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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**December 6, 1996**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Gordon  
Charter Number 8521  
134 North Main  
Gordon, Nebraska 69343**

**Office of the Comptroller of the Currency  
Post Office Box 1405  
Sioux Falls, South Dakota 57101**

**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-income 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 First National Bank of Gordon, Gordon, Nebraska**, prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of December 6, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

The bank's lending levels and performance to borrowers of different incomes is exemplary.

- The bank's lending shows strong penetration among low-income and moderate-income individuals and small businesses and farms.
- The bank's geographic distribution of lending also shows good penetration among low-income and moderate-income sections of the bank's lending area.
- A substantial majority of the bank's loan originations are to borrowers within its CRA assessment area.

The bank has entered into an agreement with the Department of Justice to fully correct the violations of fair lending laws identified during the September 21, 1993 CRA and compliance examination.

The following table indicates the performance level of **The First National Bank of Gordon** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u><b>THE FIRST NATIONAL BANK OF GORDON</b></u> 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 were received since the prior exam.		

## DESCRIPTION OF INSTITUTION

The First National Bank of Gordon is a \$75 million bank located in Gordon, Nebraska. The bank has one office and one off-premises ATM at a local convenience store. Gordon has a population of approximately 2,000 and is within 15 miles of the South Dakota border. The border is also the southern boundary of the Pine Ridge Indian Reservation.

This bank has 61% of its entire loan portfolio dollar volume in agriculture production which is higher than any other bank in the surrounding 18 county region. Seventy percent of the bank's loan portfolio dollar volume is in agricultural and commercial loans and 30% is in consumer loans.

Community contacts stated that the bank is a leader in lending and other support for the community and surrounding trade area. The bank has a long history of involvement in projects and organizations of all sizes. The two contacts were a local city government official and a local business owner who are both lifetime residents of Gordon and have been involved in local community leadership roles and organizations.

Both persons contacted praised the bank's efforts in both willingness to meet the lending needs of the surrounding community. The primary need is small dollar consumer loans. The bank's performance in meeting this need will be discussed below. The town of Gordon does not currently have any economic development or low-income or moderate-income housing projects. The town is not growing. The bank's involvement with projects on the Reservation will also be discussed below.

Again, the loan portfolio by *dollar volume* is 70% commercial and agricultural and 30% consumer. However, based on the bank's 1996 loan origination recap, the portfolio by *number of loan* originations is 35% agricultural and commercial and 65% consumer.

Agriculture is the primary industry, employer, and lending opportunity in the bank's lending area. The economic condition of this area is stable, but dependent on the agricultural economy. The continued depressed cattle prices are offset by recent favorable wheat and average corn prices.

In the larger individual communities of the region, government, various services, and retail trade provide most of the remaining employment opportunities. The bank is a full service financial institution. Individuals can refer to the bank's CRA Public File for a list of the specific credit and deposit products available from the bank. The previous CRA examination was September 21, 1993 when the bank received the rating "Needs to Improve".

The bank is owned by Isham Management Company, a one bank holding company. There are no legal impediments or other factors, including the financial condition of the bank, which hinder the bank's ability to fulfill its CRA obligation.

## DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank has two assessment areas (AA)--one in Nebraska and one in South Dakota. Both AA meet the requirements of the regulation and do not arbitrarily exclude any low-income or moderate-income areas. The Nebraska AA includes all of Sheridan and Cherry Counties. The South Dakota AA includes all of Shannon, Jackson, and Bennett Counties. This includes all of the Pine Ridge Indian Reservation.

The HUD weighted average median family income for non-metropolitan areas of Nebraska is \$35,100, and for South Dakota, it is \$32,800. The combined HUD median family income for both of the AA is \$33,800.

The individual AA are homogeneous and can be viewed as one AA. Neither the state line nor Reservation boundary cause anything to be different between the two AA. The remainder of this document will refer to one combined AA.

Shannon County in South Dakota is the poorest county in the nation. The two block numbering areas (BNAs) in this county are low-income and are the only low-income BNAs of the bank's AA. The income level there is only 44% of the AA HUD median family income. The AA does not have any upper-income BNAs. The following table illustrates the characteristics and location of the nine BNAs of the bank's AA:

County/State	BNA #	Description	Income Level
Sheridan/NE	9516	the northeastern part of Sheridan County	middle
Sheridan/NE	9517	the remainder of Sheridan County	middle
Cherry/NE	9558	part of Cherry County north of the Niobrara River	middle
Cherry/NE	9559	the remainder of Cherry County	moderate
Shannon/SD	9936	the western part of Shannon County	low
Shannon/SD	9937	the eastern part of Shannon County	low
Jackson/SD	9911	the northern part of Jackson County	middle
Jackson/SD	9912	the southern part of Jackson County	moderate
Bennett/SD	9931	all of Bennett County	moderate

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan to Deposit Analysis

The bank's three year quarterly average loan to deposit ratio since the last CRA examination is 78%. This ratio is currently at 72% and comparable to the other banks in its AA. Using second quarter 1996 Call Report information, the other banks chartered in the AA have ratios ranging from 49% to 85% with the average being 73%.

### Lending in Assessment Areas

A substantial majority of the bank's loans are originated within its AA. The bank tracks all loan originations by type and location. The year-to-date October 2, 1996 loan originations recap shows that 94% (3,778 out of 4,002) of loans originated were to borrowers within the AA.

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

The bank has done a good job of lending to low-income and moderate-income individuals and businesses of different sizes, especially businesses and farms with annual gross revenue less than \$100 thousand. HUD family income information on the AA shows that 56% of the families are either low-income or moderate-income. The bank is willing to make loans of any size and examiners observed numerous loans for under \$200. Examples include advancing small amounts to allow someone to attend a funeral or pay for graduation expenses.

The following numbers are derived from 1995 and 1996 loan origination information. They came from both an examiner sample and bank prepared information. These tables show that 90% of consumer loans were to low-income and moderate-income individuals and 95% of commercial loans were to businesses and farms with annual gross revenues less than \$250 thousand:

Consumer Loan Sample	# loan originations	% of total originations
low-income	202	63%
moderate-income	87	27%
middle-income	25	8%
upper-income	6	2%
Total	320	100%

Business/Agricultural Sample

gross revenues < \$100,000	12	63%
\$100,001 to \$250,000	6	32%
\$250,001 to \$500,000	0	0%
\$500,001 to \$1,000,000	1	5%
> \$1,000,000	0	0%
Total	19	100%

The bank is actively involved with the Oglala Sioux Tribe. The bank currently has more than \$2 million in loans to the Tribe for various purposes. The bank currently has six business development loans to businesses on the Reservation totaling \$360 thousand. These businesses include a health clinic, a cultural center, two construction companies, and a non-profit communications organization.

The bank provided a \$327M Letter of Credit which assisted in the construction of the Isanti Housing Project on the Reservation. This project provided 40 homes to low-income and moderate-income families.

It also has three loans to schools on the Reservation totaling \$242 thousand. These loans were for construction of a ballfield, the purchase of two buses, a tractor, and a snowblower, and for the purchase of a mobile home for school housing.

The bank is currently working in conjunction with the Oglala Sioux Housing Authority and HUD on a new housing program for families on Tribal land. This program will provide a method for families to obtain a mortgage on a leasehold interest on Tribal Trust Property. HUD will provide a guaranty on the mortgage.

The bank currently participates in three other guaranteed loan programs. The agencies the bank works with include the Bureau of Indian Affairs, the Consolidated Farm Services Agency, and the Small Business Administration. During 1994 and 1995 (1996 information is unavailable until year end), the bank's dollar volume of guaranteed loan originations totaled \$5.7 million.

Geographic Distribution of Loans

The bank's geographic distribution of lending shows excellent penetration among the low-income and moderate-income BNAs within its AA. The bank's 1996 loan origination recap mentioned above was used to construct this table which compares the bank's level of lending in the different income BNAs of the AA to the actual income breakdown:

BNA Income	% of BNAs	# of Originations	% of Originations
4 middle-income	44%	1,377	36%
3 moderate-income	33%	397	11%
2 low-income	22%	2,004	53%
TOTAL = 9 BNAs	100%	3,778	100%

### Record of Compliance with Antidiscrimination Laws

In our September 21, 1993 examination, we detected violations of the Equal Credit Opportunity Act which prohibits discrimination based on loan applicants. Our review found significant interest rate differentials between rates charged to Native Americans and rates charged to non-Native American borrowers. As a result of this examination, we referred the issue to the Department of Justice. The bank entered into a settlement agreement with the Department of Justice on May 7, 1997.

In response to the September 21, 1993 examination, management implemented standard underwriting procedures and pricing policies for residential and consumer loan products. They also expanded the internal audit to include an ongoing analysis of rates charged on loans. As a result of the May 1997 settlement with the Department of Justice, bank management agreed to the following:

- Create a fund to compensate American Indian bank customers who were victims of the alleged pricing discrimination;
- Set aside funds to pay fees or charges for documentation and credit bureau reports for consumer loans applied for by residents of the Pine Ridge Reservation;
- Conduct a personal, money management education program for persons on the Pine Ridge Reservation; and
- Take affirmative steps to increase the pool of qualified American Indian applicants for positions at the bank, particularly for positions as loan officers.

As part of the September 30, 1996 examination, we conducted a fair lending review using gender as a prohibited basis. We did not review race or consumer loans since the matter regarding disparate treatment to Native Americans was still pending with the Department of Justice. To complete our fair lending review, we compared denied female applicants to approved male applicants for the following types of loans: home purchase, home improvement and home refinancing. Based on this review, we did not detect any substantive violations of anti-discrimination laws. These loans conformed to established underwriting guidelines and were well documented.

At the next compliance examination, we will review consumer lending based on race in order to follow up on our findings from the September 21, 1993 examination.