



## **PUBLIC DISCLOSURE**

October 7, 2013

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

First National Bank Northeast  
Charter Number 6221  
440 Main Street  
Lyons, NE 68038-0009

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.**

First National Bank Northeast (FNB Northeast) satisfactorily meets the credit needs of its assessment areas (AAs). We base this conclusion on the following:

- The bank's loan-to-deposit ratio is reasonable.
- A majority of FNB Northeast's loans are inside its AAs.
- Loan distribution shows a reasonable penetration of farms and businesses of different revenue sizes within the AAs.
- The geographic dispersion of loans within the Burt-Dodge AA is reasonable.

**SCOPE OF EXAMINATION**

We evaluated FNB Northeast under the small bank Community Reinvestment Act (CRA) examination procedures. The rating is based on a lending test, which evaluates a bank's record of meeting the credit needs of its three AAs through its lending activities. The evaluation period for FNB Northeast covers its performance from April 7, 2008 through October 7, 2013.

FNB Northeast's primary credit products are agricultural and commercial loans. To evaluate the bank's lending performance, we selected samples of agricultural loans and commercial 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. We selected a sample of 20 agricultural loans and 20 commercial loans for two of the three AAs. For the Cedar County AA, we sampled only agricultural loans due to an insufficient volume of commercial loans originated in the AA.

**DESCRIPTION OF INSTITUTION**

FNB Northeast is a \$272 million bank located in Burt County in northeastern Nebraska. The bank is 95 percent owned by Farm & Home Insurance Agency, Inc., a one-bank holding company located in Lyons, Nebraska. FNB Northeast's main office is located in Lyons, Nebraska. The bank also operates seven full-service branches in Uehling, Tekamah, Hooper, Oakland, Fremont, Hartington, and Ceresco, Nebraska. The bank does not have any deposit-taking automated teller machines (ATMs), but it does operate several cash-dispensing ATMs.

There are no legal or financial impediments limiting the bank's ability to help meet community credit needs. There have not been any significant changes to the bank's corporate structure, including merger or acquisition activities, since the previous CRA examination. We rated FNB Northeast "Satisfactory" at the last CRA examination dated April 7, 2008. The following table summarizes loans originated and purchased during the evaluation period.

Loan Portfolio Originations				
	By Number	Percentage	By \$(000s)	Percentage
Agricultural Loans	743	47	113,009	66
Consumer Loans	524	33	4,115	3
Commercial Loans	261	16	32,229	19
Residential RE Loans	68	4	20,964	12

Source: Bank Reports

## DESCRIPTION OF ASSESSMENT AREA(S)

The bank's AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies, or cross a state line. Due to the locations of FNB Northeast's seven branches, management designated three AAs: Burt-Dodge, Saunders, and Cedar.

The first AA includes all of Burt and Dodge Counties. The home office in Lyons and the Uehling, Tekamah, Hooper, Oakland, and Fremont branches serve the AA. According to 2000 U.S. Census data, the AA includes ten middle-income census tracts (CTs), one moderate-income CT, and two upper-income CTs. The moderate-income CT is a small part of a Native American reservation. The two upper-income CTs are located in Fremont, Nebraska. The AA's population was 43,951, and the 2000 weighted average median family income was \$43,855. Family income in the AA includes 15 percent low-income, 19 percent moderate-income, 25 percent middle-income, and 41 percent upper-income families. Business demographics consisted of 87.7 percent non-farm entities and 12.3 percent farm entities. The local economy is stable, and unemployment remains low at 2.14 percent.

The second AA includes all of Saunders County and is part of the Omaha-Council Bluffs Metropolitan Statistical Area (MSA). The Ceresco branch serves this AA. According to 2000 U.S. Census data, the AA includes five middle-income CTs and the population was 19,830. The 2000 weighted average median family income was \$49,905. Family income in the AA includes 19 percent low-income, 22 percent moderate-income, 30 percent middle income, and 29 percent upper-income families. Business demographics consist of 85.2 percent non-farm entities and 14.8 percent farm entities. The local economy is stable, and unemployment remains low at 1.66 percent.

The third AA includes all of Cedar County, which is located in the northeastern part of the state on the Nebraska-South Dakota border. The Hartington branch serves the AA. According to 2000 U.S. Census data, the AA includes two middle-income CTs and the population was 9,615. The 2000 weighted average median family income was \$39,189. Family income in the AA includes 16 percent low-income, 22 percent moderate-income, 31 percent middle-income, and 31 percent upper-income families. Business demographics consist of 77.3 percent non-farm entities and 22.7 percent farm entities. The local economy is stable, and unemployment remains low at 1.75%.

We conducted a community contact during the examination with a regional community development organization. The community contact noted banks in the northeastern region of Nebraska are willing to work with the organization in structuring innovative loans to start-up and small businesses.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB Northeast’s performance under the lending test is satisfactory.

### Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio is reasonable as compared to other similarly situated banks. Sixteen other financial institutions serve the three AAs. FNB Northeast ranks second with a 17 percent deposit market share in the Burt-Dodge AA. FNB Northeast has a three percent deposit market share in the Saunders AA and less than one percent deposit market share in the Cedar AA. The quarterly average loan-to-deposit ratio since the last CRA examination of FNB Northeast is 81 percent, compared to an average of 78 percent for the other similarly situated institutions in the bank’s AAs. FNB Northeast’s loan-to-deposit ratio trends along the agricultural cycle from quarter to quarter, but the average ratio has remained stable since the prior CRA examination.

### Lending in Assessment Area

The bank originated a majority of its loans inside the AAs. A random sample of 40 agricultural and business loans showed seventy-eight percent by number and sixty percent by dollar amount were located within FNB Northeast’s AA.

Lending in the Assessment Area										
Loan Type	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	14	70	6	30	20	2,655	65	1,430	35	4,085
Business	17	85	3	15	20	887	48	975	52	1,862
Totals	31	78	9	22	40	3,542	60	2,405	40	5,947

Source: Bank Reports

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

FNB Northeast has a reasonable penetration of lending to farms and businesses of different sizes in all AAs.

#### Burt-Dodge AA

FNB Northeast has reasonable penetration of lending to farms and businesses of different sizes in the Burt-Dodge AA. We weighted the Burt-Dodge two-county AA more heavily in considering the overall rating for the bank. This AA contains the majority of FNB Northeast’s branches, over 90 percent of the bank’s deposits, and approximately three-fourths of the bank’s loan originations.

FNB Northeast originated 85 percent of the loans by number and 52 percent of the loans by dollar to farms with gross annual revenues less than \$1 million. By dollar volume, the bank’s performance is significantly lower than the demographic comparator. Our sample included three agricultural borrowers with revenues of more than \$1 million, and although these borrowers accounted for only 15 percent of the sample by number, their larger loans accounted for 48 percent of the sample by dollar. The percent of loans by number compares reasonably to the demographic comparator as shown in the following table.

<b>Borrower Distribution of Loans to Farms in the Burt-Dodge AA</b>				
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 #	85	15	0	100
% of Bank Loans in AA by \$	52	48	0	100

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

FNB Northeast originated 90 percent of the loans by number and 69 percent of the loans by dollar to businesses with gross annual revenues less than \$1 million, as shown in the following table. This compares favorably to the demographic comparator of 69 percent of businesses in the Burt-Dodge AA that reported gross annual revenue of \$1 million or less. Revenue information for 28 percent of businesses was unavailable.

<b>Borrower Distribution of Loans to Businesses in the Burt-Dodge Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69	3	28	100
% of Bank Loans in AA by #	90	10	0	100
% of Bank Loans in AA by \$	69	31	0	100

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

**Saunders AA**

FNB Northeast has reasonable penetration of lending to farms and businesses of different sizes in the Saunders AA.

FNB Northeast originated 90 percent of the loans by number and 64 percent of the loans by dollar to farms with gross annual revenues less than \$1 million. By dollar volume, the bank’s performance is significantly lower than the demographic comparator. Our sample included two agricultural borrowers with revenues of more than \$1 million, and although these borrowers accounted for only 10 percent of the sample by number, their larger loans accounted for 36 percent of the sample by dollar. The percent of loans by number compares reasonably to the demographic comparator as shown in the following table.

<b>Borrower Distribution of Loans to Farms in the Saunders AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99	1	0	100
% of Bank Loans in AA by #	90	10	0	100
% of Bank Loans in AA by \$	64	36	0	100

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

FNB Northeast originated 90 percent of the loans by number and 82 percent of the loans by dollar to businesses with gross annual revenues less than \$1 million, as shown in the following table. This compares favorably to the demographic comparator of 70 percent of businesses in the Saunders AA that reported gross annual revenue of \$1 million or less. Revenue information for 28 percent of businesses was unavailable.

<b>Borrower Distribution of Loans to Businesses in the Saunders Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70	2	28	100
% of Bank Loans in AA by #	90	5	5	100
% of Bank Loans in AA by \$	82	17	1	100

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

### Cedar AA

FNB Northeast has reasonable penetration of lending to farms of different sizes in the Cedar AA.

FNB Northeast originated 70 percent of loans by number and 47 percent of loans by dollar to farms with gross annual revenues less than \$1 million. While the percent of loans by dollar shows less than satisfactory performance, the bank’s performance by number meets the standard for satisfactory performance. Our sample included six agricultural borrowers with revenues of more than \$1 million, and although these borrowers accounted for 30 percent of the sample by number, their larger loans accounted for 53 percent of the sample by dollar. Four of those six borrowers are related enterprises with loans totaling 36 percent of the sample by dollar. The percent of loans by number compares reasonably to the demographic comparator as shown in the following table.

<b>Borrower Distribution of Loans to Farms in the Cedar AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99	1.0	0	100
% of Bank Loans in AA by #	70	30	0	100
% of Bank Loans in AA by \$	47	53	0	100

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

The volume of lending in the Cedars AA is much lower than in the other two AAs, and our performance context review indicated lending opportunities in Cedars County are more limited than in the other two AAs. USDA designates the county as rural and underserved, and distressed due to population loss. There are other mitigating factors to explain the low penetration of lending to small farmers in this AA. The branch was originally a loan production office, and the branch remains small, with a staff of two employees. The number of customers is less than 50, resulting in a small pool of possible borrowers.

**Geographic Distribution of Loans**

We performed an analysis of the geographic distribution of loans for the Burt-Dodge AA, since the AA contains one moderate-income census tract. A geographic distribution analysis is not meaningful for the other two AAs given that there are not any low- or moderate-income census tracts.

The geographic distribution of business loans reflects reasonable dispersion throughout the AA. We reviewed 20 agricultural and 20 commercial business loans to determine if the bank is lending to customers within different income census tracts. Due to an overwhelming majority of the AA consisting of middle-income census tracts for both commercial and agricultural borrowers, FNB Northeast meets the standards of reasonable dispersion of credit within the AA. It is not reasonable to expect the bank to have originated many loans within the one moderate-income census tract due to the low number of businesses and farms located in that census tract. The following tables show the breakdown of loans as compared to the AA demographics.

Geographic Distribution of Loans to Farms in Burt-Dodge AA								
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	0	0	1	0	94	100	5	0

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

Geographic Distribution of Loans to Businesses in Burt-Dodge 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	0	0	1	0	84	95	15	5

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

### **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.