



Public Disclosure

January 4, 1999

Community Reinvestment Act Performance Evaluation

**First National Bank Northeast
Charter Number 6221**

**P.O. Box 9
Lyons, Nebraska 68038**

**Office of the Comptroller of the Currency
Omaha North Field Office
11606 Nicholas Street, Suite 201
Omaha, Nebraska 68154**

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.

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 **First National Bank Northeast**, Lyons, Nebraska prepared by The Office of the Comptroller of the Currency, as of January 4, 1999. 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.

The bank's lending level is reasonable, given the institution's size, financial condition, and assessment area credit needs. A substantial majority of the bank's loans are within the bank's assessment area. The bank does an effective job of lending to farms of different sizes. Examiners did not detect discrimination or disparate treatment of residential real estate borrowers on the basis of gender. The bank has no written complaints related to its CRA performance.

Description of Institution

First National Bank Northeast (FNBNE), Lyons, Nebraska is a \$103 million bank with offices in Burt, Dodge, and Washington Counties in northeastern Nebraska. The main office with a drive-up facility is readily assessable to all Lyons residents. The bank's branches are in Hooper, Tekamah, and Uehling, Nebraska. The bank operates automated teller machines (ATM) in Hooper, Lyons, Oakland, and Uehling, Nebraska. Farm and Home Insurance Agency, Inc., the holding company (HC), controls 93.02% of the bank stock. The HC owns and operates a Loan Production Office (LPO) in Hartington, Nebraska, 90 miles northwest of Lyons. The bank has no legal or financial impediments limiting its ability to meet the area's credit needs.

On September 30, 1998, the bank's loan portfolio was 61% of total assets. The bank's primary product is agricultural related loans. Our conclusions are primarily based on our analysis of the bank's agricultural loan portfolio. The table below details the percentages of the loan portfolio by dollar volume and number of loans.

| | % of Loans By Dollar | % of Loans By Number |
|-------------------------------|-----------------------------|-----------------------------|
| Agricultural Loans | 61% | 45% |
| Commercial Loans | 18% | 13% |
| Consumer Loans | 7% | 30% |
| Residential Real Estate Loans | 8% | 8% |

FNBNE was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination dated July 28, 1995.

Description of First National Bank Northeast's Assessment Area

FNBNE's assessment area (AA) meets all the requirements of the Community Reinvestment Act (CRA). The AA consists of five contiguous block numbering areas (BNAs) in Nebraska. The population of the AA is 17,392. All BNAs are middle-income tracts located in the northeast portion of Dodge County, northwest portion of Washington County, and all of Burt County.

The communities of Decatur, Herman, Hooper, Lyons, Oakland, Scribner, Tekamah, and Uehling are the in AA, and each town has a population below 2,000. These communities represent 42% of the AA's population. The remaining 58% lives in the surrounding rural areas.

The AA's median family income is \$29,300 which is 70% of the 1998 Nebraska state-wide median family income of \$41,880. Family incomes in the AA are 19% low-income, 20% moderate-income, 29% middle-income, and 32% upper-income. The main sources of employment are provided by agriculture and agricultural related businesses.

The banking environment in the AA is competitive. Nine banks provide competition for loans and deposits in the AA. Also, the Farm Service Agency provides competition for agricultural loans. The primary credit needs of the AA are agricultural, while secondary credit needs are residential and small business loans. We determined the credit needs of the AA by contacting the Lyons City Clerk, the Director of the Hooper Housing Authority, and a local Nebraska legislator.

Conclusions with Respect to Performance Criteria

The bank’s lending levels are reasonable.

FNBNE’s net loan-to-deposit ratio is reasonable, given the institution’s size, financial condition, and AA credit needs. FNBNE’s loan-to-deposit ratio averaged 62.92% over the past 12 quarters and has steadily grown to 71.80% on September 30, 1998. The average loan-to-deposit ratio for the nine comparable banks is 66.04%, and they ranged from 49.06% to 92.48%. The bank’s quarterly average of 62.92% is within 3% of the average ratio of comparable banks we reviewed.

The bank is lending in the Assessment Area.

FNBNE originates a majority of its loans within the AA. The table below summarizes the degree of the bank’s lending within its AA.

ASSESSMENT AREA CONCENTRATION

(Agricultural customers sampled with loans originated since July 28, 1995)

| | # of Loans | % of total # | \$ of Loans | % of total \$ |
|---------------|-------------------|---------------------|--------------------|----------------------|
| Inside AA | 29 | 81% | \$2,766M | 64% |
| Outside AA | 7 | 19% | \$1,538M | 36% |
| Totals | 36 | 100% | \$4,304M | 100% |

FNBNE originates a substantial majority of its agriculture loans inside the AA. Of the agricultural loans we sampled, 81% of the number of loans, and 64% of the dollar volume were inside of the AA.

The bank does an effective job of lending to farms of different sizes.

The table below demonstrates the bank's willingness to make loans to farms of all sizes. The bank's lending performance was compared to the 1992 Agricultural Census data prepared by the U.S. Bureau of the Census. The census data showed 89% of farms in the AA had sales less than \$250,000.

LOANS TO FARMS OF DIFFERENT SIZES

(We sampled 36 agricultural customers.

Dollar volumes are based on the December 24, 1998 loan trial)

| Gross Revenue of Farms | # of customers | % of customers | \$ of loans | % of total \$ |
|-------------------------------|-----------------------|-----------------------|--------------------|----------------------|
| \$0 - \$100,000 | 15 | 42% | \$ 739M | 10% |
| \$100,001 - \$250,000 | 8 | 22% | \$ 838M | 17% |
| \$250,001-\$1,000,000 | 6 | 17% | \$1,966M | 46% |
| over \$1,000,000 | 1 | 3% | \$ 345M | 8% |
| Totals | *36 | *100% | *\$4,001M | *100% |

*Six files did not contain current revenue information and are not detailed in the table above. Revenue information was obtained from farm records or tax returns in each credit file.

The bank does an effective job lending to farms of different sizes. The majority of loans originated, 64% by number, are to small- and moderate-sized farms with sales less than \$250,000. Although the bank's ratio for lending to small- and moderate-sized farms is slightly below the agricultural census ratio, it is reasonable. Three of six customers without current revenue information appeared to have small farms, but lacked positive data to confirm they indeed had sales of less than \$100,000. Also, four of the six middle-sized farms we sampled had less than \$500,000 in sales.

The bank continues to use the Farm Service Agency to provide guaranteed farm loans to small- and moderate-sized farms. The bank holds 11 guaranteed loans totaling \$1,177,000. Seven guaranteed loans for \$742,000 were originated during the period.

FNBNE participates in the Nebraska Investment Finance Authority's Beginning Farmer Loan Program. The bank originated three beginning farmer loans totaling \$260,000 during the evaluation period.

Other factors indicating the bank's willingness to lend to small businesses and low- or moderate-income individuals.

The bank has increased its originations of residential loans. Residential real estate volume is up \$1,433,000 since our last evaluation. Also, the bank originated and sold 27 long-term fixed-rate mortgage loans totaling \$1,442,000 since the last evaluation. This compares with six loans for \$210,000 during the last evaluation period. In 1998, the bank started offering sub-prime real estate loans through New Leaf Mortgage Corporation. The staff recently closed two sub-prime real estate loans for \$44,000. The bank still offers SBA loans and recently closed a \$41,000 loan.

Geographic Distribution of Loans

We did not complete an evaluation of the bank's geographic distribution of loans. All the BNAs within the bank's AA are middle income tracts. The communities in the AA are small with no predominately low- or moderate-income tracts.

Response to Complaints

The bank received no written complaints related to its CRA performance during the evaluation period.

We did not detect violations of any substantive provisions of anti-discrimination laws or disparate treatment of any female applicants for residential real estate loans during our fair lending examination. The bank has satisfactory fair lending policies, procedures, and training programs in place. We did not detect Equal Credit Opportunity Act violations during the examination.