



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 02, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Friend
Charter Number 2960

150 Maple Street
Friend, Nebraska 68359

Office of the Comptroller of the Currency

Omaha Field Office
13710 FNB Parkway, Suite 110
Omaha, Nebraska 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 First National Bank of Friend (FNB) satisfactorily meets the credit needs of its assessment area (AA).

- The bank maintains a reasonable loan-to-deposit ratio relative to area competition and the credit needs of the community.
- The bank's record of lending to borrowers within its AA is more than reasonable.
- The bank's pattern of lending to farms and businesses of different revenue sizes reasonably reflects area demographics.

SCOPE OF EXAMINATION

The evaluation period for this Community Reinvestment Act (CRA) examination focuses on loan originations from January 2006 through December 2008. We reviewed both the dollar amount of loans and the number of loans originated during the evaluation period to determine the bank's primary lending product. We determined that FNB's primary loan products are agricultural and commercial loans. We randomly selected a loan sample of twenty agricultural loans and twenty commercial loans originated between January 1, 2007 and December 31, 2008 to conduct our analysis.

DESCRIPTION OF INSTITUTION

FNB is a \$36 million institution located in southeastern Nebraska. FNB operates in Friend, Nebraska and does not have any branches or automated teller machines. The bank is 100% owned by Southwick Bancorporation, a one-bank holding company. There are no legal or financial barriers limiting the bank's ability to meet community credit needs.

FNB received a "Satisfactory" rating at the last CRA examination, dated June 28, 2004. Refer to the bank's CRA Public File for more information.

FNB offers a range of credit products including agricultural, real estate, commercial, and consumer loans. As of December 31, 2008, FNB's loan portfolio accounted for 71% of total assets. Agricultural and commercial loans accounted for 51% of total loans, as of December 31, 2008.

The following chart provides a breakdown of FNB's lending products during the evaluation period.

Loan Type	% by Dollars of Loans Originated/Purchased during evaluation period	% by Number of Loans Originated/Purchased during evaluation period
Agricultural Loans	57%	39%
Commercial Loans	37%	13%
Residential RE Loans	3%	4%
Consumer Loans	3%	44%

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has designated contiguous portions of Saline and Fillmore counties as its AA. The AA contains three census tracts (CT): 9907, 9908, and 9916. Two of the CTs are located in Saline County, and one is located in Fillmore County. All census tracts are classified as middle-income tracts. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income tracts. Individuals can refer to the CRA Public File for a map outlining the bank's AA.

The AA is primarily agricultural. Most farms in the AA are small or moderate in size. The median family income of the AA is \$40,947, or 79% of the 2008 Nebraska statewide median family income of \$51,800. Seventy percent of the housing units in the AA are owner-occupied. The weighted average median cost of housing in FNB's AA is \$56,888. The percent of families by income level for the AA is as follows: 16 percent low income, 20 percent moderate income, 30 percent middle income, and 34 percent upper income. The main source of employment is grain production, and many local residents commute to larger neighboring towns for employment in various trades.

The banking environment in the AA is competitive. The primary credit needs of the AA are agricultural, while secondary credit needs are small business loans and residential home loans. We determined the credit needs of the AA by contacting a local official, and through previous contacts made during CRA reviews of other area financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's lending levels are reasonable.

FNB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and AA credit needs. The bank's net loan-to-deposit ratio averaged 91% since the previous CRA examination. The nineteen-quarter average loan-to-deposit ratio of other banks in the AA ranged from 74% to 128%, with an average of 93%.

Lending in Assessment Area

A majority of loans by number and dollar volume are originated within the bank's AA.

FNB originates a majority of its loans within the AA. We reviewed a random sample of twenty agricultural loans and twenty commercial loans to determine the bank's lending performance within their AA. The random sample showed 83% by number and 81% by dollar amount were located within FNB's AA. The following table shows the findings of our sample:

Table 1 - Lending in FNB's Assessment Area											
Loan Type	Number of Loans					Dollars of Loans					
	Inside		Outside		Total	Inside		Outside		Total (000)	
	#	%	#	%		\$ (000)	%	\$ (000)	%		
Agricultural	18	90%	2	10%	20	\$2170	80%	\$545	20%	\$2,715	
Commercial	15	75%	5	25%	20	\$1,769	83%	\$362	17%	\$2,132	
Totals	33	83%	7	18%	40	\$3,939	81%	\$907	19%	\$4,847	

Source: Random Loan Sample from loans originated January 1, 2007 to December 31, 2008.

Lending to Farms and Businesses of Different Sizes

FNB has a satisfactory record of lending to farmers and businesses of different sizes and different income levels.

FNB's distribution of loans to farms of different sizes is reasonable. A sample of 20 agricultural loans within the bank's AA showed 97% of loans by dollar, and 90% of loans by number had revenues of \$1 million or less. This was comparable to demographic data that indicated 98% of farms in the AA had revenues of \$1 million or less. The following table shows the findings of our sample:

Table 2A - Borrower Distribution of Loans to Farms in FNB's Assessment Area				
Farm Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98%	1%	1%	100%
% of Bank Loans in AA by #	90%	0%	10%	100%
% of Bank Loans in AA by \$	97%	0%	3%	100%

Source: Random sample of loans originated from January 1, 2007 to December 31, 2008 and 2008 Business Demographic Data.

The distribution of commercial borrowers reflected satisfactory penetration among smaller businesses. The 2008 business demographic data reveals that 45% of the businesses in the bank's AA are small, with revenues of less than \$1 million and 2% are large, with revenues over \$1 million. The remaining 53% of businesses did not report revenue information. Income information was not available on the majority of the 20 commercial borrowers sampled. Therefore, we used loan size as a proxy for income, as the size of the loan often loosely correlates to the size of the business. A sample of

20 commercial loans originated in FNB's AA showed 90% were in amounts of \$100,000 or less. Refer to Table 2C for more information.

Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in FNB's Assessment Area				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$50,000	17	85%	\$181,828	10%
\$50,001 - \$100,000	1	5%	\$75,000	4%
\$100,001 - \$500,000	1	5%	\$146,712	8%
\$500,001 - \$1,000,000	1	5%	\$1,500,000	78%

Source: Random sample of loans originated from January 1, 2007 to December 31, 2008 and 2008 Business Demographic Data.

Geographic Distribution of Loans

All of the census tracts in FNB's AA are middle-income. Therefore, a specific analysis of geographic distribution is not meaningful.

Responses to Complaints

FNB has not received any CRA-related complaints since the prior CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. Our Office conducted a Fair Lending Examination beginning June 11, 2007 and found no disparate treatment.