

PUBLIC DISCLOSURE

June 28, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Elwood
Charter Number 7204**

**301 Smith Avenue
Elwood, Nebraska 68937**

**Office of the Comptroller of the Currency
Midwestern District
Omaha South Field Office
11606 Nicholas Street, #201
Omaha, Nebraska 68154-4410**

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 Community Reinvestment Act (CRA) performance of **The First National Bank of Elwood, Elwood, Nebraska** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 28, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The First National Bank of Elwood (FNB) is responsive to the credit needs of the community including low- and moderate-income (LMI) individuals and areas. The bank's loan-to-deposit ratio has decreased since a high of 51% as of September 30, 1997 but has been steady for the period June 30, 1997 through March 31, 1999. The average net loan-to-deposit ratio for that period of 42% is somewhat lower than that of peer institutions. A primary reason for the lower than peer loan-to-deposit ratio is that two long standing bank customers recently paid out loan balances of approximately \$530 thousand and did not require new funding. A substantial majority of loans are in the bank's assessment area. The loans reasonably penetrate various geographies and borrower income levels.

DESCRIPTION OF INSTITUTION

FNB is headquartered in Elwood, Gosper County, Nebraska and was chartered on March 1, 1889. FNB has one banking office (no automated teller machines) located at 301 Smith Avenue, at the intersection of United States Highway 283 and Nebraska State Highway 23. Elwood is the county seat for Gosper County. Elwood, a community of approximately 775, is approximately 15 miles south of Lexington, Nebraska. FNB management characterizes Elwood as primarily a retirement community with some influx of younger individuals from Lexington. According to the latest information per the county clerk's office, the population of Gosper County, located in south central Nebraska, is approximately 2,355. Based on 1990 census data, 52% of the county's population is either greater than 60 years of age, or not of age to legally enter into a contract. The local economy is centered in agricultural related industries, primarily farming. As of March 31, 1999, FNB had total assets of \$19 million with \$5 million in total loans. The loan mix is dispersed among these product lines:

- < Real estate: 48%,
- < Agricultural: 39%, and
- < Commercial/consumer: 13%.

FNB is not affiliated with a bank holding company. Russel Morgan, Chairman of the Board, and Carolyn Morgan, President, control approximately 94% of the bank. There are no financial or legal impediments to the bank's ability to meet the credit needs of its assessment area. FNB's focus is serving its community's banking needs which center around agriculture and agricultural real estate. The OCC previously rated the bank's CRA performance "Satisfactory" at our April 15, 1996 examination.

DESCRIPTION OF ASSESSMENT AREA

FNB defines its one assessment area as Gosper County, which includes Elwood. Gosper County is not in a Metropolitan Statistical Area (MSA). The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- and moderate-income levels.

The assessment area contains a single middle income census tract with a population of 1,928 based on 1990 census data. The 1990 census revealed that the median family income for the assessment area was \$29,211 compared to the statewide nonmetropolitan median family income of \$27,623. Updated HUD statewide median family income for 1998 is \$39,800. The distribution of families by income level for the assessment area is as follows: low income 12%, moderate income 22%, middle income 25%, and upper income 41%.

The economy is primarily agriculturally driven; however, diversity arises from retail and wholesale trade, manufacturing, and construction.

Major area employers include the Elwood School District, the Elwood Care Center, and Gosper County Government office. No area unemployment data was readily available however, management estimates the unemployment rate at 2%.

Primary credit needs include low interest small farm operating loans. The community contact interviewed for this assessment stated that FNB is a willing participant in extending this type of credit in its assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loans to Borrowers of Different Income Levels

Dispersion of loans by income level is reasonable. There are no income levels with little or no loan penetration. Bank records and discussions with management indicate that there is a reasonable penetration among borrowers of different sizes with annual revenues ranging from \$29 thousand to \$752 thousand. The following table illustrates the dispersion:

INCOME LEVEL (000's)	# OF LOANS	\$ OF LOANS (000's)
0 to 25	8	567
25 to 100	7	349
100 to 500	13	1,775
500 +	7	1,559

FNB is aware of government sponsored loan programs and has seven loans totaling \$423 thousand outstanding that are guaranteed by the Farmers Service Administration (FSA) as of June 23, 1999. FNB also has three loans totaling \$357 thousand that are under the Nebraska Investment Finance Authority program for agricultural real estate.

Lending in Assessment Area

A bank report shows that 90% of the dollar volume and 85% of the number of all outstanding loans are within the assessment area.

Loan-to-Deposit Ratio

FNB has a satisfactory lending performance. The bank's net loan-to-deposit ratio has historically been, and remains, below peer institution averages. The peer group is comprised of banks of similar asset size, type, and location. FNB's net loan-to-deposit ratio averaged 42% for the past eight quarters while its peer average was 63%. A primary reason for the lower than peer loan-to-deposit ratio is that two long standing bank customers recently paid out loan balances of approximately \$530 thousand and did not require new funding. The only other bank in Elwood is a branch of a non-locally owned bank with total assets of approximately \$225 million.

Geographic Distribution of Loans

We did not assess the reasonableness of loans distributed within the bank's assessment area because the entire area is designated as middle income. Through discussions with management and a review of the bank's loan trial balance, it is readily apparent that a majority of the bank's loan customers reside throughout the assessment area.

Response to Complaints

FNB did not receive any consumer complaints regarding CRA performance since the last examination.

Record of Compliance with Anti-discrimination Laws

Our most recent fair lending examination revealed no violations of antidiscrimination laws or regulations. We did not note any practices intended to discourage applications for the types of credit the bank offers.