



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 6, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**The First National Bank of Osceola
Charter Number 6493**

**350 North State Street
Osceola, Nebraska 68651**

**Supervisory Agency: Office of the Comptroller of the Currency
Omaha Field Office
11606 Nicholas Street, Suite 201
Omaha, Nebraska 68154-4410**

<p>NOTE: 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.</p>

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GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Assessment Area (AA) - The geographic area which an institution selects as the community within which its regulator will assess the institution's record of CRA performance. Generally, an urban assessment area will not extend beyond the boundaries of a MSA. A rural assessment area may contain one or more neighboring counties.

Census Tract (CT) and Block Numbering Area (BNA) - Small, locally defined statistical areas within a MSA. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A CT or BNA has defined boundaries per ten year census and an average population of 4,000.

Community Reinvestment Act (CRA) - A statute that requires federal regulators to evaluate a financial institution's lending performance in light of the credit needs in the institution's local community. (This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2901, as amended, and 12 C.F.R. 25, as amended.)

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in MSAs to file annual summary reports of their lending activity. The reports include such data as the race, gender, and the income of the applicant(s), the amount of loan requested and its disposition (e.g made, turned down, withdrawn). The types of loan applications reported include governmentally-guaranteed home purchase and home improvement loans, conventional home purchase loans, home improvement loans, refinancing of home purchase and home improvement loans and loans for the purchase of multi-family (5 or more units) dwellings. (*This is a generic description of the bank's requirements and not a legal explanation of the requirements contained in 12 U.S.C. 2801, as amended, and 12 C.F.R. 203, as amended.*)

Income Levels - These relate to individuals, families or the BNAs or CTs in a bank's assessment area.

Low = An income level that is less than 50 percent of the median income.

Moderate = An income level that is at least 50 percent and less than 80 percent of the median income.

LMI = An income level that is less than 80 percent of the median income.

Middle = An income level that is at least 80 percent and less than 120 percent of the median income.

Upper = An income level that is 120 percent or more of the median income.

Median Family Income - The median family income for a specific MSA as determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

The First National Bank of Osceola, Osceola, Nebraska = FNB.

Metropolitan Statistical Area (MSA) - An area containing a city with a population of at least 50 thousand or an urbanized area with a population of at least 50 thousand and a total metropolitan population of at least 100 thousand. Generally, MSAs consist of one or more whole counties that have a high degree of interaction.

Small Business or Small Farm - A business or farm that has \$1 million or less in gross annual revenues.

Small Loan to a Business or Farm - A loan of \$1 million or less to a business of any size or a loan of \$500 thousand or less to a farm of any size.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The First National Bank of Osceola, Osceola, Nebraska (FNB)** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 6, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **"Satisfactory"**.

We rated **FNB** "Satisfactory" because:

- The distribution of lending among farm borrowers and businesses of different revenue levels shows excellent penetration in view of the area's demographic makeup.
- FNB's lending levels reflect good responsiveness to the area's credit needs.
- FNB has originated a substantial majority of its loans within its assessment area.
- FNB provides a relatively high level of community development services.

The following table indicates the performance level of **FNB** with respect to the lending, investment and service tests.

Performance Levels	The First National Bank of Osceola Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs To Improve			
Substantial Noncompliance			

*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

This evaluation covers the bank’s CRA performance from November 21, 1994, the date of the last CRA evaluation, to November 24, 1997, the last date of available bank prepared data. This institution is subject to the small business and small farm data collection requirements under 12 C.F.R. Part 25 since it is an affiliate of a bank holding company with total assets of over \$1 billion. Our evaluation of small business and small farm lending begins with calendar year 1996 since it was the first year such data was required to be collected and reported under the revised CRA regulation.

DESCRIPTION OF INSTITUTION

FNB is a \$28 million full-service bank headquartered in Osceola, Nebraska. It is the only financial institution in Osceola and is the largest financial institution in Polk County, which management has selected as its assessment area. Osceola’s official population is 879. The bank has no branches, but maintains one detached ATM located five blocks from the bank and easily accessible from the main highway. No branch offices have opened or closed since the last CRA examination. The OCC assigned a CRA rating of “Outstanding” during the last CRA evaluation.

FNB has the financial capacity to assist in meeting the community’s credit needs. There are no legal or financial barriers which impede its efforts. The bank offers a full-range of credit products including agricultural, real estate, commercial, and consumer loans including an overdraft credit plan. As of September 30, 1997, the bank had over \$21 million (nearly 73% of total bank assets) in loans outstanding, not including loan participations the

bank has sold to affiliate banks. The bank's loan portfolio consisted of 78 percent agricultural and agricultural real estate; 9 percent commercial and commercial real estate; 9 percent 1-4 family residential and 4 percent consumer loans.

FNB is affiliated with Pinnacle Bancorporation, Inc., a \$1.8 billion multi-bank holding company, headquartered in Central City, Nebraska, and with 25 other community banks in Nebraska, Iowa, Kansas, Colorado, and Wyoming. All of the bank's are small with an average asset size of \$84 million. The largest bank in the chain has average assets of \$319 million.

ASSESSMENT AREA

FNB's assessment area meets the requirements of the regulation. The assessment area does not exclude any low- and moderate-income areas. FNB's assessment area includes all three BNAs in Polk County, Nebraska. The 1990 census survey designated two of the BNAs as middle-income with the remaining, Clear Creek-Island precinct (BNA No. 9873), being low-income. This low income BNA is located in a remote part of the county and is sparsely populated with only 31 people. It is approximately 30 miles from Osceola, located along the Platte River near Columbus, Nebraska. The BNA contains numerous cabins or small houses suitable for only warm season use. Thirteen dwellings are occupied, but another 84 were listed as vacant. We are not concerned with FNB's lack of loans within this BNA because opportunities for lending are severely limited due to its small population and distance from the bank.

Polk County encompasses a rural area in east central Nebraska. According to the 1990 U.S. Census, the county had a population of 5,675. Osceola is the county seat and is located 76 miles from Lincoln, Nebraska, the state capital. The other county towns with their populations include Stromsburg 1,290, Shelby 724, and Polk 440. The demographics of the families in the assessment area by income level were 16 percent low-, 17 percent moderate-, 26 percent middle- and 41 percent upper-income. In addition, 23 percent of the population was over age 65 and 8 percent of households were below poverty level. The 1990 HUD nonMSA statewide median family income for Nebraska was \$27,623. In 1997, the updated HUD nonMSA statewide median family income was \$37,100. The Census determined owner occupied housing units were 61% of the total. The housing value was 30,761 and the median year built was 1945.

Agriculture dominates the local economy with row crops (corn, soybeans, and milo) and livestock (cattle and hogs) the primary products. Approximately 70-80% of the area farm ground is irrigated. Small local businesses and community services support the agricultural sector. A few businesses dot the area with major manufacturing entities located in Columbus, Nebraska. Significant Osceola employers and the size of their workforce include Good Samaritan Center (retirement home) 72, the County Hospital 69, Polk County Government 56, and Polk County Equipment, Inc. (John Deere sales and service) 25. Bank management estimates that the assessment area's unemployment matches that for Nebraska which for July 1997 was 2.4%. The national unemployment rate for this same period was 4.8%.

The four other financial institutions headquartered in Polk County as well as larger banks within 40 miles provide robust competition for loans and deposits.

Community contacts indicate a moderate need for affordable rental housing for low and moderate income people and larger families. Three separate county or city officials familiar with housing in various locations throughout the county expressed this need. A fourth contact familiar with the senior citizen community also expressed this opinion. Representatives from the Federal Reserve Bank and the Comptroller of the Currency gathered this information through meetings with public contacts within the past twelve months.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

We evaluated the bank's lending performance using agricultural and commercial loan data which the bank collected for 1996 and 1997 through November 24, 1997. Our attention focused on agricultural and commercial loans since they comprise 87% of the bank's loan portfolio. We did not evaluate 1-4 family real estate or consumer lending because this volume is a relatively small part of the bank's overall lending activity. Our analysis included the location, the revenues of the businesses and farms and the size of the loans.

LENDING RESPONSIVENESS:

The bank's net loan-to-deposit ratio averaged 82 percent over the last twelve quarters based on data the bank reported in its Consolidated Reports of Condition. During this same period FNB's loan-to-deposit ratio consistently ranked second among the five banks headquartered in Polk County. The five banks' loan-to-deposit ratios ranged from 56 percent to 83 percent. Not reflected in FNB's loan-to-deposit ratio are 1-4 family residential real estate loans originated and sold into the secondary market. From the last CRA Examination through November 1997 the bank originated and sold 11 residential real estate loans totaling \$729,000.

DISTRIBUTION BY BORROWERS' PROFILE:

Following is a discussion of the bank's lending to borrowers of different income levels and to businesses and farms of different revenue sizes. The data contained in the following tables shows the bank meeting the credit needs of small businesses and farms within its assessment area. A substantial majority of lending is to borrowers within the assessment area.

Distribution by Borrower Income:

Community Reinvestment Act Performance Evaluation
The First National Bank of Osceola, Osceola, Nebraska

FNB's distribution of loans to businesses and farms in 1996 through November 24, 1997 reflects excellent penetration among enterprises of different sizes. The revised CRA regulation assumes gross annual revenues correlate with the size of the business. Gross annual revenues of \$1 million or less are considered representative of small businesses and small farms. A significant majority of FNB's lending is to small businesses and farms as shown by the following two tables. Small business lending and small farm lending was 91% and 95% respectively for 1996. Year-to-date lending in 1997 shows similar results. This exceeds the demographic make up of businesses and farms as indicated by 1990 U. S. Census data.

Loans to Commercial Businesses Based on Revenue Size

Revenue Size	% of Businesses ❶	1996				1997*			
		#	%	\$000s	%	#	%	\$000s	%
≤\$1 million	72%	41	91%	820	65%	25	81%	313	31%
> \$1 million	12%	4	9%	440	35%	6	19%	700	69%
Total	❷	45	100%	1,260	100%	31	100%	1,013	100%

* through November 24, 1997.

❶ This column presents Dun and Bradstreet's division of all businesses by revenues within the assessment area.

❷ 16% of total businesses did not report revenue information.

Loans to Farms Based on Revenue Size

Revenue Size	% of Farms ❶	1996				1997*			
		#	%	\$000s	%	#	%	\$000s	%
≤\$1 million	91%	182	95%	9,600	90%	178	98%	9,597	94%
> \$1 million	3%	9	5%	1,019	10%	3	2%	650	6%
Total	❷	191	100%	10,619	100%	181	100%	10,247	100%

* through November 24, 1997.

❶ This column presents Dun and Bradstreet's division of all farms by revenues within the assessment area.

❷ 6% of total farms did not report revenue information.

Distribution by Revenue of Business/Farm:

A substantial majority of the bank's loans to small businesses (over 90%) and small farms (over 77%), by number, were made in amounts of \$100,000 or less during the time period we reviewed. The CRA associates smaller dollar loans with smaller businesses and farming operations. The following table shows the distribution of the bank's lending by loan size for the time period we evaluated.

Distribution of Loans to Small Businesses and Farms by Loan Size

Loans Within Assessment Area Only 1996	Loans to Businesses				Loans to Farms			
	# of Loans	% of # Total	\$(000's) of Loans	% of \$ Volume	# of Loans	% of # Total	\$(000's) of Loans	% of \$ Volume
<=\$100,000	38	93%	464	57%	142	78%	3,404	36%
>\$100,000 and <=\$250,000	3	7%	356	43%	37	20%	5,121	53%
>\$250,000 & <\$1,000,000	0	0%	0	0%	3	2%	1,075	11%
Totals - 1996	41	100%	820	100%	182	100%	9,600	100%

Distribution of Loans to Small Businesses and Farms by Loan Size

Loans Within Assessment Area Only 1997*	Loans to Businesses				Loans to Farms			
	# of Loans	% of # Total	\$(000's) of Loans	% of \$ Volume	# of Loans	% of # Total	\$(000's) of Loans	% of \$ Volume
<=\$100,000	25	100%	313	100%	145	81%	3,914	41%
>\$100,000 and <=\$250,000	0	0%	0	0%	28	16%	3,928	41%
>\$250,000 & <\$1,000,000	0	0%	0	0%	5	3%	1,755	18%
Totals - 1997	25	100%	313	100%	178	100%	9,597	100%

* through November 24, 1997.

Community Development Lending:

FNB did not make any community development loans during the assessment period. This is reasonable, given the limited opportunity for this type of lending. We determined this conclusion based on discussions with community contacts, bank management, and the examiner's knowledge of the area. Community development loans must meet the definition in the revised CRA regulation which states that such loans must have community development as their **primary** purpose. Community development loans specifically exclude loans which have been reported as HMDA, small farm or small business loans, except for multi-family rental housing loans which can be reported under both categories.

The tables previously presented display FNB's high level of lending to small businesses and farms, showing the bank's strong involvement in the economic development and preservation of the assessment area. Not shown in the tables are fourteen 1-4 family residential real estate acquisition or home improvement loans which address the community's need for lower cost housing through renovation of existing housing stock. FNB originated these loans during the assessment period. All of this lending has been done directly by the bank, outside of any direct connection with the two local community development corporations.

Flexible Loan Programs:

The bank provides flexible micro-loan products through direct lending to individuals operating small commercial businesses. Within limits, the bank will provide short term financing for inventory and other operating expenses.

The Bank recently made a private mortgage insurance product available to home buyers which allows the borrowing of up to 97% of a home's cost on a long term basis with a fixed rate. This product directly benefits low- and moderate-income individuals and families wishing to acquire a home.

FNB uses flexible lending programs when serving its assessment area's credit needs. FNB uses Farm Services Agency and Small Business Administration (SBA) programs to assist borrowers in obtaining financing with more flexible debt ratios and through guaranteed loan programs. The bank also uses the State of Nebraska's Dollar and Energy Loan Program to enable home and business owners to take advantage of lower interest rates when financing costs to make their real estate more energy efficient. FNB lenders direct this program to small businesses and low- and moderate-income home owners.

GEOGRAPHIC DISTRIBUTION:

Distribution by Income Levels of BNAs:

An analysis of the bank's lending by the income levels of BNAs is not meaningful since opportunities for lending within the assessment area's one low-income BNA are severely limited due to an extremely small population and distance from the bank. All of FNB's lending activity during the assessment period has been to borrowers located in the remaining two BNAs designated middle-income by the 1990 U.S. Census.

Lending within the Assessment Area:

The bank makes a substantial majority of its small business and farm loans, 86 percent and 80 percent, respectively, within its assessment area. The following tables show the volume, by number and dollars, of small business loans and small farm loans that FNB made during 1996 and year-to-date 1997.

Product Type		1996		YTD 1997*		Total		% of Total	
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)
Small Business	In	41	820	25	313	66	1,133	86%	73%
	Out	5	116	6	296	11	412	14%	27%
Total Small Business		46	936	31	609	77	1,545	100%	100%
Small Farm	In	182	9,600	178	9,597	360	19,197	80%	67%
	Out	34	3,500	54	5,924	88	9,424	20%	33%
Total Small Farm		216	13,100	232	15,521	448	28,621	100%	100%

* Through November 24, 1997

INVESTMENT TEST

FNB has made an adequate level of qualified community development investments and grants which benefit the Polk County Assessment Area. Senior bank officials work closely with local charitable organizations when addressing emergency needs of low- and moderate-income individuals and households. The bank has given \$9,600 in donations or grants over the past two years to qualified community development organizations whose purpose is to promote health, educational, emergency shelter, alcohol and drug rehabilitation or other "safety net" services. Our discussion with FNB personnel indicated that opportunities for investments are limited.

FNB contributed funds to help capitalize the Osceola Development Corporation when chartered in 1974 and also periodically provides additional monies for various projects as requested by the Corporation. The bank has not contributed any funds to the Corporation during this assessment period.

SERVICE TEST

Retail Banking Services:

FNB's single banking office and services are reasonably accessible to its customers. The staff conducts all lending activities from the bank's headquarters in Osceola and offers after-hours appointments to customers who cannot conduct banking business during the regular business day. Bank officers are available on Saturday

mornings from 8:30 A.M. to 11:00 A.M. for the convenience of bank patrons. The bank's ATM is available 24 hours each day for demand and savings account deposits, withdrawals, and transfers. In addition, borrowers are able to make loan payments using the ATM. In April 1996, the bank implemented 24 hour telephone banking services which allow customers access to select financial services including the ability to conduct account inquiries, funds transfers, loan payments and messaging with bank staff. There have been no branch closings during this evaluation period.

Community Development Services:

FNB provides a relatively high level of community development services. Under the CRA, the primary purpose of these services must relate to the provision of financial services.

The bank's community development service activities include:

- A senior bank official provides an important community development service by assisting in administering the City of Osceola's Commercial Development Block Grant Program. Under this program loans out of an original \$75,000 pool are lent at a low interest rate for ten years to new or expanding commercial businesses in Osceola. The bank's representative has provided financial expertise in the Program's ten year existence by evaluating applicants' financial history and business plan and makes approval or denial recommendations. Currently four Osceola businesses are using block grant loans. The bank is also lending funds to these borrowers at the same time.
- A bank official serves on the Board of the Osceola Housing Authority which provides low cost rental housing for elderly individuals in the Osceola area.
- A bank officer has served as president and has provided financial expertise to the Osceola Development Corporation since its inception in 1974. The corporation has initiated or been involved with several projects which promote small business in the area. The Osceola Development Corporation in coordination with the City of Osceola determined through a recent study that three low income single family homes would benefit the area. Senior bank officials are now in the process of finalizing a financial package which will enable low- and moderate-income applicants to afford to purchase these new homes. The proposed package includes a low interest loan from the bank and City of Osceola grant money in the form of an additional loan of \$10,000 which the City would forgive if the applicant lives in the house for five years. Also in the proposal is \$500 for each qualifying applicant to help defray construction loan closing costs.
- The bank provides a community development service which benefits low- and moderate-income people on a state-wide basis through participation in the Nebraska Lawyers Trust Account Foundation (Foundation). This charitable foundation of lawyers sets up trust accounts in banks which earn interest on client deposits as allowed by a 1984 Nebraska Supreme Court ruling. FNB pays interest earned on the Foundation's account at the bank which the Foundation then uses to pay for legal service programs targeted specifically for indigent Nebraska residents.

- FNB offers a free checking with no minimum balance to open or maintain the account. Also, FNB does not charge customers or noncustomers to cash government checks. These services benefit low- and moderate-income individuals and families.

FAIR LENDING REVIEW

We found no violations of the substantive provisions of anti-discrimination laws and regulations.

ADDITIONAL INFORMATION

The Office of the Comptroller of the Currency (OCC) is the regulatory agency responsible for supervision. If you have questions, concerns, or issues, contact the agency at the address below.

Office of the Comptroller of the Currency
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