

PUBLIC DISCLOSURE

March 10, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**FARMERS STATE BANK & TRUST COMPANY
10-31-2080
504955**

**P.O. BOX 579
LEXINGTON, NEBRASKA 68850**

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 Community Reinvestment Act (CRA) performance of Farmers State Bank & Trust Company prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of March 10, 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 RATING: *This institution is rated **Satisfactory**.*

Farmers State Bank & Trust Company effectively serves the assessment area in which it operates, based upon a review of the bank's lending record, qualified investments, and services. Through the products and services it offers, the bank is responsive to the credit needs of the community, including low- and moderate-income individuals, as well as small businesses and farms. The bank primarily serves its assessment area through its direct agricultural and residential real estate lending. A substantial majority of the loans included in the sample were originated within the bank's assessment area. While the bank's participation in qualified investments is limited, the bank's lending and services performance reasonably meets the needs of its community.

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

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

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

DESCRIPTION OF INSTITUTION

The main office of Farmers State Bank & Trust Company (the bank) is located in Lexington, Nebraska, which is the county seat of Dawson County. The bank has a branch office located in Arnold, Nebraska, 60 miles northwest of Lexington, as well as a drive-through location and a real estate loan office. The bank also has four automated teller machines (ATMs) located throughout Lexington and one at the branch office in Arnold.

Lexington has a population of approximately 8,544, and Arnold has a population of 679. The bank is a subsidiary of Pinnacle Bancorp, Inc., a bank holding company with assets of \$1.6 billion as of September 30, 1996. As of this same date, the bank had assets in the amount of \$72,284M, of which net loans totaled \$43,912M or 60.75 percent of assets according to the bank's Consolidated Reports of Condition and Income (Call Report). As shown below in the distribution table, the bank is primarily an agricultural lender; however, the bank offers a variety of loan products that meet community credit needs.

The bank has the ability to meet the credit needs of its assessment area, based upon its financial condition, size and resources, and product offerings. The bank's September 30, 1996 Call Report revealed the following loan distribution.

THE BANK-S LOAN PORTFOLIO

Loan Type	Amount (\$000)	Percent of Total
Farmland or Agricultural	21,533	47.74
Consumer	6,546	14.51
Commercial	6,508	14.43
Multiple & 1- to 4-family Real Estate	6,286	13.94
Nonfarm Nonresidential	2,532	5.61
Construction & Development	961	2.13
Leases	388	.86
States, Political Subdivisions	309	.69
Credit Cards, Etc.	26	.06
Other	14	.03
TOTAL	45,103	100.00

The bank's performance under the CRA was last evaluated at the December 11, 1995 examination and was rated Outstanding.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes all of Dawson, Gosper, and Logan Counties. It also includes the eastern half of Lincoln County and the western half of Custer County. The assessment area consists of 11 middle-income block numbering areas (BNAs) and is not within a metropolitan statistical area. Within the 11 middle-income geographies or BNAs, no specific low- or moderate-income neighborhoods could be identified. However, bank management and a community contact associated with a local trade organization indicated that low- and moderate-income families and households are dispersed throughout the area, as indicated in the table below.

The population of the assessment area is 28,803, according to the 1990 Census data. In addition, the assessment area's median household income was \$22,535,

which is similar to the nonmetropolitan statewide figure of \$22,635 and 13.4 percent lower than that for all areas statewide at \$26,016. The median family income was \$26,728, which is somewhat lower than that for nonmetropolitan areas statewide (\$27,623) and 15.5 percent lower than that for all areas statewide (\$31,634). The median family income annualized for the assessment area for 1996 was \$35,100. This income figure is the basis for determining the borrower income distribution which is reviewed in evaluating the bank's CRA performance. The following table depicts the assessment area distribution of households and families by income, based upon 1990 Census data.

DISTRIBUTION OF HOUSEHOLDS AND FAMILIES BY INCOME				
	<i>Household Income Summary</i>		<i>Family Income Summary</i>	
Income Category	Number	Percent of Households	Number	Percent of Families
Low-Income ¹	2,411	21.5	1,357	16.4
Moderate-Income ²	1,861	16.6	1,805	21.8
Middle-Income ³	2,438	21.7	2,121	25.7
Upper-Income ⁴	4,520	40.2	2,986	36.1
Total	11,230	100.0	8,269	100.0

¹ Less than 50 percent of the assessment area median family income.

² At least 50 percent and less than 80 percent of the assessment area median family income .

³ At least 80 percent and less than 120 percent of the assessment area median family income.

⁴ 120 percent or more of the assessment area median family income.

Comparison of the income distribution of households within the assessment area to those statewide demonstrated a minimal variance. The percentage of households considered low- or moderate-income within the assessment area was slightly lower at 38.1 percent, compared to 39.1 percent for nonmetropolitan areas statewide and 38.9 percent for the entire state. In addition, 12.2 percent of households were considered below poverty, which was lower than for nonmetropolitan areas statewide (13.3 percent), but slightly higher than that for the entire state (11.8 percent). The percentage of families considered low- or moderate-income within the assessment area (38.2 percent) was higher than for nonmetropolitan areas statewide (36.5 percent) and for the entire state (35.9

percent). The percentage of families below poverty (8.8 percent) was generally consistent with nonmetropolitan areas statewide (9.1 percent) and for the entire state (8 percent).

The bank's assessment area is rural and sparsely populated, with an economy primarily dependant upon cattle processing and feeding, farming, and light manufacturing. Tourism and local retailers provide additional support to the local economy. Local crops include corn, soybeans, and wheat. The economy appears to be stable and on an upward trend; however, the unemployment rate is slightly higher in the assessment area than in other areas of the state.

In 1990 the unemployment rate for the assessment area was 3.8 percent, somewhat higher than the average for nonmetropolitan areas statewide (3.4 percent) and for the entire state (3.6 percent). According to Regional Economic Information System (REIS) data, employment increased between 1990 and 1994 in Dawson and Lincoln Counties, minimally increased in Custer County, and decreased in Gosper and Logan Counties.

The significant increase in employment between 1990 and 1994 in Dawson County was mainly attributable to a 110.9 percent increase in the manufacturing industry between 1990 and 1994. Community contacts indicated that this increase was primarily the result of Iowa Beef Packing, Inc. (IBP), opening its Lexington meat packing plant in 1991. The plant currently employs approximately 2,300 people.

After the IBP plant opened, the population of Lexington increased by almost 30 percent, from 6,601 in 1990 to 8,544 in 1993. In addition to IBP, the major employers in the Lexington area include Orthman Manufacturing Company, a producer of farm implements and grain wagons, with approximately 250 employees; the school district, with approximately 220 employees; and the Tri-County Hospital, with approximately 100 employees.

In Custer County, the largest employment increases between 1990 and 1994 were 37.5 percent in construction and 20.4 percent in private service-producing retail trade. Between 1993 and 1994, there was a 14.1 percent decrease in the transportation and public utilities industry and a 12.6 percent decrease in the wholesale trade industry. In Gosper County, the most significant employment changes were in the construction and retail trade industry. Between 1990 and 1994, the construction industry employment decreased by 41.5 percent; in contrast, employment in the retail trade industry increased by 30.7 percent. In Lincoln County, the manufacturing and retail trade industries incurred the largest employment increases at 20.3 percent and 23.3 percent, respectively, between 1990 and 1994. Logan County saw the largest employment fluctuations in the

construction, government, and services industries during this same period; the construction industry increased by 50 percent, the government industry decreased by 21.1 percent, and the services industry decreased by 23.5 percent.

Due to the increased population in the Lexington area between 1991 and 1993, there was a shortage of rental and affordable housing. A Housing Task Force was formed to address the problem, and several affordable homes were built through the Nebraska Investment Finance Authority (NIFA). To qualify for loans through this program, NIFA borrowers must meet certain income requirements which are based upon average wages earned by employees at IBP, Inc.

Housing within the assessment area appears to be comparable to nonmetropolitan areas statewide. According to 1990 Census data, the median housing age in the assessment area is 42 years, compared to 40 years for nonmetropolitan areas statewide. Owner-occupancy rates are slightly lower in the assessment area at 59.2 percent, compared to 62.1 percent for nonmetropolitan areas statewide. In addition, the percentage of owner-occupied units (i.e., one-family houses on fewer than 10 acres without a business or medical office) within the assessment area was equal to that in nonmetropolitan areas statewide at 72.1 percent. The percentage of vacant units in the assessment area, however, is higher at 16.1 percent than the average for nonmetropolitan areas statewide at 11.4 percent. The higher percentage is primarily due to the vacancy rate in Gosper County, which has an extremely high rate of 37 percent. The vacancy percentage is only 13.5 percent and 13.2 percent, respectively, in Dawson and Custer Counties. The bank conducts the majority of its real estate lending in these two counties.

Housing units in the assessment area are only slightly less affordable than in nonmetropolitan areas statewide. The median housing value for the assessment area was \$39,148, compared to \$38,424 for nonmetropolitan areas statewide. Community contacts indicated that the average price of a home is approximately \$47,000 in Lexington and approximately \$30,000 in Arnold. The median rent of \$284 per month for the assessment area was equal to that of nonmetropolitan areas statewide.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The conclusions regarding the lending, investment, and service tests are summarized at the beginning of each section. Supporting information includes performance characteristics that are described in Appendix A of the regulation. A peer group of similarly situated financial institutions was developed as a

contextual reference by which to evaluate Farmers State Bank & Trust Company's performance in the lending, investment, and service tests under the CRA. The peer group was determined on the basis of similarities in asset size and service area.

LENDING TEST

Farmers State Bank & Trust Company is effectively meeting the needs of its assessment area, based on its size, financial condition, and resources. The bank offers a number of credit products that help to meet area credit needs. A review of the bank's loan concentration revealed that the majority of the bank's lending was within the assessment area. The distribution of borrowers reflects, given the products reviewed, good penetration among retail customers of different income levels and agricultural and business customers of different sizes. Furthermore, the bank exhibits an adequate record of serving the credit needs of low- and moderate-income individuals, small businesses, and small farms. Currently, the bank's assessment area provides limited opportunities for community development loans. In an effort to compensate for this limitation, the bank utilizes flexible lending practices to help meet assessment area credit needs.

Lending Activity

The bank offers a variety of conventional loan products to meet the credit needs of its assessment area, as well as federally-guaranteed loans through the Federal Housing Administration (FHA), the Veterans' Administration (VA), and the Small Business Administration (SBA). In addition, the bank makes originations through the Nebraska Energy loan program and the Nebraska Investment Finance Authority (NIFA). NIFA sponsors a home loan program and a first-time farm loan program. The bank offers long-term, fixed-rate residential mortgages, and home improvement, small business, small farm and consumer loans.

The bank's average loan-to-deposit ratio (LTD) for the five quarters since the previous CRA examination was 66.6 percent, which compares favorably to its five selected area peers. The peer group had average LTDs ranging from 50.4 percent to 76.4 percent, with the peer group average being 63.7 percent. The bank's average LTD was the second highest in the peer group.

Assessment Area

A large majority of the bank's lending occurs within its assessment area. The analysis was based upon a sample consisting of 100 percent of the agricultural and

commercial loans, 25 percent of the residential real estate loans, and 5 percent of the consumer loans originated between January 1, 1996 and December 31, 1996. The sample of loans reviewed consisted of 439 agricultural, 244 commercial, 38 residential real estate, and 48 consumer loans. The following table demonstrates, by product type, the percentage of loans reviewed that were located within the bank's assessment area.

LOANS WITHIN THE BANK'S ASSESSMENT AREA	
Loan Type	Percentage
Agricultural	93
Commercial	93
Residential Real Estate	95
Consumer	96
Total Loans	93

Geographic Distribution of Loans

The bank's geographic distribution of loans by income level of geography reflects adequate penetration in its assessment area. However, as noted above, the assessment area consists of entirely middle-income geographies. As a result, a meaningful analysis of the geographic distribution of loans by income level of geography was not possible.

Borrower Characteristics

Given the demographics of Farmers State Bank & Trust Company's assessment area, the distribution of loans to borrowers of different income levels, including small businesses and small farms, is reasonable. As demonstrated in the following table, the percentage of residential real estate loans made to low- and moderate-income borrowers (36 percent) approximates the percentage of low- and moderate-income families (38 percent) in the bank's assessment area, while 63 percent of consumer loans were to low- and moderate-income borrowers.

PERCENTAGE OF LOANS REVIEWED MADE TO INDIVIDUALS OF DIFFERENT INCOME LEVELS IN THE BANK-S ASSESSMENT AREA			
Income Level of Borrower¹	Percentage of Loans Reviewed		Percentage of Families in the Bank-s Assessment Area
	Real Estate	Consumer	
Low-income	3	17	16.4
Moderate-income	33	46	21.8
Middle-income	25	28	25.7
Upper-income	39	9	36.1
Total	100	100	100

¹ The income categories are based upon the same percentages of median family income as those listed on Page 6.

Community contacts stated that there is a shortage of housing, including affordable housing, in Lexington. The average home on the market is valued at approximately \$47,000, which requires a mortgage payment higher than most low-income persons can afford. The bank participates in the NIFA home loan program for low- and moderate-income buyers in an effort to make financing available. Furthermore, affordable rental units are available, including several federally-assisted Section 8 housing units. Affordable housing is also available in Arnold; however, the community is very stable and a relatively high percentage of the community is 65 years of age and older.

The assessment area is characterized primarily by small farms and businesses. A

sample of 408 commercial loans within the bank's assessment area revealed that 92 percent were made to small businesses. Similarly, of 227 agricultural loans reviewed, 95 percent were made to small farms. Furthermore, 96 percent of the small business loans and 87 percent of the small farm loans were for amounts less than \$100,000, which is another indication of the bank's effort to meet the credit needs of small businesses and farms.

Responsiveness to Credit Needs and Product Innovation

The bank originates a reasonable number of loans to low- and moderate-income borrowers and a substantial number of loans to small businesses and small farms. As mentioned above, the bank participates in a number of government loan programs that benefit low- and moderate-income individuals and small farms and businesses. In addition, through its participation in the secondary market, the bank offers loans that require down payments as low as 5 percent with the help of private mortgage insurance. Finally, the bank does not have a minimum loan amount and extends a significant number of small-dollar loans, which are typically made to lower income borrowers. During 1996, loans to individuals and businesses were in amounts as low as \$100 and \$160, respectively.

Community Development Loans

Community development lending opportunities are more limited currently than they have been in the past. The bank helped to finance the development of more than 400 homes and the addition of more than 100 rental units during the two years after the IBP, Inc., plant opened in 1991. However, since that time, there have been relatively few new affordable housing developments or opportunities for community development lending. As a result, the bank has not originated any community development loans, as defined by the CRA, since the prior CRA evaluation.

INVESTMENT TEST

The Farmers State Bank & Trust Company's participation in community development investments (hereafter **Qualified investments**), as defined by the CRA, includes a number of grants to organizations whose services are targeted towards low- and moderate-income families. Currently, the bank's assessment area provides limited opportunities for qualified investments, and the bank's portfolio does not contain securities that meet the definition of a qualified investment under the CRA.

Grant Activity

The bank donated \$3,000 to the Lexington Ministerial Association and \$1,000 to the Arnold Ministerial Association. These organizations represent the churches in Lexington and Arnold through which low-income persons are provided funds in helping to meet housing and utility expenses. The Lexington United Way, which provides assistance to low- and moderate-income persons, received \$1,500 from the bank. The bank also gave \$3,000 to the Lexington Foundation Fund and \$1,000 to the Arnold School Scholarship Fund. These funds provide college scholarships to area individuals in need of financial assistance. The bank also donated \$8,000 to the University of Nebraska Foundation for the purpose of providing scholarships to students in need of financial assistance.

In December 1996 the bank provided \$15 to \$25 checks, depending on the number of children in the respective family, to 50 families in Lexington. The families were chosen by the Social Services office in Lexington. The checks were made payable to a local grocer for the purchase of food. Finally, the bank offered a Christmas Giveaway in December 1996. Customers were able to enter the giveaway by spending at least \$10 at a Lexington retail outlet; 100 percent of the retail participants were small businesses. The customers were then eligible for gift certificates, which the bank funded, from these same stores. This represents a contribution targeting small businesses in Lexington.

Responsiveness to Community Development Needs

The bank was responsive in providing financing for the development of affordable housing when the IBP, Inc. plant opened in 1991. Community contacts indicated a continuing need for affordable homes for low-income persons within the Lexington area; in general, the community's housing market has reached a level of saturation. The bank indicates a willingness to provide financing to home buyers of all income categories; however, it has not taken a significant proactive approach aimed at bringing affordable housing development to the Lexington area.

SERVICES TEST

Farmers State Bank & Trust Company's delivery systems are reasonably accessible to essentially all portions of the bank's assessment area. In addition, services do not vary in a way that inconveniences certain portions of the bank's assessment area.

The bank's hours and services are reasonable and consistent with the bank's resources. The bank provides an adequate level of community development services. There have been no changes in branch locations since the prior CRA evaluation.

Accessibility of Delivery Systems

The bank's locations, including the locations of its ATMs, and credit services are targeted toward the convenience and needs of the assessment area. In Lexington, the bank has one full-service main location, a branch office with a teller line and a real estate loan officer, and a drive up facility. There is also a full-service branch in Arnold. In addition, the bank has four ATMs in Lexington, one at the drive-up facility and three at local businesses, and one ATM at the Arnold branch. The hours of operation are reasonable compared to other institutions in the area. The main location and the Arnold branch are open from 8:00 a.m. to 4:00 p.m. on Monday through Friday; the main location is also open from 8:00 a.m. to 12:00 p.m. on Saturday. The branch in Lexington is open from 7:30 a.m. to 5:30 p.m. on Monday through Wednesday, 7:30 a.m. to 7:00 p.m. on Thursday and Friday, and 7:30 a.m. to 12:00 p.m. on Saturday. The drive-up facility in Lexington is open from 11:00 a.m. to 5:30 p.m. on Monday through Friday.

The bank offers a variety of products, including a free checking account. Recently, the bank began offering alternative delivery systems to its customers. The bank offers a debit check card, which may be used in conjunction with an overdraft line of credit. The bank also offers **ATelebank@**, which allows customers to make loan payments, pay bills, and transfer funds by telephone 24-hours a day. The **ATelebank@** delivery system offers a Spanish language option.

Community Development Services

Bank management and staff have been active in providing technical assistance and education to members of its community. President Terry Trueblood is a member of the Lexington Economic Development Council, which is associated with the Chamber of Commerce; he provides financial expertise to this group. The purpose of the Council is to bring jobs to the Lexington area. The Council is looking to attract a variety of small businesses with 10 to 20 employees in an effort to diversify Lexington's economy. Currently, the community's infrastructure is not equipped to handle another large industrial employer like IBP, Inc. Vice President Roger Chamberlin is the Secretary/Treasurer for the Salvation Army in Lexington, lending his financial expertise to the organization which targets its efforts toward low- and moderate-income persons.

The bank also lends financial expertise to the annual Antique and Craft Show held over Labor Day weekend in downtown Lexington. The show is the major revenue producer for the Chamber of Commerce and brings over 15,000 people to Lexington each year. Bank representatives act as treasurers for the event. A bank representative, Clark Cunningham, spoke with a high school agricultural business class regarding financing agricultural operations. In addition, the bank participated in an article to be published in a local newspaper, the *Clipper Herald*, regarding credit counseling. The bank adopted a classroom at the local elementary school and a bank representative discussed with the students the role of banks within a community.

No violations of the antidiscrimination laws and regulations were identified. A review of bank policies and procedures revealed no prohibited practices designed to discourage loan applicants.

APPENDIX A

SCOPE OF EXAMINATION State Bank		
TIME PERIOD REVIEWED		12/11/95 - 01/21/97
FINANCIAL INSTITUTION		
NAME		PRODUCTS REVIEWED
Farmers State Bank & Trust Company Lexington, Nebraska		Residential Real Estate Loans Small Business Loans Small Farm Loans Consumer Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Pinnacle Bancorp, Inc., Central City, NE	Bank Holding Company	None
Bank of Colorado - Front Range, Windsor, CO	Bank Holding Company	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	Bank Holding Company	None
The Farmers State bank and Trust Company, Aurora, NE	Bank Holding Company	None
State Bank, Palmer, NE	Bank Holding Company	None
First National Bank, Abilene, KS	Bank Holding Company	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
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
Gretna State Bank, Gretna, NE	Bank Holding Company	None
First National Bank of Osceola, Osceola, NE	Bank Holding Company	None

Central Grain, Inc., Central City, NE Farmers National Bank of Central City, Central City, NE Dinsdale Brothers, Inc., Central City, NE The First National Bank of Wisner, Wisner, NE	Bank Holding Company Bank Holding Company	None None
First Security Bank, Mitchell, 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	None None None None None

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION

ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Nebraska Block Numbering Areas 9575, 9597, 9676, 9680, 9681, 9682, 9683, 9684, 9685, 9686, and 9718 in Custer, Dawson, Gosper, Lincoln and Logan Counties.	On-Site	Not Applicable	