



PUBLIC DISCLOSURE

December 2, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Carson National Bank of Auburn
Charter Number 3628
2301 Dahlke Avenue
Auburn, NE 68305

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.

Carson National Bank of Auburn (CNB) satisfactorily meets the credit needs of its assessment area (AA). We base this conclusion on the following:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the performance context of the AA.
- A majority of CNB's loans are made inside its AA.
- CNB's community development (CD) activities demonstrate good responsiveness to the community development needs in its AA.
- Despite other reasonable lending performance, the bank's loan distribution shows poor penetration to farms of different revenue sizes within the AA.

SCOPE OF EXAMINATION

We evaluated CNB with small bank CRA examination procedures. The rating is based on a lending test, which evaluates a bank's record of meeting the credit needs of its AA through its lending activities. The evaluation period for CNB covers its performance from May 27, 2008 through December 2, 2013.

CNB's primary credit product is agricultural loans. To evaluate the bank's lending performance, we selected a sample of agricultural loans originated between January 1, 2010 and December 31, 2011 due to changes in the comparative U.S. Census data. This period is representative of the bank's lending strategy since the previous CRA examination.

DESCRIPTION OF INSTITUTION

CNB is a \$73 million bank located in Nemaha County in southeast Nebraska. CNB's sole office is located in Auburn, Nebraska. The bank operates one cash-dispensing automated teller machine located in Auburn.

We rated CNB "Satisfactory" at its last CRA examination dated May 27, 2008. The following table summarizes loans originated and purchased during the evaluation period.

Loan Portfolio Originations				
	By Number	Percentage	By \$(000)	Percentage
Agricultural Loans	79	32	10,453	62
Consumer Loans	112	45	834	5
Commercial Loans	26	11	2,541	15
Residential RE Loans	30	12	3,106	18

Source: Bank Reports

CNB continues to offer traditional loan and deposit products. As of September 30, 2013, the bank's loan portfolio totaled 31 percent of total assets. The loan portfolio consists of 57 percent farm, 11 percent business, 7 percent consumer, and 25 percent home loans based on call report information. Agricultural loans remain the bank's primary product. The Board does not plan to introduce any new loan products.

There are no legal or financial impediments limiting the bank's ability to help meet community credit needs. There have not been any other significant changes to the bank's corporate structure since the previous CRA examination.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. CNB has one office located in Nemaha County, and its AA encompasses all of Nemaha County. There are two middle-income census tracts in the AA. The Federal Financial Institutions Examination Council (FFIEC) has designated the county's census tracts as underserved, rural, middle-income tracts.

The AA's population was 7,576, and the 2000 weighted average median family income was \$44,101. Family income in the AA includes 18 percent low-income, 19 percent moderate-income, 21 percent middle-income, and 42 percent upper-income families. Business demographics consist of 86 percent non-farm entities and 14 percent farm entities. The local economy is stable, and unemployment remains moderate at 4.01 percent. Large area employers include the Cooper Nuclear Station, Peru State College, Ariens, Nemaha County Hospital, Johnson-Brock Public Schools, Magnolia Metals Inc., and the state correctional institution near Tecumseh.

We considered a 2012 community contact performed in conjunction with another examination in the same AA. The contact had no concerns about financial institutions not meeting the needs of local agricultural borrowers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CNB's performance under the lending test is satisfactory.

Loan-to-Deposit Ratio

CNB's average LTD ratio over the past twenty-six quarters is reasonable given economic and demographic factors. The bank's quarterly average LTD ratio was 48.6 percent and ranged from a high of 67.4 percent to a low of 33.6 percent. The average LTD ratio is reasonable in relation to the 48.5 percent average ratio of the two similarly situated banks chartered in the AA. The two comparable banks have average ratios of 25.3 percent and 71.6 percent. CNB has a 26 percent deposit market share, and the other two similarly situated banks have market shares of 33 percent and 25 percent.

Executive Vice President (EVP) Darrell Kruse attributes the low and declining LTD ratio to economic factors affecting the agricultural sector and demographic characteristics. Deposit growth had the greatest impact on the declining LTD ratio. EVP Kruse said the growth in deposits has come from prosperous local farmers, particularly those that grow crops. The local demographics reflect an older population for which loan demand is lower and the propensity to save is higher. Farmers are borrowing less than in prior years due to plentiful liquidity resulting from high crop prices, particularly the smaller farmers. This reduction in borrowing by small farmers also affects the **Lending to Farms of Different Sizes** lending test.

To offset the low LTD ratio, management submitted CD loans and investments for consideration. The additional CD activities help offset the marginal loan-to-deposit ratio. More information can be found in the **Qualified Investments and CD Services** section.

Lending in Assessment Area

The bank originated a majority of its loans inside the AA. A random sample of 20 agricultural loans showed 80 percent by number and 74 percent by dollar amount were located within CNB's AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	16	80	4	20	40	2,389	74	855	26	3,244

Source: Bank Reports

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

Based on our sample of selected loans, CNB has poor penetration in lending to farms of different sizes in its AA. CNB originated 60 percent of the loans by number and 33 percent of the loans by dollar volume to farms with gross annual revenues less than \$1 million. The percent of loans to small farms by number and dollar volume is significantly less than the demographic comparator in the AA. Management stated the retirement of some farmers resulted in the consolidation of certain farming operations. Management also pointed out the lack of agricultural borrowing in recent years and observed the phenomenon is particularly noticeable for smaller farm operators.

Borrower Distribution of Loans to Farms in the Assessment Area				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98	1	1	100
% of Bank Loans in AA by #	60	40	-	100
% of Bank Loans in AA by \$	33	67	-	100

Data Source: 2011 Business Geodemographic Data and farm loan data sampled from 2010-2011

Geographic Distribution of Loans

An analysis of the geographic distribution of loans was not meaningful as the AA did not have any low- or moderate-income census tracts.

Qualified Investments and CD Services

The FFIEC designates the AA as an underserved area. In underserved areas, CD loans and investments can meet a broader objective, and qualification does not need to directly tie to meeting needs of a specific percentage of low- or moderate-income populations. CD activity will qualify if the loan and investments help to meet essential community needs, including financing the construction or improvement of essential infrastructure or facilities for health services and education, as long as low- and moderate-income populations are not excluded from the benefits.

CNB's community development activities demonstrate good responsiveness to community development needs in its AA. The bank purchased twenty municipal bonds totaling \$2.64 million, providing financing for utilities and the school district within the AA. The bank also provided the AA with eight CD loans totaling \$2.3 million. The loans partially funded construction of a new water treatment plant; financed the purchase of an ambulance, a school bus, and lighting for the school district; and financed housing for disabled local residents. Demographic data of the AA shows 18 percent of households are low-income and 19 percent are moderate-income. From this, we concluded community projects financed by the bank through its lending and investments activities served low- and moderate-income households in the AA.

Responses to Complaints

The bank has not received any complaints regarding their CRA performance since the last performance evaluation.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c) in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

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