



## **PUBLIC DISCLOSURE**

January 21, 2015

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Gordon  
Charter Number 8521

134 N. Main Street  
Gordon, NE 69343

Office of the Comptroller of the Currency

1225 17th Street  
Suite 450  
Denver, CO 80202-5534

**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 Outstanding.**

The First National Bank (FNB) of Gordon has demonstrated outstanding performance in meeting the credit needs of the communities it serves.

- The average loan-to-deposit ratio is reasonable given the ratios of similarly situated banks.
- The bank originates a majority of loans within its assessment area (AA).
- The distribution of loans reflects excellent penetration among borrowers of different incomes and businesses of different sizes.
- The bank actively supports small businesses, including very small businesses with annual revenues of less than \$250 thousand.
- The geographic distribution of loans reflects excellent dispersion throughout the bank's AA.
- The bank's community development loans, investments, and services enhance overall Community Reinvestment Act (CRA) performance and help meet the needs of the AA.
- There have been no written complaints regarding the bank's performance in meeting its community's credit needs.

**SCOPE OF EXAMINATION**

This evaluation entailed a full scope review of FNB of Gordon's performance in meeting the credit needs of its community. We assessed performance pursuant to the CRA over an evaluation period from January 2012 to September 2014. We determined the bank's primary loan product to be agricultural loans including production loans and loans secured by farmland. We sampled 40 agricultural loans originated during the evaluation period.

We also reviewed community development loans, investments, and services, which FNB of Gordon has provided since August 2009. In addition, we contacted a community representative in the AA to gain a better understanding of the local economy, area credit needs, and involvement of local financial institutions.

During our evaluation period, the metropolitan area (MA) and census tract (CT) definitions and boundaries were revised by the Office of Management and Budget. Accordingly, our geographic analysis compared 2004 revised MA boundaries for loans originated in 2012 and 2013, and for loans originated in 2014, we compared the 2013 MA boundaries.

**DESCRIPTION OF INSTITUTION**

FNB of Gordon is a \$176 million national bank located in Gordon, Nebraska. Gordon is located

in Sheridan County, and is 14 miles south of the South Dakota state line. The bank does not operate any branches and has one cash-dispensing ATM that is located in a convenience store in Gordon. FNB of Gordon is part of a one-bank holding company, Isham Management Company, with consolidated total assets of \$176 million as of September 30, 2014. Since 2011, FNB of Gordon has been certified as a minority owned bank and participates in the Minority Owned Deposit Program (MODP). As of this review, the bank held \$2.6 million in the MODP. For many years, FNB of Gordon has served as the primary financial institution for the Oglala Sioux Tribe located on the Pine Ridge Indian Reservation in South Dakota. The bank receives a significant amount of deposits from the Tribe in addition to extending loans to the Tribe itself, as well as other tribal entities and businesses.

The bank's net loans to total assets are 54 percent as of September 30, 2014. The primary loan products are agricultural loans, including production loans and loans secured by farmland. These loans comprise 72 percent of the dollar volume of loans. Other loan products include commercial and industrial loans representing 12 percent of the bank's loan portfolio, loans secured by commercial real estate at 6 percent, consumer loans at 5 percent, loans secured by residential real estate at 1 percent, and other loans at 4 percent.

FNB of Gordon received an "Outstanding" rating at its July 20, 2009 CRA evaluation. Please refer to the bank's public file for additional information. The bank has not changed its business strategy since the last evaluation. There are no financial or legal impediments that affect the bank's ability to meet the credit needs of the AA.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's designated AA includes Sheridan and Cherry Counties in Nebraska, and Shannon, Jackson, and Bennett Counties in South Dakota. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income (LMI) geographies. The South Dakota portion of the AA includes the Pine Ridge Indian Reservation (Oglala Sioux Tribe) which is located within Shannon and Bennett Counties in their entirety, and the south half of Jackson County. While the bank's AA crosses state lines, the AA is connected economically and demographically and functions essentially as one economy. Cities within the AA include Gordon, NE, Valentine, NE, Hay Springs, NE, Rushville, NE, Pine Ridge, SD, Porcupine, SD, Wounded Knee, SD, and Kyle, SD.

The AA includes 10 census tracts (CT); however, one CT in South Dakota resides in both Bennett and Jackson counties. The Bennett County portion is designated as a middle-income geography and the Jackson County portion is designated as moderate-income. Accordingly, we consider the AA to include 11 designated CTs with two designated as low-income (18 percent), four as moderate-income (35 percent), and five as middle-income (46 percent). In addition, four of the middle-income tracts are designated as distressed or underserved. The bank is located in a CT designated as middle-income, underserved, and distressed.

Native Americans comprise 55 percent of the AA population due to the Pine Ridge Indian Reservation (Reservation) being located in the AA. The 2014 Department of Housing and Urban

Development (HUD) non-MSA updated median family income for the AA is \$59,045. The percentage of families by income level for this portion of the AA is as follows: low-income, 33 percent; moderate-income, 22 percent; middle-income, 20 percent; and upper-income, 25 percent. Approximately 25 percent of the AA's population has income below the poverty level.

The economic conditions on the Reservation continue to be poor. The federal government has designated the Reservation as an Empowerment Zone, due primarily to the high unemployment rate. This makes available government grants for the purpose of stimulating economic development through small businesses. The Pine Ridge Hospital and a local packing plant are the largest employers in the area.

Outside of the Reservation, the area economic climate is stable. The major economic driver for the city of Gordon and surrounding area is agriculture. Although commodity prices have declined, cattle prices and hay production are good. The largest local employers include Gordon Memorial Hospital, City of Gordon, Modern Farm Equipment, and FNB of Gordon.

FNB of Gordon faces a moderate level of competition from branches of larger regional banks and local community banks located in nearby towns.

The community representative we contacted stated the primary credit needs within the community are in consumer, agriculture, and commercial lending products. The representative stated small dollar consumer loans are a specific need that is being met by FNB of Gordon. The representative also indicated that local financial institutions are adequately meeting the credit needs of the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit (LTD) Ratio**

**FNB of Gordon's LTD ratio is reasonable relative to the bank's size, financial condition, and the LTD ratios of other similarly situated banks.**

FNB of Gordon's LTD ratio averaged 59.25 percent over the 23 quarters since the last CRA evaluation and ranged from a low of 52.27 percent to a high of 66.90 percent. The LTD ratio variations are primarily due to seasonal fluctuations within the loan portfolio. Similarly situated banks for comparison purposes have similar asset sizes ranging from \$60 million to \$244 million. FNB of Gordon's quarterly average LTD compares reasonably to similarly situated banks with LTD ratios ranging between 68 percent and 78 percent.

### **Lending in Assessment Area**

**FNB of Gordon originates the majority of its loans in its AA.**

We reviewed 40 agricultural loans to determine the location and pattern of loans originated in the AA. Total agricultural loans represent 72 percent of the gross loan portfolio. FNB of Gordon originated 68 percent by dollar volume and 80 percent by number of agricultural loans within its AA.

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

**FNB of Gordon’s lending to borrowers of different income levels and to businesses of different sizes reflects excellent penetration in the AA.**

Our loan sample included 20 agricultural loans originated in the AA during 2012 and 2013 and another 20 loans originated in the AA during 2014. AA demographics for these years are similar and indicate that 98 percent of all farms are small farms (< \$1 million in annual revenues). Loans originated in 2012 and 2013 reflect 90 percent by number and 79 percent by dollar volume originated to small farms. Loans originated in 2014 reflect 95 percent by number and 97 percent by dollar volume originated to small farms.

In addition, the bank routinely lends to very small farms (<\$250 thousand annual revenues). Our sample of 40 loans indicates the bank originated 48 percent of these loans to very small farms.

<b>Table 1 - Borrower Distribution of Loans to Farms</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
<b>% of AA Farms</b>	<b>98</b>	<b>1</b>	<b>1</b>	<b>100</b>
2012 / 2013 - % of Loans in AA by #	90	10	0	100
2012 / 2013 - % of Loans in AA by \$	79	21	0	100
2014 - % of Loans in AA by #	95	0	5	100
2014 - % of Loans in AA by \$	97	0	3	100

*Source: 2010 U.S. Census data; Dun and Bradstreet 2013 and 2014 data*

## Geographic Distribution of Loans

**FNB of Gordon demonstrates excellent performance in lending to low- and moderate-income geographies as shown in Tables 2 and 3 below.**

Our loan sample of 2014 agricultural borrowers showed that 50 percent of the loans by number and 51 percent by dollar volume were originated in low- and moderate-income geographies. This exceeds area demographics, which indicate that 36 percent of all farms in the AA are located in low- and moderate-income geographies. Furthermore, FNB of Gordon extended 15 percent by number of loans (26 percent by dollar volume) in low-income geographies, which compares well to area demographics with only 5 percent of AA farms located in low-income tracts.

Table 2 - Geographic Distribution of 2014 Loans to Farms								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	5	15	31	35	64	50	0	0

*Source: 2010 U.S. Census Data and 2013 Metropolitan Area Boundaries*

Our loan sample of 2012 and 2013 agricultural borrowers reflects that 45 percent of the loans by number and 33 percent by dollar volume were originated in low- and moderate-income geographies. This exceeds demographic data that indicates only 36 percent of all farms in the AA are located in low- and moderate-income geographies. In addition, 5 percent both by number and dollar volume were originated to borrowers located in low-income geographies. This is similar to area demographics, which indicate that 5 percent of all farms in the AA are located in low-income geographies.

Table 3 - Geographic Distribution of 2012 and 2013 Loans to Farms								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	5	5	31	40	64	55	0	0

*Source: 2010 U.S. Census Data and 2004 Metropolitan Area Boundaries*

## Additional Support

Also acknowledged under the lending test as part of assessing the bank’s performance are loans made to the Oglala Sioux Tribe to create jobs and loans made to other businesses (that meet the definition of community development) located on or serving the Reservation. In addition, the

bank has extended loans to the City of Gordon to repair water tanks for the city's water system. Since the previous CRA evaluation, the bank has funded over \$17 million in loans for these purposes. These efforts positively affect the bank's overall performance rating.

## **Qualified Investments and CD Services**

### **Community Development Investments**

FNB of Gordon has purchased three bonds totaling \$662 thousand to facilitate the Nebraska Investment Finance Authority (NIFA) Beginning Farmer/Rancher lending program. The NIFA program enables new farmers or ranchers to obtain loans at interest rates lower than those generally available in the conventional farm credit markets. FNB of Gordon has extended three loans totaling \$638 thousand under the program. While these investments are not specifically targeted at low- and moderate-income (LMI) individuals, they enable the bank to participate in a program that benefits economic development and LMI individuals by providing employment and start-up capital. This effort positively affects the bank's overall performance.

### **Community Development Services**

Two bank officers serve as board members of the local hospital and an economic development organization. Several employees conduct programs at the local elementary, high school, and college to inform students about personal finance and business development.

## **Responses to Complaints**

FNB of Gordon has not received any CRA-related complaints during the evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 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.