



PUBLIC DISCLOSURE

February 06, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Cattle National Bank and Trust Company
Charter Number 13431

104 S. 5th Street
Seward, NE 68434

Office of the Comptroller of the Currency

13710 FNB Parkway
Suite 110
Omaha, NE 68154-5298

NOTE: This document is an evaluation of this 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. 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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The Cattle National Bank (CNB) satisfactorily meets the credit needs of its assessment area (AA). The conclusion is based on the following:

- The bank's loan-to-deposit (LTD) ratio is reasonable and is above peer banks.
- A majority of CNB's loans are inside its AA.
- The distribution of loans represents a reasonable penetration of farms and an reasonable penetration of businesses of different revenue sizes within its AA.
- The geographic distribution of agricultural loans reflects reasonable dispersion among the low- and moderate-income census tracts (CTs) in the AA.

SCOPE OF EXAMINATION

This performance evaluation (PE) assesses the bank's record of meeting the credit needs of the communities in which it operates. We evaluated the bank under the Small Bank performance criterion, which is primarily a lending test. The lending test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities.

The evaluation period for the lending test covers loans originated or purchased from January 1, 2014 through September 30, 2016. Commercial and agricultural loans are the bank's primary products.

The bank has one AA, Seward and Lancaster counties in Nebraska, generating a majority of the bank's loans and deposits. The bank opened one new branch during the lending test time period, Fallbrook, on June 16, 2014. This branch is located in Lincoln, Nebraska, which is in Lancaster County. We included it in our review because it has been open a majority of the timeframe of our lending test scope period.

Conclusions regarding the bank's lending performance are based on commercial and agricultural loans originated or purchased from January 1, 2014 through September 30, 2016, using 2010 census data. During this period, commercial loans represented 37.4 percent of loan originations or purchases by dollar amount and 29.8 percent by number. Agricultural loans represented 39.1 percent by dollar amount and 31.1 percent by number.

We conducted a Home Mortgage Disclosure Act (HMDA) Data Integrity Review in August 2016 by comparing the bank's loan application registers to actual loan files, although residential real estate loans were not found to be a primary product. We also tested a sample of 20 randomly selected commercial loans and 20 randomly selected agricultural loans in February 2017 by comparing the gross annual revenues used in making the credit decision to actual source documents in the loan files. We found the HMDA data for residential real estate loans and revenue data for commercial and agricultural loans for 2014, 2015 and year-to-date 2016 to be accurate and reliable for use during this examination.

DESCRIPTION OF INSTITUTION

The bank is a community bank headquartered in Seward, Nebraska, which is located in southeast Nebraska along Interstate 80, approximately 25 miles west of Lincoln, Nebraska. As of September 30, 2016, the bank reported total assets of \$251 million and tier 1 leverage capital of \$30 million.

This bank has four full-service branch locations serving Seward and Lancaster counties in Nebraska. Each full-service office has an automated teller machine (ATM). The bank has one additional branch location in Seward County that does not have lenders onsite, but has an ATM and drive-up facilities. The bank has eight ATMs located throughout the AA, five of which are in Seward County and three in Lancaster County. Seward and Lancaster counties comprise the Lincoln Metropolitan Statistical Area (MSA).

The bank is 99.2 percent owned by Cattle Crossing Inc., a one bank holding company (HC) headquartered in Seward, Nebraska. The HC does not negatively impact the bank's ability to meet the credit needs of the communities it serves.

There are no legal or financial impediments to CNB's ability to meet the credit needs of its AA. CNB received a satisfactory rating at its last CRA examination dated July 5, 2011. Since the July 5, 2011 CRA evaluation, the bank opened the Fallbrook branch on June 16, 2014 and Village Gardens branch on May 1, 2012. Both of these branches are in Lancaster county. There have been no other branches opened or closed since the previous CRA evaluation.

The bank's primary products are commercial and agricultural loans. During the current rating period, commercial loans represented 37.4 percent of loan originations or purchases by dollar amount and 29.8 percent by number. Agricultural loans represented 39.1 percent by dollar amount and 31.1 percent by number. Home loans and consumer loans are not primary loan products, accounting for only 23.5 percent by dollar amount and 39.1 percent by number.

| Loan Origination by Loan Type | | | | |
|--------------------------------------|------------------|-------------|--------------|-------------|
| Loan Category | \$ (000) | % | # | % |
| Commercial Loans | \$134,276 | 37.4% | 780 | 29.8% |
| Residential Loans | \$66,345 | 18.5% | 543 | 20.7% |
| Consumer Loans | \$9,688 | 2.7% | 471 | 18.0% |
| Agricultural Loans | \$140,308 | 39.1% | 815 | 31.1% |
| Other Loans | \$8,373 | 2.3% | 11 | 0.4% |
| Total Originations | \$358,990 | 100% | 2,620 | 100% |

Source: Bank records from January 1 2014 – September 30, 2016

The bank's primary products have not changed since the July 5, 2011 CRA evaluation when the primary products were agricultural and commercial loans. However, the amount of residential real estate lending has increased significantly since then as the bank originates and sells loans into the secondary market. Management's strategy for the bank remains focused on organic growth of a diverse portfolio. Seward and Lancaster counties allow for this growth given Seward's agricultural lending needs with some commercial lending needs, and Lancaster's residential real estate lending needs with some larger commercial real estate lending needs.

DESCRIPTION OF ASSESSMENT AREA(S)

CNB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. CNB is located in the Lincoln MSA, which includes Seward County and Lancaster County in Nebraska. The bank's AA consists of 75 CTs; 15 are moderate-income level CTs and 10 are low-income CTs. There are 50 middle- and upper-income level CTs (66.7 percent of all CTs in the AA).

The four census tracts in Seward County are middle income. According to the 2010 U.S. Census, the county's population is 16,935. The majority of low- and moderate-income CTs are located near the downtown area of Lincoln. The local Seward economy is reliant on local farms and businesses. The city includes a university and medical center. The local economy is stable, with low unemployment. The agricultural economy has been experiencing strain, particularly during the prior two years, as a result of low commodity prices and high land and input costs. The residential real estate markets are strong in both Lincoln and Seward.

Competition for financial services within the AA remains strong. There are many banks, thrifts, and credit unions within the AA. There are many banks with a presence in the downtown Lincoln area, where a majority of the low- and moderate-income CTs are located.

We contacted the president of the Seward County Chamber and Development Partnership. The contact felt local institutions are meeting the credit needs of the area. There is a growing credit need as the AA continues to grow its population each year. The contact indicated the primary credit needs were housing and small business lending. CNB is involved in both of these types of loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CNB's performance with regard to the lending test is satisfactory. The bank's LTD ratio is reasonable, and a majority of the bank's loans are originated inside its AA. There were no complaints regarding the bank's CRA performance. The overall borrower distribution is reasonable. The borrower distribution for small farms has reasonable penetration. The borrower distribution for small business has reasonable penetration. The overall geographic distribution is reasonable. The geographic distribution for

agricultural loans has reasonable dispersion. The geographic distribution for business loans has poor dispersion. Competition for commercial lending in the downtown Lincoln market is highly competitive, where the majority of the low- and moderate-income CTs are located.

Loan-to-Deposit Ratio

CNB’s lending level is reasonable and meets the criteria for satisfactory performance given its size, financial condition, and credit needs of the AA. CNB’s LTD ratio averaged 85.9 percent over the past 20 quarters, with a quarterly low of 78.0 percent and a quarterly high of 91.4 percent. The LTD ratio was 91.4 percent as of September 30, 2016.

The bank’s LTD ratio is comparable to seven other community banks of similar size, location, and product offerings, and ranks second among the eight banks. The other seven banks had an average LTD ratio of 81.4 percent, and ranged from 62.7 percent to 94.4 percent over the past 20 quarters.

Lending in Assessment Area

CNB originates a majority of loans inside the AA. The bank originated 80.0 percent by number and 73.7 percent by dollar of loans within the AA in our sample.

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

The overall borrower distribution of loans in the AA has reasonable penetration. The distribution of agricultural loans to low- and moderate-income farms is reasonable. The distribution of business loans to low- and moderate-income businesses reflects reasonable penetration.

Agricultural Loans

The distribution of agricultural loans to borrowers reflects a reasonable penetration among farms of different sizes. In the AA, 80.0 percent of the bank’s loans to farms originated during the loan-sampling period were made to small farms.

The following table shows the distribution of agricultural loans among different sized farms in the AA.

| Table 2A - Borrower Distribution of Loans to Farms in Seward/Lancaster AA | | | | |
|--|--------------|--------------|-------------------------|--------|
| Farm Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Business | 97.9% | 1.4% | 0.7% | 100.0% |
| % of Bank Loans in AA by # | 80.0% | 20.0% | 0.0% | 100.0% |
| % of Bank Loans in AA by \$ | 69.3% | 30.7% | 0.0% | 100.0% |

Source: Farm loan data sampled from January 1, 2014 – September 30, 2016 and 2010 U.S. Census Data

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. In the AA, 80.0 percent of the bank’s loans to businesses originated during the loan-sampling period were made to small businesses. CNB meets the percent of AA small businesses by both dollar and volume amount in our sample.

The following table shows the distribution of business loans among different sized businesses in the AA.

| Table 2A - Borrower Distribution of Loans to Business in Seward/Lancaster AA | | | | |
|---|--------------|--------------|---------------------|--------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Business | 80.6% | 6.7% | 12.7% | 100.0% |
| % of Bank Loans in AA by # | 80.0% | 20.0% | 0.0% | 100.0% |
| % of Bank Loans in AA by \$ | 81.3% | 18.7% | 0.0% | 100.0% |

Source: Business loan data sampled from January 1, 2014 – September 30, 2016 and 2010 U.S. Census Data

Geographic Distribution of Loans

The bank’s overall geographic distribution reflects a reasonable dispersion throughout the CTs of different income levels. The distribution of agricultural loans reflects a reasonable dispersion, while the distribution of business loans reflects a poor dispersion throughout the CTs of different income levels.

Agricultural Loans

The bank’s geographic distribution of farm loans reflects reasonable dispersion throughout the CTs of different income levels. While the bank did not originate any agricultural loans in the low- and moderate-income CTs in the AA, this is considered reasonable because there were significantly fewer farms located in these CTs. Furthermore, our sample consisted of 80 percent of farm loans in Seward County, which only consists of middle-income CTs.

| Table 3A - Geographic Distribution of Loans to Farms in Seward/Lancaster AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loans | 1.6% | 0.0% | 6.0% | 0.0% | 41.6% | 80.0% | 50.7% | 20.0% |

Source: Farm loan data sampled from January 1, 2014 – September 30, 2016 and 2010 U.S. Census Data

Business Loans

The bank’s geographic distribution of business loans reflects poor dispersion throughout the CTs of different income levels. The level of business loans originated in the low- and moderate-income CTs is lower than the percent of businesses in the low- and moderate-income CTs. The low- and moderate-income CTs are located near the downtown area in Lincoln. The downtown area is highly competitive and CNB does not have a branch location in the area. Additionally, 50.0 percent of our sample were business loans originated in Seward County, which only consists of middle-income CTs.

| Table 3A - Geographic Distribution of Loans to Businesses in Seward/Lancaster AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Business Loans | 7.5% | 0.0% | 22.2% | 5.0% | 36.0% | 65.0% | 33.8% | 30.0% |

Source: Business loan data sampled from January 1, 2014 – September 30, 2016 and 2010 U.S. Census Data

Responses to Complaints

CNB has not received any CRA-related complaints since the last CRA examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.