

**PUBLIC DISCLOSURE**

February 3, 1997

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**THE FARMERS STATE BANK & TRUST COMPANY  
10-31-0230  
337452**

**1234 L STREET  
AURORA, NEBRASKA 68818-0229**

**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.**

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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 CRA performance of The Farmers State Bank & Trust Company, Aurora, Nebraska, prepared by The Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of February 3, 1997.*

*The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

## INSTITUTION

**INSTITUTION-S CRA RATING:** This institution is rated Satisfactory.

The Farmers State Bank and Trust Company's overall performance with respect to the Community Reinvestment Act (CRA) is satisfactory. This rating is based upon a review of the bank's record of helping to meet the credit needs of its community and providing qualified investments and services to its assessment area, including low- and moderate-income households or neighborhoods. The bank's lending revealed that it is reasonable given the institution's size, financial condition, and the area's credit needs. The distribution of loans among borrowers of different income levels and farms of different sizes is reasonable. In addition, the bank has taken an active role in community development programs targeted to low- and moderate-income individuals. The bank's lending is further supported by the qualified investments and services it provides to its assessment area.

The following table indicates the performance level of The Farmers State Bank & Trust Company with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	The Farmers State Bank & Trust Company		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs Improvement			
Substantial Noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service test when arriving at an overall rating.

**DESCRIPTION OF INSTITUTION:**

According to the December 31, 1996 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$61,033M, of which loans constituted \$28,570M or 47 percent. The bank is primarily an agricultural lender; however, the bank does offer a variety of loan products. The types of credit products offered by the bank, as noted in the bank's public file, include various types of consumer loans, real estate loans, and loans to finance agriculture and small businesses. The bank is a subsidiary of Pinnacle Bancorp Inc., a bank holding company with assets in excess of one billion dollars.

The bank's CRA performance was last evaluated on April 10, 1995, when a rating of "Outstanding" was assigned.

## DESCRIPTION OF ASSESSMENT AREA:

The Farmers State Bank and Trust Company, Aurora, Nebraska, has defined its assessment area as all of Hamilton County, Nebraska. Hamilton County consists of three middle-income block numbering areas (BNAs) and is not in a metropolitan statistical area. Aurora, the seat of Hamilton County, is located approximately 70 miles west of Lincoln, Nebraska, and about 22 miles north of Interstate 80. The economy is heavily dependent upon agriculture, three manufacturing plants, a community hospital and a farmer cooperative. In the aggregate, they employ approximately 730 employees. There are two industrial parks comprising approximately 180 acres of land and four other financial institutions located within the assessment area.

Total population for the area has remained relatively unchanged. The assessment area's population, based on 1990 U.S. Census data, is 8,862. Median family income for the area is \$28,894, slightly higher than in other rural areas within the state of Nebraska. Approximately 33 percent of households and families are low- and moderate-income. The table below depicts the distribution of households and families by income.

DISTRIBUTION OF HOUSEHOLD AND FAMILIES BY INCOME				
	Household Income Summary		Family Income Summary	
Income Category	Number	Percent of Households	Number	Percent of Families
Low-Income	551	17	321	13
Moderate-Income	510	16	492	20
Middle-Income	721	22	695	28
Upper-Income	1,456	45	953	39
Total	3,238	100	2,461	100

Community contacts, including a member of a local community development corporation and a leading official of an area trade association, indicated that the area is in need of housing units. In response, housing units are being constructed throughout the community. Consequently, area housing is much younger, with a median age of 27 years, compared to a median age of 41 years for other rural areas within the state of Nebraska. According to community contacts, the shortage of housing and corresponding construction of new units is partly due to the expansion of several local industries which have fueled the growth of the local workforce.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The conclusions regarding the lending, investment, and service tests are summarized at the beginning of each section.

### *LENDING TEST*

The Farmers State Bank and Trust Company has the ability to meet the assessment area's credit needs based on the bank's size, financial condition, and resources. The bank offers a number of credit products to meet these needs. A review of loan originations reveals that a high concentration of the bank's lending occurs within its assessment area. Furthermore, the distribution of loans among borrowers of different income levels and to small businesses and small farms reflects reasonable penetration. In addition, the bank's involvement in community development lending demonstrates flexible lending practices.

### Lending Activity

As depicted in the following table, the bank is primarily an agricultural lender. However, as previously noted, the bank does offer a variety of loan products to meet the assessment area's credit needs.

THE BANK'S LOAN PORTFOLIO

Loan Type	Amount (\$000)	Percent of Total
Farmland or agricultural	14,722	52
Multiple and 1- to 4-family real estate	5,614	20
Commercial	2,765	10
Consumer	2,612	9
Nonfarm nonresidential	1,033	4
Construction and land development	992	3
Other	832	2
TOTAL	28,570	100

In addition to conventional loan products, the bank participates in governmentally insured, guaranteed or subsidized housing loan programs sponsored by the Federal Housing Administration (FHA), Farmers Home Administration (FmHA), and the Veterans Administration (VA). The bank has also extended loans under the Nebraska Investment Finance Authority (NIFA) first-time home buyer program and the Nebraska Energy loan program. The NIFA was established by the Nebraska Legislature in 1983 to provide decent, safe and sanitary housing for low- and moderate-income persons in the state of Nebraska. Mortgages under the program are funded through the sale of tax-exempt bonds which are obligations of NIFA and are repaid from the mortgage payments. Nebraska Energy loans are used to fund any number of home, building and system improvements with low cost financing and up to ten years to repay. The table below illustrates the bank's involvement in these various programs since September 25, 1995.

BANK'S INVOLVEMENT IN GOVERNMENTALLY INSURED, GUARANTEED OR SUBSIDIZED LOAN PRODUCTS FOR HOUSING		
Program	Number	Amount (\$000)
Federal Housing Administration	1	68
Veterans Administration	5	265
Farmers Home Administration	11	896
Nebraska Energy	17	58
Nebraska Investment Finance Authority	17	722
Total	51	2,009

Although the bank's loan-to-deposit ratio is lower than other comparable banks, it is reasonable (considering seasonal variations, and taking into account lending-related activities) given management philosophy, the institution's size, financial condition, and assessment area credit needs. The bank's average net loan-to-deposit ratio (calculated using the five quarters ended since the last examination) of 52 percent is lower than its peer group's ratio of 62 percent over the same period. The bank's peer group consists of all insured commercial banks having assets of between \$50MM and \$100MM with two or more banking offices, and located in a nonmetropolitan area. Similarly, banks located in the bank's assessment area had loan-to-deposit ratios ranging from 60 to 77 percent. The financial institutions ranged from \$19MM to \$240MM in total asset size. The bank's lower loan-to-deposit ratio appears to be offset by the fact that the bank sells off a portion of its real estate portfolio. Of the real estate loans originated since the last examination, approximately 28 percent were sold on the secondary market. None of these loans are factored into the net loan-to-deposit ratio.

The following chart depicts the bank's lending activity since the previous CRA evaluation:

**THE FARMERS STATE BANK AND TRUST CO.  
ORIGINATIONS 9/25/95 to 2/03/97**

Product Description	Amount (\$000's)	Percent	Number of Loans	Percent
Consumer Real Estate	6,859	31.3	181	12.9
Agricultural Related	6,566	30.0	386	27.5
Commercial	4,650	21.2	190	13.5
Single pay	1,796	8.2	315	22.4
Automobile Secured	1,410	6.4	216	15.4
Other	637	2.9	117	8.3
<b>Total</b>	<b>21,918</b>	<b>100.0</b>	<b>1,405</b>	<b>100.0</b>

As illustrated above, consumer real estate, agricultural, and commercial lending comprised 82.5 percent of the bank's overall loan portfolio dollar amount. Agricultural related loans accounted for the largest number of originations made since the last examination, yet the bank also extends numerous consumer loans.

A substantial majority of the bank's lending occurs inside its assessment area. The table below demonstrates, by general product type, the percentage of loans reviewed that were located within the assessment area. The analysis included a review of 28 consumer home purchase loans and all commercial and agricultural loans extended in 1996.

<b>LOANS WITHIN THE BANK'S ASSESSMENT AREA</b>	
LOAN TYPE	PERCENTAGE
Home Purchase	86
Small Farm	99
Small Business	93
<b>Total Loans</b>	<b>94</b>



## Geographic Distribution of Loans

The bank's geographic distribution of loans by income level of census tracts reflects adequate penetration. However, as noted earlier, the assessment area consists entirely of middle-income BNAs. Consequently, no meaningful analysis of the geographic distribution of loans by income level of census tracts was possible.

## Borrower Characteristics

The distribution to borrowers reflects, given the demographics of the assessment area noted earlier, reasonable penetration among individuals of different income levels (including low- and moderate-income) and small businesses and small farms. As illustrated in the table below, the percentage of consumer real estate loans reviewed made to borrowers of different income levels generally corresponds to the percentage of assessment area families within those income categories. However, according to community contacts, there are few vacant affordable homes available in the community. In addition, bank management is actively involved in the management of the Aurora Housing Development Corporation. This entity often refers low- and moderate-income applicants, that would normally apply for credit at one of the local financial institutions, to the respective government agency responsible for the government sponsored or guaranteed housing program.

<b>PERCENTAGE OF LOANS REVIEWED MADE TO INDIVIDUALS OF DIFFERENT INCOME LEVELS IN THE BANK'S ASSESSMENT AREA</b>		
<b>Income Level of Borrower</b>	<b>Percentage of Consumer Real Estate Loans Reviewed</b>	<b>Percentage of Families in the Bank's Assessment Area</b>
Low (<50 percent of median)	4	13
Moderate (50 to 80 percent of median)	21	20
Middle (80 to 120 percent of median)	29	28
Upper (>120 percent of median)	46	39
Total	100	100

A review of commercial and agricultural loans demonstrated, based on the amount of revenue of the borrowing entity, that 100 percent of these loans were made to small businesses and small farms. Small businesses and small farms are defined as having gross annual revenues of \$1MM or less. Furthermore, as shown in the table below, the distribution of loans of varying amounts between small businesses and small farms reflects an excellent dispersion.

## **DISTRIBUTION BY LOAN AMOUNT OF ORIGINATED SMALL BUSINESS AND SMALL FARM LOANS**

Loan Value Category	Small Business		Small Farm	
	Number of Loans	Amount (\$000)	Number of Loans	Amount (\$000)
<= \$100,000	110	2,322	268	7,092
> \$100,000 to \$250,000	7	1,068	21	3,006
> \$250,000	0	0	5	211,502
Total	117	3,390	294	221,600

### **Community Development Lending Activities**

Community development lending opportunities are limited within the bank's assessment area; however, the bank has actively participated in the few community development projects. The bank has originated an \$85M line of credit with the Aurora Development Corporation, whose primary emphasis is to attract small businesses into the area. This note has an outstanding balance of \$60M and is for the purpose of developing industrial sites. The bank also participates in construction loans to the Aurora Housing Development Corporation. This organization constructs housing units for low- or moderate-income families and presently has a loan balance of \$7.5M. Furthermore, the numerous small business and small farm loan originations promote economic development within the bank's assessment area.

### **Innovative/Flexible Lending Practices**

Considering the bank's size and resources, it has significant involvement in a variety of loan products that are designed with enhanced flexibility to meet the needs of low- or moderate-income individuals. For instance, as previously mentioned, the NIFA loan program is a community development program targeted to low- or moderate-income individuals. Furthermore, the bank's participation in the Nebraska Energy loan program illustrates a flexible approach to lending.

## ***INVESTMENT TEST***

The bank's participation in qualified community development investments consists primarily of donations made to local organizations. The bank has made annual contributions of \$1M or more to the Hamilton County Food Pantry, the Hamilton County Ministerial Association, and the Aurora Elementary School. Donations to the Hamilton County Food Pantry were used to feed area residents in need. Similarly, donations to the Hamilton County Ministerial Association were used to help families in financial need. In addition, contributions to the elementary school were used to purchase supplies for children coming from low-to-moderate income families. The bank has also made \$100 contributions to the Central Nebraska Goodwill Industries, Incorporated and a local youth center. The bank's investment portfolio also contains numerous municipal securities; however, none of these qualify as community development investments.

There are few opportunities currently available for the bank to make qualified investments. None of the geographies within the community have been designated as low- or moderate-income areas. Furthermore, there are very few organizations within the community that are involved primarily in community development programs that benefit low- and moderate-income individuals.

## ***SERVICE TEST***

Delivery systems are accessible and convenient to all portions of the bank's assessment areas. Services do not vary in a way that inconveniences certain portions of the area, particularly low- and moderate-income individuals. Finally the institution provides an adequate level of community development services.

### **Accessibility of Delivery Systems**

The bank's location and credit services are accessible and are consistent for the entire community. It has one full service facility located at 1234 L Street and a drive-through/walk-in facility at the corner of 16th and M Street in Aurora. The full service facility maintains regular lobby hours from 9:00 a.m. to 3:00 p.m., Monday through Friday, and morning hours from 9:00 a.m. to 12:00 p.m. on Saturdays. The drive-through/walk-in is limited to services for individuals making deposit transactions. It is open from 7:45 a.m. to 5:30 p.m. Monday through Thursday, and has morning hours from 7:45 a.m. to 12:00 p.m. on Saturday. This drive-through/walk-in facility also has extended hours on Friday and houses one of the only two automated teller machines in Aurora.

A branch closing policy that meets the requirements of the Federal Deposit Insurance Corporation Improvement Act has been adopted by the board. No offices have been opened or closed since the previous examination.

## **Alternative Systems for Delivering Retail Banking Services**

The bank has offered innovative delivery systems to better serve its community. For instance, the bank offers a point-of-sale card that offers 24-hour cash access. An overdraft line of credit may also be tied to this card. Furthermore, the bank offers telephone banking for those customers wishing to initiate deposit transactions. This system does not currently offer information on loan products.

## **Community Development Services**

Bank management has taken a proactive approach in addressing issues pertaining to affordable housing and low-to-moderate income individuals. The bank's president is a director for the Aurora Housing Development Corporation, a nonprofit entity which has constructed 31 affordable single-family homes in Aurora over the past five years. Furthermore, the bank's president is the vice president of Aurora Construction Enterprises, L.L.C., a for-profit entity that has built six housing units in the community since January 1994. Both of these organizations focus their efforts on benefitting low- and moderate-income individuals.

## **COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants.

SCOPE OF EXAMINATION The Farmers State Bank & Trust Company		
TIME PERIOD REVIEWED		9/25/95 - 2/03/97
FINANCIAL INSTITUTION		
NAME		PRODUCTS REVIEWED
The Farmers State Bank & Trust Company Aurora, Nebraska		Consumer Home Purchase Residential Real Estate Loans Small Business Loans Small Farm Loans
AFFILIATE(S)		
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Pinnacle Bancorp, Inc., Central City, NE		None
Bank of Colorado - Front Range, Windsor, CO		None
Bank of Colorado - Western Slope, Grand Junction, CO	Bank Holding Company	None
Pinnacle Bank, Papillion, NE	Bank Holding Company	None
Citizens Bank and Trust Company, Torrington, WY	Bank Holding Company	None
Havelock Bank, Lincoln, NE	Bank Holding Company	None
Crete State Bank, Crete, NE		
Farmers State Bank and Trust Company, Lexington, NE	Bank Holding Company	None
	Bank Holding Company	None
First National Bank, Abilene, KS		None
First National Bank, Worland, WY	Bank Holding Company	None
The First National Bank, Shelby, NE	Bank Holding Company	None
First Security Bank, Newcastle, WY	Bank Holding Company	None
The First Security Bank of Craig, Craig, CO	Bank Holding Company	None
The First Security Bank, Fort Lupton, CO	Bank Holding Company	None
First United Bank, Neligh, NE	Bank Holding Company	None
Schuyler State Bank and Trust Company, Schuyler, NE	Bank Holding Company	None
		None
Western Bank of Cody, Cody, WY	Bank Holding Company	None
Archer, Inc., Central City, NE	Bank Holding Company	None
Osceola Insurance, Inc., Central City, NE	Bank Holding Company	None
		None
Gretna State Bank, Gretna, NE	Bank Holding Company	None
First National Bank of Osceola, Osceola, NE	Bank Holding Company	None
		None
Central Grain, Inc., Central City, NE	Bank Holding Company	None
Farmers National Bank of Central City, Central City, NE	Bank Holding Company	None
Dinsdale Brothers, Inc., Central City, NE	Bank Holding Company	None
The First National Bank of Wisner, Wisner, NE	Bank Holding Company	None



The Farmers State Bank & Trust Co.

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AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED	
First Security Bank, Mitchell, NE State Bank, Palmer, NE Guaranty Corporation, Denver, CO Guaranty Bank and Trust Company, Denver, CO Pinnacle Bancorp, Iowa, Sioux City, IA Morningside Bank and Trust, Sioux City, IA	Bank Holding Company Bank Holding Company Bank Holding Company  Bank Holding Company Bank Holding Company  Bank Holding Company	None None None  None None  None	
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Nebraska  Hamilton County (81)	On-Site	Not applicable	

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