

PUBLIC DISCLOSURE

April 8, 1996

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Citizens State Bank
10-31-3080**

**190 North Main Street
Polk, Nebraska 68654**

Federal Reserve Bank of Kansas City

**925 Grand Boulevard
Kansas City, Missouri 64198**

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.

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 Citizens State Bank prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of April 8, 1996. 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 satisfactory.*

The bank has a satisfactory record of helping to meet the credit needs of its assessment area. The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. A majority of loans are in the institution's assessment area. Furthermore, the geographic distribution of loans and the distribution among borrowers of different income levels and businesses and farms of different sizes are considered reasonable.

The following table indicates the performance level of Citizens State Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Citizens State Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints		No complaints received since the prior examination.	

DESCRIPTION OF INSTITUTION

Citizens State Bank is located in Polk, Nebraska, a village with a population of 345 according to the 1990 Census. The bank's office at 190 North Main Street is readily accessible to the entire community. The bank has the ability to meet the credit needs of its defined assessment area based on the institution's size, financial condition, and resources. According to the bank's December 31, 1995 Uniform Bank Performance Report, the bank's assets totaled \$10,783M, of which loans constituted \$6,393M or 67.18 percent. As depicted in the loan distribution table on the next page, the bank is primarily an agricultural lender; however, the bank does offer a variety of loan products and makes referrals to affiliate banks in order to

meet the credit needs of its assessment area.

The bank's December 31, 1995 Consolidated Report of Condition and Income reflected the following loan distribution:

THE BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Multifamily & 1-4 family real estate	394	6.04
Farmland or agricultural purposes	3,920	60.11
Commercial	1,358	20.83
Nonfarm nonresidential	409	6.27
Consumer	437	6.70
Other	3	0.05
TOTAL	6,521	100.00

DESCRIPTION OF CITIZENS STATE BANK'S ASSESSMENT AREA

The bank's assessment area is comprised of six Block Numbering Areas (BNAs®). Two of the BNAs comprise Polk County. The BNA in the southern one-half of Polk County contains the village of Polk. The assessment area also includes two BNAs to the east and north of Polk in Merrick County; one BNA in Hamilton County to the east of Polk; and one BNA in York County which is south of Polk. All six BNAs are considered middle-income geographies. According to the 1990 Census, the population of the assessment area is 16,421, of which 99.1 percent is white, .8 percent is Hispanic, and .1 percent is American Indian.

The assessment area's economy is largely dependent upon agricultural production and is generally stable. According to 1990 Census data, the median family income for the area was \$28,865, compared to a state-wide figure of \$31,634. Of families within the assessment area, 14.2 percent are low-income; 19 percent are moderate-income; 28.7 percent are middle-income; and 38.1 percent are upper-

income. Only 6 percent of families are below the poverty level.

The service and agricultural industries and government offer the majority of employment opportunities in the bank's assessment area. The 1990 employment data from the U.S. Census indicated that the unemployment rate for the assessment area was 2.2 percent, compared to the state-wide rate of 3.6 percent. In 1990 approximately 35 percent of the total population was 65 years and over.

Community contacts indicated that the local economy is stable and mirrors the prosperity of the farmers in the area. Polk's population has been declining over the past two decades. Because of its distance from York and Central City, Polk cannot be considered a bedroom community to the more populous areas of the region. There are no plans for businesses to open in the area and no efforts being made to recruit businesses. Housing is available and affordable; however, it is primarily of marginal to poor quality. The housing stock is on average 57 years of age. Rental housing is scarce, but there is a 12-unit senior citizens, low-income apartment complex in Polk. Community contacts stated that area banks are adequately serving the credit needs of the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating the bank's CRA performance. A review of the bank's lending levels in relation to its deposits and other comparable financial institutions was performed. Penetration of loan originations within and outside the bank's assessment area was also evaluated. Furthermore, the bank's level of lending to borrowers of different incomes and businesses and farms of different sizes was evaluated. Finally, the distribution of loan originations within the bank's assessment area was evaluated. A review of the bank's performance under the services and investments tests was not performed.

The bank's average loan-to-deposit ratio is 68.22 (calculated using the average of the loan-to-deposit ratios from the previous four quarters including December 31, 1995). The bank's average loan-to-deposit ratio is significantly above that of its peer group and nearly all other banks within its assessment area. The average loan-to-deposit ratio for the peer group was 60.71 percent. Other area banks had average loan-to-deposit ratios of 40.16 percent, 59.52 percent, 61.62 percent, and 85.67 percent. The bank's peer group consists of all insured commercial banks having assets between \$10MM and \$25MM with one banking office, and located in a nonmetropolitan area. The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.

The bank's capital of approximately \$1.1MM and deposit base of \$9.5MM support its lending capacity. The primary credit need of the community is agricultural credit for operating expenses. The bank has demonstrated its willingness to extend this type of credit, as well as a variety of other types of credit to meet assessment area

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needs. To accommodate borrowers with larger dollar credit needs, the bank arranges to participate out large credit lines which exceed the bank's legal lending limits.

A majority of the bank's lending occurs within its assessment area. Only agricultural and commercial credits were reviewed, in view of their overall significance in the composition of the bank's loan portfolio. The bank makes very few 1- to 4-family real estate loans and generally refers such inquiries to an affiliate institution. The table below demonstrates the percentage of small farm, small business, and total loans within the bank's assessment area, as noted during this examination.

LOANS WITHIN THE BANK'S ASSESSMENT AREA	
LOAN TYPE	PERCENTAGE
Small Farm	88
Small Business	62
Total Loans	81

Furthermore, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses and farms of different sizes. All of the agricultural and commercial loans reviewed were to small businesses and farms with low-to-moderate revenue levels. In addition, 48 percent of the agricultural credits and 21 percent of the commercial credits were to borrowers with low-to-moderate incomes.

Finally, the geographic distribution of loans originated by the bank reflects reasonable dispersion throughout the bank's assessment area, considering the bank's location and the competitor institution locations. All of the BNAs are middle-income geographics with similar characteristics. The bank is located in BNA 9872 and does the majority of lending within this BNA. The following table shows that the bank has penetrated five of the six BNAs.

DISTRIBUTION OF LOANS WITHIN ASSESSMENT AREA			
County	BNA	Number of Loans	Percentage of Total

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Merrick	9866	14	16.48
Merrick	9868	10	11.76
Polk	9871	0	0
Polk	9872	53	62.35
Hamilton	9891	3	3.53
York	9896	5	5.88

According to 1990 Census data, BNA 9871 had a population of 2,176. The city of Osceola, located within the BNA, had a population of 879 and a minority population of 1 percent. This BNA has the second highest income level (112.5 percent of the assessment area's median family income) of the geographies within the bank's assessment area. The bank indicated that it is reconsidering whether to include this BNA in the assessment area because it does very little lending in that area. Management noted that the credit needs of this BNA are being met by financial institutions in Osceola and Stromsburg, Nebraska.

The bank's penetration into the five remaining BNAs is reasonable given the bank's location. These BNAs are sparsely populated, rural areas. In particular, BNA 9891 contains the fewest number of households. The only community relatively near to Polk is the village of Hordville, which has a population of 164. BNA 9896 is located within York County and contains five villages, each of which is in closer proximity to York than to Polk. York has at least five financial institutions of greater asset size than Citizens State Bank and which offer a wider variety of products and services. The relatively lower penetration into these BNAs is reasonable given these competitive and geographic factors.

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, reviews of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage applications. Several technical disclosure concerns were noted under Regulation B which implements the Equal Credit Opportunity Act. These concerns were not discriminatory in nature, and management committed to resolve such concerns.

