



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

October 15, 2012

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

The First National Bank of Johnson  
Charter Number: 8161

125 Main Street  
Johnson, Nebraska 68378

Office of the Comptroller of the Currency  
Omaha Field Office  
13710 FNB Parkway Suite 110  
Omaha, Nebraska 68154

**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 Johnson (FNB Johnson) meets the credit needs of its assessment area (AA).

- The bank's loan-to-deposit (LTD) ratio is lower than other similarly situated banks in the AA, but meets the standards for satisfactory performance given the context of the AA.
- A majority of the bank's loans are within its AA.
- FNB Johnson's performance in lending to farms of different sizes within its AA is good.
- The bank did not receive any complaints about its performance in meeting the credit needs of the AA during the evaluation period.
- CNB's community development activities demonstrate good responsiveness to the community development needs in its AAs and helps offset the bank's marginal LTD ratio.

**SCOPE OF EXAMINATION**

We evaluated FNB Johnson under the small bank examination procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

The evaluation period for this examination is June 5, 2007 through October 15, 2012. The lending test for FNB Johnson covers the period from January 1, 2010 through December 31, 2011, as this period is representative of the bank's lending strategy since the previous Community Reinvestment Act (CRA) examination.

FNB's primary loan product is agricultural loans. To evaluate FNB Johnson's performance under the lending test, we selected a random sample of 20 agricultural loans originated between January 1, 2010 and December 31, 2011. We based our conclusions on this sample.

**DESCRIPTION OF INSTITUTION**

FNB Johnson is a \$77.9 million bank located in Johnson, Nebraska. The bank is 100 percent owned by First National Johnson Bancshares, Inc., a one-bank holding company. FNB Johnson also operates a branch and automated teller machine in Auburn, Nebraska. FNB Johnson offers traditional loan and deposit products. According to the June 30, 2012 Call Report, the bank's loan portfolio includes agricultural (51 percent), commercial (22 percent), and consumer (15 percent) loans based on outstanding dollars.

As of June 30, 2012, FNB Johnson reported total loans of \$14.4 million. Total assets increased \$11.2 million from December 31, 2009 to June 30, 2012. Loans increased \$1.0 million over the period, while investments increased \$11.2 million. The bank has a low average net loans and leases to total assets ratio of 25.4 percent, as of March 31, 2012. The following table shows the breakdown of loans originated and purchased from January 1, 2010 to December 31, 2011, with the bank’s primary product in bold.

<b>Loan Type</b>	<b>% by Dollars of Loans Originated/Purchased during evaluation period</b>	<b>% by Number of Loans Originated/Purchased during evaluation period</b>
<b>Agriculture Loans</b>	<b>55</b>	<b>19</b>
Consumer Loans	19	69
Commercial Loans	21	10
Home Loans	5	2
Total	100	100

Source: bank reports

There are no legal or financial factors that impede the bank’s ability to help meet the credit needs of the AA. The bank received a “Satisfactory” CRA rating at the last examination dated June 4, 2007. There have not been any significant changes to FNB Johnson’s corporate structure, including merger or acquisition activities, since the previous CRA examination.

**DESCRIPTION OF ASSESSMENT AREA**

FNB Johnson has one AA that encompasses all of Johnson and Nemaha counties. The Federal Financial Institutions Examination Council (FFIEC) has designated both counties as underserved rural middle-income tracts. The AA is contiguous and reasonable for the bank. Included in the AA are Nemaha county census tracts 9981 and 9982, and Johnson county census tracts 9975 and 9976. The four census tracts are designated as middle-income. The AA does not arbitrarily exclude any low- or moderate-income areas.

US Census Data from 2000 shows a total of 4,919 total households in the AA, with 12 percent below the poverty level and 3 percent on public assistance. A high percentage of households, 36 percent, are on social security. The percentage of low-, moderate-, middle-, and upper-income families within the AA remained stable between 1990 and 2000. The weighted average of median family income for the non-metropolitan statistical AA in Nebraska is \$42,898. The median weighted average for house values in the AA is \$59,829 and 65 percent of housing is owner occupied. There are nine financial institutions operating within the assessment area. FNB Johnson ranks third by market share with 16.7 percent of the deposit market.

Farms are doing well, although the 2011 flooding and the 2012 drought impeded the farm economy according to our community contact. One of the larger employers in the area, Auburn Consolidated Industries (ACI), Inc. closed but has since reopened for seasonal manufacturing of lawnmowers and log splitters. A cabinet manufacturer in Auburn closed. Other large employers include the Cooper Nuclear Station near Brownville and the state correctional institution near Tecumseh.

We conducted one community contact with a local organization. The contact represented the farming community of Johnson and had no concerns about financial institutions not meeting the needs of local agricultural borrowers. The contact noted the local banks were highly competitive and matched rates on farm loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB Johnson’s average LTD ratio over the past twenty quarters is reasonable given economic and demographic factors. The bank’s quarterly average LTD ratio was 25.4 percent, which is stable since the last CRA examination. The ratio is substantially lower than the 69.6 percent average of the three similarly situated banks chartered in the AA, which range from 51.1 percent to 84.5 percent. Unlike FNB Johnson, the three competitors’ ratios have declined since the last CRA examination, and one had a ratio of 32.7 percent for the March 2012 quarter.

Management attributes the low LTD ratio to competition and demographic characteristics. The local demographics reflect an increasing older population, for which loan demand is lower. The bank bought the Auburn branch from another financial institution in 1997. This purchase included the acquisition of deposits but no loans, which negatively impacted the bank’s LTD ratio. FNB Johnson has operated in the Auburn market for fifteen years, but faces strong competition from two well-established and competitive affiliated banks. Additionally, the bank makes many small dollar loans that do not result in a significant increase in the LTD ratio, but they help meet the credit needs of the community.

To offset the low LTD ratio, management submitted for consideration community development (CD) loans, services, and investments. The additional CD activities help offset the marginal LTD ratio. More information can be found in the **Qualified Investments and CD Services** section.

### Lending in Assessment Area

FNB Johnson’s lending in the AA meets the standard for satisfactory performance and shows a substantial majority inside the AA. We reviewed a sample of 20 agricultural loans originated during 2010 and 2011 to determine the bank’s lending performance within the AA. All of the loans in our random sample were to borrowers within the AA.

Lending in the Johnson and Nemaha County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	20	100	0	0	20	753,750	100	0	0	\$753,750

Source: sampled farm loan data 2010-2011

**Lending to Farms of Different Sizes**

FNB Johnson’s performance for lending to small farms is reasonable. We define small farming operations as those with gross revenues of less than \$1 million. We reviewed a sample of twenty agricultural loans to determine the bank’s borrower distribution of loans. All of the loans in this sample were located in the AA and originated during 2010 and 2011.

The bank originated 100 percent of agriculture loans to small farm operations in the AA. The bank is comparable to a demographic comparator, which indicates 99 percent of AA farms have gross revenues less than \$1 million.

<b>Borrower Distribution of Loans to Farms in Johnson and Nemaha County Assessment Area</b>				
Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99	0.5	0.5	100
% of Bank Loans in AA by #	100	0		100
% of Bank Loans in AA by \$	100	0		100

*Source: bank reports, 2011 GeoDemographic data, and sampled farm loan data 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 geographies.

**Qualified Investments and CD Services (Optional)**

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.

FNB Johnson’s community development activities demonstrate good responsiveness to community development needs in its AA. FNB Johnson had 17 investments totaling \$2.0 million during the evaluation period, which provided financing to renovate local hospitals, schools, and other infrastructure. The bank provided the AA with 3 loans totaling \$1.65 million. The loans partially funded construction of a new water treatment plant and funded equipment for and an addition to a local fire station. In addition, the bank provides ACH payroll services free of charge to the Johnson-Brock Public School and to Nemaha County Rural Water District. Demographic data of the AA shows 24 percent of households are low-income and 18 percent are moderate-income. From this we can demonstrate that low- and moderate-income households are served by community projects financed by the bank through its lending and investments activities.

### **Responses to Complaints**

The bank has not received any CRA related complaints 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 assessment area 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.