different income levels. Distribution was excellent for home improvement loans made by the bank to low-income borrowers in the AA. The percentages of home purchase and refinance loans made by the bank to low-income borrowers are beneath the percentage of low-income families in the AA. Distribution was excellent for home purchase loans, reasonable for home improvement loans, and was poor for refinancing loans to moderate-income borrowers in the AA. On a combined basis, the bank originated 26 percent of home loans to low- or moderate-income borrowers compared to 38 percent of families in the AA that are considered low- or moderate-income. Although the bank’s performance is lower than the demographics comparator, it is still considered reasonable as 9 percent of low-income families in the AA are considered to be In poverty and are less likely to be able to afford a home.

Table 3 below shows the distribution of home loans to borrowers of different income levels compared to the percentage of families by income level in the AA.

Table 3 - Borrower Distribution of Residential Real Estate Loans in Rapid City, SD								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	17.98%	4.90%	19.62%	24.49%	22.69%	25.71%	39.71%	27.35%
Home Improvement	17.98%	18.75%	19.62%	12.50%	22.69%	12.50%	39.71%	50.00%
Refinancing	17.98%	4.17%	19.62%	6.94%	22.69%	27.78%	39.71%	40.28%
Total Home Loans	17.98%	5.41%	19.62%	20.12%	22.69%	25.53%	39.71%	31.23%

Source: 2010 U.S. Census data; 2016 HMDA

South Dakota Non-MSA AA:

Business Loans:

The bank’s distribution of commercial loans reflects reasonable penetration among businesses of different income levels. The bank originated or purchased 75 percent by number and 72 percent by dollar of business loans to small businesses in the AA. This is considered reasonable as it is near the demographic data that shows 86 percent of businesses in the AA are considered small businesses.

Table 4 below shows the distribution of commercial loans to businesses of different sizes in the AA.

Table 4 - Borrower Distribution of Loans to Businesses in Spearfish, SD				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	85.85%	4.35%	9.80%	100.00%
% of Bank Loans in AA by #	75.00%	20.00%	5.00%	100.00%
% of Bank Loans in AA by \$	71.98%	25.15%	2.87%	100.00%

Source: 2010 U.S. Census data

Home Loans:

The bank’s distribution of home loans reflects poor penetration among borrowers of different income levels. The bank has no home loans to low-income families in the AA, which places it well below the comparator. Borrower distribution for home purchases was reasonable; however, home improvement and refinance were well below the comparator for moderate-income families in the AA. On a combined basis, the bank originated 13 percent of home loans to low- or moderate-income borrowers compared to 33 percent of families in the AA that are considered low- or moderate-income. Although the AA has 8 percent of low-income families that are considered to be in poverty and are less likely to be able to afford a home, the combined ratio is still significantly lower than the comparator.

Table 5 below shows the distribution of home loans to borrowers of different income levels compared to the percentage of families by income level in the AA.

Table 5 - Borrower Distribution of Residential Real Estate Loans in Spearfish, SD								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	16.70%	0.00%	16.67%	17.65%	22.03%	25.49%	44.59%	47.06%
Home Improvement	16.70%	0.00%	16.67%	0.00%	22.03%	66.67%	44.59%	33.33%
Refinancing	16.70%	0.00%	16.67%	4.76%	22.03%	28.57%	44.59%	47.62%
Total Home Loans	16.70%	0.00%	16.67%	13.33%	22.03%	28.00%	44.59%	46.67%

Source: 2010 U.S. Census data; 2016 HMDA

Geographic Distribution of Loans

The bank’s geographic distribution of loans in the SD AAs reflects reasonable dispersion throughout CTs of different income levels.

Rapid City MSA AA:

Business Loans:

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout CTs of different income levels. Fifteen percent of business loans originated or purchased by the bank were made to businesses located in a moderate-income CT. This is lower, but still comparable, to the 25 percent of businesses in the AA located in moderate-income CTs. There are minimal low-income CTs in this AA.

Table 6 below shows the geographic distribution of business loans throughout CTs of different income levels compared to the percentage of businesses located in each CT income level.

Table 6 - Geographic Distribution of Loans to Businesses in Rapid City, SD

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.47%	0%	24.69%	15.00%	55.81%	60.00%	19.04%	25.00%

Source: 2010 U.S. Census data

Home Loans:

The bank’s geographic distribution of home loans reflects excellent dispersion throughout CTs of different income levels. The bank originated or purchased a combined 17 percent of home loans to borrowers located in low- and moderate-income CTs, which is above the 15 percent owner-occupied housing located in low- and moderate-income CTs within the AA.

Table 7 below shows the bank’s dispersion of home loans throughout CTs of different income levels compared to the percentage of owner-occupied housing located in each CT income level.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.15%	0.00%	15.30%	16.33%	60.71%	62.86%	23.84%	20.82%
Home Improvement	0.15%	0.00%	15.30%	31.25%	60.71%	43.75%	23.84%	25.00%
Refinancing	0.15%	0.00%	15.30%	16.67%	60.71%	55.56%	23.84%	27.78%
Total Home Loans	0.15%	0.00%	15.30%	17.12%	60.71%	60.36%	23.84%	22.52%

Source: 2010 U.S. Census data; 2016 HMDA

South Dakota Non-MSA AA:

Business and Home Loans:

There are no low- or moderate-income census tracts located within the Spearfish, SD AA. Therefore, we did not complete geographic distribution analysis for either primary product within this AA.

Responses to Complaints

No CRA-related complaints were received by management or the OCC during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R 25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in a geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

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