



PUBLIC DISCLOSURE

JULY 23, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**BANK OF ELGIN
RSSD# 485054**

**101 NORTH 2nd STREET
ELGIN, NEBRASKA 68636**

**Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198**

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.

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INSTITUTION'S CRA RATING

This institution is rated: **Satisfactory**.

Bank of Elgin (the bank) has a Satisfactory record of meeting the credit needs of its assessment area (AA) in a manner consistent with its resources and operating philosophy. The bank also received a Satisfactory rating at its previous Community Reinvestment Act (CRA) evaluation conducted by the Federal Reserve Bank of Kansas City (Reserve Bank) on May 12, 2014.

- The bank is meeting the credit needs of its community based on an analysis of its lending activity.
- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and AA credit needs.
- A majority of the bank's loans are originated in the AA.
- Lending reflects a reasonable penetration among farms of different revenue sizes.
- Neither the bank nor the Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The bank's CRA performance was evaluated using the Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions*. The evaluation was performed in the context of information about the bank and its AA, such as asset size, financial condition, economic and demographic characteristics, and competition. Lending performance was assessed within the bank's single, non-Metropolitan Statistical Area (non-MSA) AA, comprised of one census tract in Antelope County, one census tract in Boone County, and all of Wheeler County in northeast Nebraska. The following criteria were reviewed:

- **Net Loan-to-Deposit Ratio** – A 16-quarter average NLTD ratio was calculated for the bank and compared to a sample of local competitors.
- **Lending in the AA, Lending to Farms of Different Sizes** – Statistically derived samples of the bank's small farm loans originated from January 1, 2017 through December 31, 2017, were reviewed to determine:
 - The percentage of loans originated in the AA; and,
 - The distribution of loans among farms of different revenue sizes.

- A geographic distribution analysis of loans was not considered meaningful as the bank's AA is solely comprised of middle-income census tracts.
- **Response to Substantiated Complaints** – Neither the bank nor the Reserve Bank received any CRA-related complaints since the previous evaluation.
- **Community Contacts** – Two community representatives from agricultural organizations were contacted to provide insight into the needs of small farms within the AA.

DESCRIPTION OF INSTITUTION

The bank is a community bank headquartered in Elgin, Nebraska. The bank's characteristics include:

- Total assets of \$59.4 million as of December 31, 2017.
- In addition to its main office in Elgin, the bank has two cash dispensing-only automated teller machines; one is located at the main office and the other is located at a local convenience store.
- As of December 31, 2017, the bank's loan portfolio was primarily comprised of agricultural loans, which represented 86.1 percent of the bank's total loans.

TABLE 1 BANK OF ELGIN LOAN PORTFOLIO AS OF DECEMBER 31, 2017		
Loan Type	Amount \$(000)	Percent of Total
Agricultural	36,598	86.1
Commercial	2,742	6.5
Other	2,017	4.8
Consumer	626	1.4
Residential Real Estate	523	1.2
Gross Loans	42,506	100.0

There are no known legal, financial, or other factors impeding the bank's ability to meet the credit needs of the communities it serves.

DESCRIPTION OF THE BANK'S AA¹

The bank's AA is comprised of one tract in Antelope County, one tract in Boone County, and all of Wheeler County, in the northeast region of Nebraska.

- See Appendix A for an AA map.
- The AA is rural and comprised entirely of middle-income tracts.
- The AA's composition is unchanged since the May 12, 2014 performance evaluation.
- As of June 30, 2017, the bank's market share of Federal Deposit Insurance Corporation (FDIC)-insured deposits ranked 7th out of 13 institutions in the AA with a 7.3 percent deposit market share.
- Cornerstone Bank, with 20.9 percent deposit market share, had the largest level of FDIC-insured deposits.

PERFORMANCE CONTEXT

- See Appendix B for demographic information.
- The AA has a small population, equaling 7,118 according to 2015 U.S. Census Bureau Decennial Census Data.
- Since 2010, overall AA county populations have remained stable. Boone and Antelope Counties populations have slightly declined, while the Wheeler County population slightly increased over the same time period.

**TABLE 2
BANK OF ELGIN AA POPULATION CHANGE**

Area	2010 Population	2011-2015 Population	Percentage Change (%)
Boone County, NE	5,505	5,373	-2.4
Antelope County, NE	6,685	6,486	-3.0
Wheeler County, NE	818	847	3.5
State of Nebraska	1,826,341	1,869,365	2.4

Based on U.S. Census Bureau Decennial Census.

¹ The following demographic data is based on 2010 and 2015 ACS five-year estimate data, and 2017 D&B data. Additional demographic data was also utilized based on U.S. Census Bureau Decennial Census and the Bureau of Labor Statistics.

- Median family income (MFI) for all three counties indicates an increasing trend.
- The MFI in the AA expanded at rates of 22.3 percent, 18.6 percent, and 7.0 percent for Boone, Antelope, and Wheeler Counties, respectively, according to 2006 and 2015 five-year American Community Survey (ACS) data.
- The MFI in Wheeler County is lower than the averages for both the state of Nebraska and the other counties in the AA.

**TABLE 3
BANK OF ELGIN AA MEDIAN FAMILY INCOME CHANGE**

Area	2006-2010 Median Family Income (\$)	2011-2015 Median Family Income (\$)	Percentage Change (%)
Boone County, Nebraska	51,981	63,569	22.3
Antelope County, Nebraska	47,463	56,304	18.6
Wheeler County, Nebraska	50,083	53,611	7.0
State of Nebraska	61,888	67,225	8.6

Based on U.S. Census Bureau Decennial Census and American Community Survey.

- The AA experienced significant increases in median gross rents and median gross housing values between 2006 and 2015, particularly in Boone and Wheeler Counties.
- However, median gross rents in Antelope County slightly declined, while median housing values modestly increased over the same time period.
- Despite higher growth rates, median housing values and median gross rents remain below the state average and reflective of the rural nature of the AA.

**TABLE 4
BANK OF ELGIN AA HOUSING COSTS CHANGE**

Area	Median Housing Value		Percentage Change (%)	Median Gross Rent		Percentage Change (%)
	2006-2010	2011-2015		2006-2010	2011-2015	
Boone County	71,100	97,700	37.4	415	557	34.2
Antelope County	67,000	78,100	16.6	488	484	-0.8
Wheeler County	66,100	88,100	33.3	455	606	33.2
State of Nebraska	123,900	133,200	7.5	648	726	12.0

Based on U.S. Census Bureau Decennial Census and American Community Survey.

- Unemployment rates remain below the state average in all three AA counties.
- The unemployment rate has declined in all three counties since 2013, indicating strength in the AA labor force.

**TABLE 5
BANK OF ELGIN AA UNEMPLOYMENT RATES (%)**

Area	2013	2014	2015	2016	2017
Boone County, NE	3.3	2.6	2.5	2.6	2.5
Antelope County, NE	3.2	2.7	2.6	2.6	2.5
Wheeler County, NE	3.2	2.9	2.3	2.1	2.3
State of Nebraska	3.8	3.3	3.0	3.1	2.9

Based on Bureau of Labor Statistics: Local Area Unemployment Statistics.

- The AA is heavily reliant on agricultural related industries and crop production, specifically corn and soy beans.
- Community representatives indicated some farmers are beginning to struggle as commodity prices remain low. While land prices have stabilized in the area, land values remain at overall high levels.
- The AA's major employers include local school districts and Central Valley Ag Cooperative.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

NLTD Ratio:

The bank's NLTD ratio is reasonable given its size, financial condition, AA credit needs, and comparison to several of its local competitor FDIC-insured institutions.

**TABLE 6
COMPARATIVE NLTD RATIOS**

Institution	NLTD Ratio (%)
	16-Quarter Average
Bank of Elgin	81.6
Competitors	
Bank of Newman Grove	69.9
Cedar Rapids State Bank	93.9
Ericson State Bank	95.7
Tilden Bank	74.1

AA Concentration:

- A majority of the bank's loans, by number and dollar, are originated inside the AA.

**TABLE 7
LENDING INSIDE AND OUTSIDE THE BANK'S AA**

Bank Loans	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Small Farm Loans	55	\$8,427	93.2	94.9	4	\$455	6.8	5.1

Distribution by Revenue Size of Farms:

The bank's lending demonstrates reasonable penetration among farms of different revenue sizes.

Small Farm Loans

- At 92.7 percent by number (90.7 percent by dollar), the volume of lending was below the demographic figure or percentage of farms with gross annual revenues of \$1MM or less.
- Community representatives indicated there are a number of distressed agricultural borrowers or those with high debt-to-income in the AA, which may limit opportunities to lend to this demographic.
- Furthermore, stratifying the bank's lending by loan size, approximately 81.8 percent of small farm loans were originated in amounts of \$250,000 or less. Typically, smaller farms do not have the need or capacity to borrow large amounts; as such, smaller loan amounts are used as a proxy to estimate the support of small entities.

**TABLE 8
DISTRIBUTION OF 2017 SMALL FARM LOANS
BY REVENUE SIZE OF FARMS
BANK OF ELGIN AA**

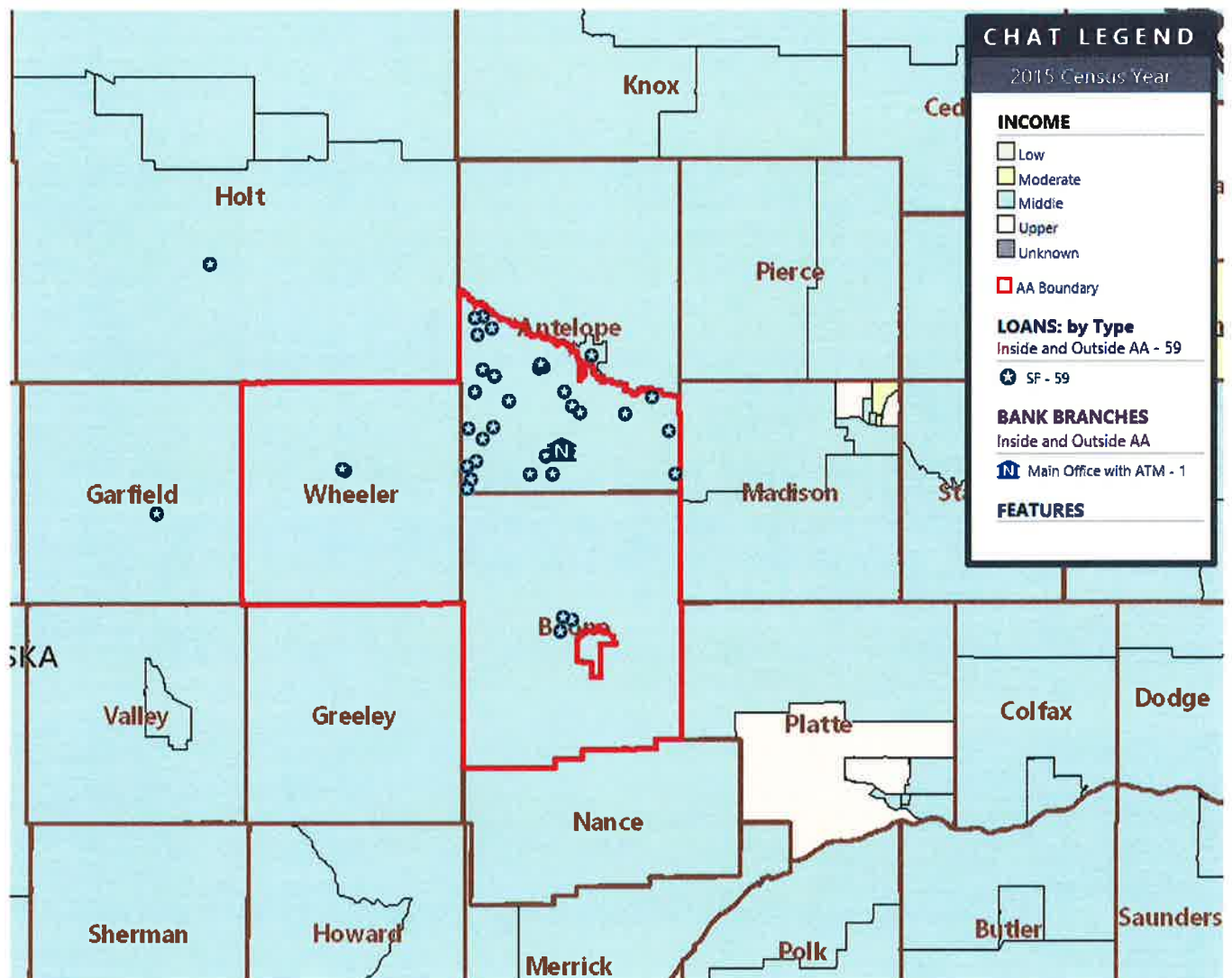
Farm Revenue	Small Farm Loans				% of Farms by Revenue ¹
	#	\$(000)	#%	\$%	
\$1MM or less	51	7,647	92.7	90.7	99.1
Over \$1MM	4	780	7.3	9.3	0.9
Unknown	0	0	0.0	0.0	0.0

¹ The percentage of farms by revenue size is based on 2016 D&B data.
(NOTE: Total percentages shown may vary by 0.1 percent due to automated rounding differences.)

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – MAP OF THE ASSESSMENT AREA



APPENDIX B – DEMOGRAPHIC INFORMATION

**TABLE 9
BANK OF ELGIN AA DEMOGRAPHICS**

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	415	19.1
Moderate	0	0.0	0	0.0	0	0.0	482	22.2
Middle	3	100.0	2,170	100.0	163	7.5	531	24.5
Upper	0	0.0	0	0.0	0	0.0	742	34.2
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	3	100.0	2,170	100.0	163	7.5	2,170	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	3,667	2,374	100.0	64.7	675	18.4	618	16.9
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	3,667	2,374	100.0	64.7	675	18.4	618	16.9
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	431	100.0	386	100.0	28	100.0	17	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	431	100.0	386	100.0	28	100.0	17	100.0
Percentage of Total Businesses:				89.6		6.5		3.9
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	345	100.0	342	100.0	3	100.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	345	100.0	342	100.0	3	100.0	0	0.0
Percentage of Total Farms:				99.1		0.9		0.0

Based on 2017 FFIEC Census tract definitions, 2015 ACS five-year estimate data, and 2016 D&B data.
(NOTE: Total percentages may vary by 0.1 percent due to automated rounding differences.)

APPENDIX C – SCOPE OF EXAMINATION

SCOPE OF EXAMINATION			
BANK OF ELGIN			
Products Reviewed	Small farm loans, statistical sample		
Time Period Reviewed	Small farm loans originated from January 1, 2017 through December 31, 2017		
Affiliate(s)	Affiliate Relationship	Products Reviewed	
None	N/A	N/A	
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Examination	Branches Visited	Other Information
Bank of Elgin	Full Scope	Off-site	

APPENDIX D – GLOSSARY

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 the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Census tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into "male householder" (a family with a male household and no wife present) or "female householder" (a family with a female householder and no husband present).

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and Internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the

distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home mortgage loans: Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area: A metropolitan statistical area (**MSA**) or a metropolitan division (**MD**) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs. A metropolitan statistical area that crosses into two or more bordering states is called a multistate metropolitan statistical area (**MMSA**). Performance within each MMSA is analyzed separately as a full-scope review and receives its own ratings under the Lending, Investment and Service Tests provided the financial institution has its main office, branch, or deposit-taking ATM located in each applicable state making up the MMSA.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Small loans to business: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small loans to farms: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.