



PUBLIC DISCLOSURE

December 5, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Western National Bank
Charter Number 10971
523 Thayer Avenue
Chester, NE 68327

Office of the Comptroller of the Currency
Kansas City Field Office
7101 College Boulevard, Suite 1600
Overland Park, KS 66210

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.

State Name: Kansas Rating: Satisfactory
State Name: Nebraska Rating: Satisfactory

The institution's CRA rating takes into account the ratings in different states/multistate metropolitan areas by considering:

- Lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration.
- The loan-to-deposit ratio reflects more than reasonable responsiveness.
- Lending within the bank's assessment areas (AAs) is reasonable at 58 percent by number.

Scope of Examination

Examiners used small bank examination procedures to evaluate Western National Bank's (WNB) record of meeting the credit needs of its community through its lending activities. The evaluation period for the lending test is January 1, 2011 through September 30, 2016. The lending test review period is January 1, 2014 through September 30, 2016. The bank's primary loan products are agricultural operating loans and agricultural land loans in both the Kansas and Nebraska AAs. These loans are consistent with the bank's business strategy. Our conclusions were based on the bank's combined agricultural loan products originated or purchased during the review period in each AA and compared to the 2010 Census demographics. We sampled a combined total of 86 agricultural loans (operating lines and farmland).

Description of Institution

WNB is an \$81 million community bank headquartered in Chester, Nebraska. WNB is a wholly owned subsidiary of Summerfield Financial Services, LLC, a one-bank holding company headquartered in Lincoln, Nebraska. WNB operates three branch locations, and two non-deposit-taking ATMs in its AAs. The two Nebraska branches are located in south central Nebraska. One branch and ATM are located in Chester (Thayer County) and the other branch and ATM are located in Cairo (Hall County), a portion of the Grand Island MSA. The Kansas branch is located in north central Kansas in Summerfield (Marshall County).

WNB offers a full range of deposit and loan products and services. The loan portfolio consists primarily of agricultural loans by number and dollar. As of September 30, 2016, WNB reported net loans of \$67 million, or 83 percent of total assets, with \$8.8 million in tier 1 capital.

WNB has the financial capacity to assist in meeting the credit needs of its AAs. The bank received a "Satisfactory" rating at their last CRA examination dated May 2, 2011. Since the previous CRA examination, WNB acquired a state bank in Nebraska

and moved the main branch from Summerfield, Kansas to Chester, Nebraska. The bank also converted its Cairo, NE, LPO to a full service branch. These changes increased the bank's assessment areas (AAs) from one to three for this examination.

Selection of Areas for Full-Scope Review

WNB has three AAs. One AA is in Marshall County, Kansas, which includes all middle-income tracts. In Nebraska, there are two AAs. The first AA is Hall County, which is part of the Grand Island MSA, with one-moderate-income, ten middle-income, and three upper-income census tracts. The second AA in Nebraska is Thayer County, which includes all middle-income census tracts. We performed full-scope reviews on all three AAs in the performance evaluation. Agricultural loans were determined to be the bank's primary product in all AAs and those were the loans we analyzed.

Ratings

The bank's overall rating is a blend of the state ratings, which are based on areas that received full-scope reviews. We weighed performance based on the number of loan originations and deposit volumes by AA. We gave more emphasis to performance in the Thayer County AA in the state of Nebraska based on the number of loan originations, with 49 percent and deposit volume of 46 percent. The next highest volume was the Marshall County, KS AA, with 34 percent of loan originations and deposit volume of 31 percent. The Hall County, NE AA had 17 percent for loan originations and 23 percent of deposit volume. Refer to the "Description of Assessment Area" under each State Rating section for additional details.

Conclusions with Respect to Performance Criteria

The following conclusions represent the bank's performance at bank level based on a review of reported loan and other information maintained during the evaluation period.

Loan-to-Deposit Ratio

WNB's average quarterly LTD ratio of 98 percent reflects more than reasonable responsiveness to its AA credit needs. The LTD ratio ranged between 88 percent and 115 percent for the last 23 quarters. The average quarterly LTD ratio over the same period for the bank's competitors was 84 percent, with ratios ranging from 63 percent to 104 percent. The bank's average LTD ratio exceeded three of four competitors.

Lending in Assessment Area

WNB extended a majority of its primary loan products to small farms located within the AAs. The bank made 58 percent by number and 55 percent by dollar amount of loans within their AAs.

State Rating

State of Kansas

CRA Rating for Kansas: Satisfactory

- Lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration.

Description of Assessment Area

The Marshall County AA is a non-MSA county consisting of four middle-income census tracts located in north central Kansas. The bank's AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

The 2010 U.S. census population of the Marshall County AA was 10,117. The FFIEC updated 2016 MSA median family income is \$57,300. The Marshall County AA has the following income distribution for families: 16 percent low-income, 17 percent moderate-income, 24 percent middle-income, 43 percent upper-income and 8 percent below poverty level. Of the 4,291 households in the Marshall County AA, 38 percent receive social security, 11 percent have income below the poverty level, and 1 percent receive public assistance. Approximately 21 percent of the population is over the age of 65, and 33 percent of the population consists of civilians not in the workforce. The median housing value from the 2010 U.S. census data is \$73,287 and 67 percent of the units are owner occupied.

Manufacturing; agricultural, forestry, fishing, and hunting; healthcare and social assistance; and county government are the primary types of employment in the area. Major employers are Landoll Corporation, Union Pacific Railroad, Community Memorial Hospital, Titan Trailer, and Marshall County Government.

The Bureau of Labor Statistics reflects an October 2016 unemployment rate for Marshall County at 3.1 percent. The state of Kansas unemployment rate was 4.4 percent, with a national unemployment rate of 4.9 percent for the same time period.

WNB faces strong competition in the AA. Based on the Federal Deposit Insurance Corporation's (FDIC) most recent deposit market share report dated June 30, 2016, 10 other financial institutions maintain 14 offices in the Marshall County AA. Of these 10 institutions, two dominate 60 percent of the market share of deposits. WNB has 4.36 percent of deposit market share and ranks seven out of 10 institutions.

Examiners used two community contacts made within the last year. The community contacts stated the AA has a need for beginning farmer loans; however, they get a great deal of competition from Farm Credit Services. The contact indicated that all banks in the AAs are supportive of the community's credit needs and willing to participate in community development when available.

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

Lending to borrowers of different incomes and to businesses and small farms of different sizes is reasonable. Loans to small farms with revenues less than or equal to \$1 million is slightly below peer at 93.75 percent compared to peer of 99.22 percent. Loans by proxy size of \$250 thousand or less are 77.78 percent. Fourteen of 18 loans were made to small farms in amounts less than \$250 thousand with six of the loans made in amounts less than \$50 thousand.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans originated in the Marshall County AA during the evaluation period would not be meaningful. The Marshall County AA does not contain any low- or moderate-income areas.

State Rating

State of Nebraska

CRA Rating for Nebraska: Satisfactory

- Lending to borrowers of different incomes and business of different sizes reflects reasonable penetration.

Description of Assessment Areas

Hall County AA

Hall County AA is one of four counties located in the Grand Island, NE MSA #24260. The bank's AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income tracts.

The 2010 U.S. census population of the Hall County AA was 58,607. The FFIEC updated 2016 MSA median family income is \$57,800. The Hall County AA has the following income distribution for families: 18 percent low-income, 18 percent moderate-income, 25 percent middle-income, 39 percent upper-income, and 8 percent below poverty level. Of the 21,878 households in the Hall County AA, 26 percent receive social security, 11 percent have income below the poverty level, and 1 percent receive public assistance. Approximately 13 percent of the population is over the age of 65, and 26 percent of the population consists of civilians not in the workforce. The median housing value from the 2010 U.S. census data is \$110,674 and 63 percent of the units are owner occupied.

Manufacturing, education, and healthcare and social assistance are the primary types of employment in the area. Major employers are JBS (meat packaging company), CHI Health St Francis, Grand Island Public Schools, Hornady Manufacturing, and Case New Holland Industrial America.

The Bureau of Labor Statistics reflects an October 2016 unemployment rate for Hall County at 3.2 percent. The state of Nebraska unemployment rate was 3.3 percent, with a national unemployment rate of 4.9 percent for the same time period.

WNB faces strong competition in the AA. Based on the FDIC's most recent deposit market share report dated June 30, 2016, 15 other financial institutions maintain 38 offices in the Hall County AA. Of these 15 institutions, two dominate 44 percent of the market share of deposits. Management considers one of these institutions as a primary competitor in the AA. The primary competitor is of similar size to WNB. WNB has 0.89 percent of deposit market share and ranks 14 out of 15 institutions.

Examiners used one community contact made within the last year. The community contact stated the AA has a need for affordable housing, business startups, beginning farmer loans, and establishing banking relationships with the unbanked to establish credit. The contact indicated that all banks in the AAs are supportive of the community's credit needs and willing to participate in community development when available.

Thayer County AA

The Thayer County AA is a non-MSA county consisting of two middle-income census tracts located in south-central Nebraska. The bank's AA complies with the regulation and does not arbitrarily exclude any low- or moderate-income tracts. Thayer County has been designated a distressed and underserved middle-income county for loss of population and rural location.

The 2010 U.S. census population of the Thayer County AA was 5,228. The FFIEC updated 2016 MSA median family income is \$60,500. The Thayer County AA has the following income distribution for families: 21 percent low-income, 19 percent moderate-income, 26 percent middle-income, 34 percent upper-income, and 7 percent below poverty level. Of the 2,247 households in the Thayer County AA, 41 percent receive social security, 12 percent have income below the poverty level, and 3 percent receive public assistance. Approximately 26 percent of the population is over the age of 65, and 38 percent of the population consists of civilians not in the workforce. The median housing value from the 2010 U.S. census data is \$61,900 and 67 percent of the units are owner occupied.

Manufacturing; agricultural, forestry, fishing, and hunting; and healthcare and social assistance are the primary types of employment in the area. Major employers are Reinke Manufacturing, Metal-Tech Partners, Metal Quest Unlimited, Thayer County Health Services, and Blue Valley Lutheran Home Society.

The Bureau of Labor Statistics reflects an October 2016 unemployment rate for Thayer County at 2.5 percent. The state of Nebraska unemployment rate was 3.3 percent with a national unemployment rate of 4.9 percent for the same time-period.

WNB faces strong competition in the AA. Based on the FDIC's most recent deposit market share report dated June 30, 2016, seven other financial institutions maintain nine offices in the Thayer County AA. Of these seven institutions, two dominate 53 percent of the market share of deposits. Management considers one of these institutions as a primary competitor in the AA. The primary competitor is of similar size to WNB. WNB has 9.49 percent of deposit market share and ranks five out of seven institutions.

Examiners made one community contact with the local economic development group. The community contact stated the AA has a need for business startups. The contact indicated that all banks in the AA are supportive of the community's credit needs and willing to participate in community development when available.

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

Lending to borrowers of different incomes and to businesses and small farms of different sizes is satisfactory. Specifically, small loans to farms is reasonable in the two AAs.

Hall County AA

Lending to borrowers of different incomes and to businesses and small farms of different sizes is reasonable. Loans to small farms with revenues less than or equal to \$1 million is slightly below peer at 92.31 percent compared to peer of 97.08 percent. Loans by proxy size of \$250 thousand or less is 76.92 percent. Of the loans by proxy, 10 of 13 loans were made to small farms in amounts less than \$250 thousand with five loans made in amounts less than \$50 thousand.

Thayer County AA

Lending to borrowers of different incomes and to businesses and small farms of different sizes is reasonable. Loans to small farms with revenues less than or equal to \$1 million is below peer at 85.71 percent compared to peer of 98.78 percent. However, loans by proxy size of \$250 thousand or less is 76.19 percent. Of the loans by proxy, 16 of 21 loans were made to small farms in amounts less than \$250 thousand with 12 loans made in amounts less than \$100 thousand.

Geographic Distribution of Loans

Overall, geographic distribution of loans in the AAs carries little weight. Although, the Hall County AA has one moderate-income tract the number of small farms limits the bank's ability to lend to those farms especially since they moved into the market in early 2015.

Hall County AA

An analysis of the geographic distribution of loans to small farms originated in the Hall County AA during the evaluation period to moderate income tracts shows poor dispersion. Hall County has one moderate-income census tract with 12 farms located in this tract. The bank has been in the Hall County AA since early 2015, therefore opportunities to lend to the small farms is limited. There are no low-income census tracts in the AA.

Thayer County AA

An analysis of the geographic distribution of loans to small farms originated in the Thayer County AA during the evaluation period would not be meaningful. The Thayer County AA does not contain any low- or moderate-income areas.

Responses to Complaints

WNB has not received any complaints related to CRA since the previous examination.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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