

**PUBLIC DISCLOSURE**

June 16, 1997

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

FARMERS STATE BANK  
727156  
10-31-3890

P.O. BOX 156  
WALLACE, NEBRASKA 69169

**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 Farmers State Bank, Wallace, Nebraska, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of June 16, 1997. 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:** **Satisfactory** *Record of Meeting Community Credit Needs*

Farmers State Bank's performance under the Community Reinvestment Act (CRA) is considered satisfactory. Conclusions respective to the five core criteria used to evaluate the bank's CRA performance are as follows:

- C The distribution of loans among borrowers of different income levels and small farms of different sizes is considered reasonable.
- C The distribution of loans among geographies of different income levels reflects a reasonable penetration throughout the bank's assessment area.
- C The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- C A substantial majority of the bank's loans are within the assessment area.
- C The Response to Complaints category is unrated as bank management has not received any complaints about the bank's performance under the CRA.

## DESCRIPTION OF INSTITUTION

Farmers State Bank is a subsidiary of a one-bank holding company, Nebanco, Inc., which also owns a nonbank (mortgage company) subsidiary. The bank's March 31, 1997 Report of Condition and Income (Call Report) reflected total assets of \$15,466,000, gross loans of \$11,708,000 and total deposits of \$13,401,000. There are no financial or legal impediments that impact the bank's ability to lend. The bank is located in Wallace, Nebraska, and has no branch offices, automated teller machines, or drive-up facilities. Wallace is situated in the southwestern section of Lincoln County which is located in the central-western portion of the state of Nebraska.

Although Farmers State Bank offers a variety of loan products, the majority (51 percent) of the bank's loan portfolio is comprised of loans for agricultural production. An additional 16 percent of the portfolio is secured by farmland. This high percentage of loans for agricultural production and related purposes is due to the bank's location in a rural, crop-producing region of Nebraska. *Table-1* summarizes the distribution of the bank's loan portfolio as presented in its March 31, 1997 Call Report.

<b>TABLE-1</b>		
<b>DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF MARCH 31, 1997</b>		
<i>Type of Loan</i>	<i>\$ Amount (In Thousands)</i>	<i>Percentage of Total Loans</i>
Agricultural Production	5,952	51
Loans Secured by Real Estate:		
Secured by Farmland	1,842	16
Secured by 1- to 4-family residential properties	2,243	18
Secured by nonfarm, nonresidential properties	368	3
Commercial and Industrial	654	6
Consumer, including open-end	425	4
States and Political Subdivisions	174	2
Other	50	<1
<b>Total</b>	<b>11,708</b>	<b>100</b>

This CRA evaluation represents the first conducted by the Federal Reserve System since the bank became a member. The bank's CRA performance was last evaluated in January 1996 by the Federal Deposit Insurance Corporation, at which time it was rated as having a Satisfactory Record of Meeting Community Credit Needs.

## **DESCRIPTION OF FARMERS STATE BANK'S ASSESSMENT AREA**

Farmers State Bank's assessment area incorporates Lincoln, Perkins and Hayes counties. The assessment area, which is the geographic area bank management has designated as the bank's service area for CRA purposes, is comprised of 11 Block Numbering Areas (BNAs) within these three counties. The assessment area is comprised of one moderate-, six middle-, and four upper-income BNAs. Of these BNAs, Perkins and Hayes Counties are each comprised of only one middle-income BNA. Maps of the bank's assessment area are attached to this performance evaluation.

As of the 1990 census, the median family income for the bank's assessment area of \$31,125 is substantially higher compared to the state of Nebraska's nonmetropolitan median family income of \$27,623. By county, however, both Perkins and Hayes Counties have lower median family incomes at \$26,744 and \$23,500, respectively. Conversely, Lincoln County's median family income of \$31,758 is higher than that of the state.

As of the 1990 census, the bank's assessment area has a total population of 37,097. The population center is the town of North Platte, which has a population of 22,605. Accordingly, Lincoln County has the largest population of the three counties at 32,508. Perkins and Hayes Counties have populations of 3,367 and 1,222, respectively, evidencing sparsely populated areas. This is due to the fact that most of the region is comprised of farmland. According to community contacts, the area is experiencing moderate growth, the majority of which is occurring in North Platte. Wallace has an estimated population of 300 and is situated approximately 45 miles southwest of North Platte in rural Lincoln County. Community contacts state that Wallace and the surrounding area are experiencing slight population growth.

As would be expected for this area, the labor force is partially comprised of employees in the agricultural industry. However, the number of employees in this industry in Lincoln County has shown a 3.8 percent decrease from 1990 to 1994. As of 1994, there were 1,300 (7 percent) farm workers of the total Lincoln County

workforce of 18,927. Unlike Lincoln County, a large portion of the workforce in Perkins and Hayes Counties is in the farming industry. Fifty-nine percent and 34 percent of Hayes and Perkins Counties= employment base, respectively, is comprised of farm workers. The major crop is corn, followed by wheat, alfalfa, soybeans, sorghum grains, edible beans, oats, and barley. Cattle and hog production are also important to the local agricultural industry.

There were 13,692 nonfarm workers in Lincoln County in 1995. Currently, there are 44 small manufacturers in Lincoln County. There are also several major employers which employ 100 or more, including Union Pacific Railroad, Great Plains Regional Medical Center, Simon Contractors, Sixth Street Food Stores, Nebraska Public Power District (located in Sutherland, Nebraska), the school district and the local city and county governments.

Numerous financial institutions, including banks, credit unions, savings and loans, finance corporations and bank branches, result in considerable competition within Farmers State Bank's assessment area. There are two larger banks located in North Platte and a number of smaller financial institutions and branches in many of the towns throughout Lincoln, Perkins and Hayes Counties.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The five core criteria under which the bank's CRA performance was evaluated are summarized below. The respective criteria are not necessarily weighted the same when arriving at an overall rating. In evaluating the CRA, a loan sample representing the bank's major product lines was utilized. This loan sample consisted of 39 consumer-purpose loans, 49 home purchase loans, and 48 small farm loans.

### Lending to Borrowers of Different Incomes and Farms of Different Sizes

This criteria assesses the bank's loan originations among borrowers of different income levels with emphasis on the bank's generation of loans to low- and moderate-income individuals and to small businesses or small farms. The loans evaluated under this criteria are those from the loan sample that were generated within the bank's assessment area. The distribution of loans sampled indicate, overall, a reasonable penetration among borrowers of different income levels and farms of different sizes.

While the distribution, overall, of loans to borrowers of different incomes is considered satisfactory, the distribution of home purchase loans is less favorable in comparison to the demographics of the assessment area. The distribution of the bank's consumer loans, however, is more favorable than demographic figures. This is illustrated in the following table.

TABLE-2								
DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER								
Loan Type	Low-Income <sup>1</sup>		Moderate-Income <sup>2</sup>		Middle-Income <sup>1</sup>		Upper-Income <sup>4</sup>	
	#	\$000	#	\$000	#	\$000	#	\$000
Consumer	7	\$29	10	\$28	6	\$28	10	\$24
<i>Percentage</i>	21%	27%	30%	25%	18%	26%	30%	22%
Real Estate	1	\$41	7	\$338	10	\$528	26	\$2,109
<i>Percentage</i>	2%	1%	16%	11%	23%	17%	59%	70%
<b>Overall Totals</b>	8	\$70	17	\$366	16	\$556	36	\$2,133
<b>Overall Percentage</b>	10%	2%	22%	12%	21%	18%	47%	68%
Number of Families by Income Level	1,756		1,616		2,259		4,663	

TABLE-2				
DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER				
Percentage	17%	16%	22%	45%

- 1 Less than 50 percent of the State of Nebraska's nonmetropolitan statistical area (nonMSA) median family income.
- 2 At least 50 percent but less than 80 percent of the State of Nebraska's nonMSA median family income.
- 3 At least 80 percent but less than 120 percent of the State of Nebraska's nonMSA median family income.
- 4 At least 120 percent or more of the State of Nebraska's nonMSA median Family Income.

Although there are no low-income BNAs and only one moderate-income BNA within the bank's assessment area, 17 percent and 16 percent of the families in the bank's assessment area are considered low- and moderate-income, respectively.

As can be seen in *Table-2*, the consumer loans granted to low- and moderate-income individuals compares favorably to the community demographics with the percentage by number and dollar volume exceeding the percentage of families within the low- and moderate-income categories. However, the figures demonstrate that the percentage of real estate loans by number and dollar volume generated among low-income individuals are significantly lower compared to the demographics of the community. While the moderate- and middle-income comparisons for real estate loans are reasonable, the number and dollar volume percentage of loans in the upper-income categories are well in excess of the number of families categorized as upper-income. It should be noted that the bank's participation arrangement with its mortgage company affiliate makes housing loans available to the community that the mortgage company might not otherwise be able to fund.

The analysis of farm loans revealed that all of these loans were to small farms (defined as having gross annual revenues of less than one million dollars). The distribution of the number of loans among different sized farms, categorized by gross annual revenue amounts, is well in line with what community contacts state is the composition of the farms in the community. *Table-3* illustrates the distribution of the small farm loans generated within the bank's assessment area.

TABLE-3				
DISTRIBUTION OF SMALL FARM LOANS SAMPLED WITHIN THE ASSESSMENT AREA				
Revenue Category <sup>1</sup>	Number of Loans	%	Dollar Amount of Loans	%

TABLE-3				
DISTRIBUTION OF SMALL FARM LOANS SAMPLED WITHIN THE ASSESSMENT AREA				
Less than \$100,000	17	43	392,990	19
Greater than or equal to \$100,000 but less than \$250,000	13	32	608,710	28
Greater than or equal to \$250,000 but less than \$500,000	8	20	709,065	33
Greater than or equal to \$500,000 but less than \$750,000	1	3	150,000	7
Greater than \$750,000 but less than \$1,000,000	1	3	280,000	13
Greater than or equal to \$1,000,000	0	NA	0	NA

<sup>1</sup> Based on Gross Annual Revenue Figures

### **Geographic Distribution of Loans**

This performance criteria focuses on the bank's loan penetration among the low-, moderate-, middle-, and upper-income BNAs and the demographic characteristics of the respective BNAs. Generally, more favorable consideration is given for loan penetration among low- and moderate-income geographies. However, there are no low-income BNAs and only one moderate-income BNA in the bank's assessment area, which limits the analysis of this performance criteria. The assessment area also includes six middle- and four upper-income BNAs. Considering the demographics and the bank's location within the assessment area, the bank's geographic distribution of loans is considered reasonable.

Primarily, the bank extends consumer loans within close proximity to its facility and, therefore, none of the loans reviewed were within the one moderate-income BNA which is located in North Platte. This appears reasonable due to the significant competition located in the town of North Platte and its distance of 45 miles from the bank. Furthermore, the bank is located in a rural, upper-income BNA of Lincoln County and the extension of consumer loans in this BNA is consistent with the demographics and competition within the area. Additionally, the number of real estate loans extended within the one moderate-income BNA compared to the demographics of the BNA appears reasonable. However, *Table-4* illustrates that the distribution of real estate loans among middle- and upper-income BNAs is disproportionate to the population within each BNA. This disproportionate distribution also can be seen among the small farm loans. The dispersion of small farm loans appears more reasonable, however, due to the four upper-income

BNAs being in close proximity to the bank and the rural, middle-income counties of Perkins and Hayes offering considerable financial competition.

TABLE-4								
DISTRIBUTION OF LOANS ACROSS THE ASSESSMENT AREA BY INCOME LEVEL OF BNAs COMPARED TO CHARACTERISTICS OF THOSE TRACTS/BNAs								
	Low-Income <sup>1</sup>		Moderate-Income <sup>2</sup>		Middle-Income <sup>3</sup>		Upper-Income <sup>4</sup>	
	#	\$	#	\$	#	\$	#	\$
<b>Consumer</b>	*	*	0	0	1	2,295	32	105,901
<i>Percent of Total</i>	*	*	0%	0%	3%	3%	97%	97%
<b>Real Estate</b>	*	*	1	45,750	16	905,000	27	2,064,493
<i>Percent of Total</i>	*	*	2%	2%	36%	30%	61%	68%
<b>Small Farm</b>	*	*	0	0	10	280,335	30	1,860,430
<i>Percent of Total</i>	*	*	0%	0%	25%	13%	75%	87%
Number of Tracts in Assessment Area	*		1		6		4	
<i>Percentage of Tracts**</i>	*		9%		55%		36%	
Population by Tract	*		1,272		20,682		15,143	
<i>Percentage of population in tracts**</i>	*		3%		56%		41%	
Number of Families by Tract	*		251		5,803		4,240	
<i>Percentage of Families**</i>	*		3%		56%		41%	

<sup>1</sup> BNAs having less than 50 percent of the nonmetropolitan Nebraska median family income

<sup>2</sup> BNAs having at least 50 percent and less than 80 percent of the nonmetropolitan Nebraska median family income

<sup>3</sup> BNAs having at least 80 percent and less than 120 percent of the nonmetropolitan Nebraska median family income

<sup>4</sup> BNAs having 120 percent or more of the nonmetropolitan Nebraska median family income

\* There are no low-income BNAs in the bank's assessment area

### Loan-to-Deposit Ratio

Farmers State Bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, location, and assessment area credit needs. The bank's loan-to-deposit ratio, compared to its peers, serves as one measure of the bank's lending performance. Based on Call Report information of March 31, 1997, the bank's loan-to-deposit ratio is 86 percent, which is substantially higher than the

bank's national peer group of 60 percent.

Two additional comparisons were made in determining the bank's level of performance under this criteria. First, the bank's average net loan-to-deposit ratio for quarter-ends June 30, 1996 to March 31, 1997 was compared to that of similarly sized (assets of less than \$25 million) and situated banks within or in close proximity to the bank's assessment area. The bank's average loan-to-deposit ratio was 84 percent compared to that of its peer at 73 percent. Also, banks within or in close proximity to the Farmer State Bank's assessment area, but having assets between \$25 million and \$35 million, had a four-quarter average ratio of 80 percent.

### **Lending in the Assessment Area**

This criteria evaluates the concentration of the loan sample that was originated within the bank's assessment area. The analysis shows that a substantial majority of loans are within the bank's assessment area. *Table-5* demonstrates that, overall, 86 percent of the number generated and 88 percent of the dollar volume of the loans sample were within the bank's assessment area.

<b>TABLE-5</b>								
<b>DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA</b>								
	Number of Loans	%	\$ Amount of Loans	%	Number of Loans	%	\$ Amount of	%
Consumer	33	85	108,826	81	6	15	26,260	19
Real Estate	44	90	3,015,243	93	5	10	230,200	7
Small Farm	40	83	2,140,765	81	8	17	492,307	19
Total	117	86	5,264,834	88	19	14	748,767	12

### **Response to Complaints**

The bank has received no complaints about its performance in meeting assessment area credit needs. Therefore, no assessment of the bank's performance in responding to complaints was made.

### **Compliance with Antidiscrimination Laws and Regulations**

During the compliance portion of the examination, no substantive violations of the antidiscrimination laws and regulations were noted. In general, the bank has adequate policies, procedures, and training in place to ensure nondiscrimination in lending activities.