
Comptroller of the Currency
Administrator of National Banks

LARGE BANK

Public Disclosure

June 1, 1999

Community Reinvestment Act Performance Evaluation

**Pinnacle Bank, National Association
Charter Number: 7949
Oak and Walnut Streets
Shelby, Nebraska 68662**

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

NOTE: This evaluation is not, and should not 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.

Table of Contents

General Information	3
Definitions and Common Abbreviations	4
Overall CRA Rating	6
Description of Institution	8
Scope of Evaluation	9
Fair Lending Review	11
Conclusions with Respect to Performance Tests	
Lending Test.....	12
Investment Test.....	17
Service Test.....	17
Appendix A: Scope of Evaluation	19
Appendix B: Market Profile for Area Receiving Full-Scope Review	20
Appendix C: Tables of Performance Data	22

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 **Pinnacle Bank, National Association, Shelby, Nebraska** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **June 1, 1999**. 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 the 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 CFR Part 25.*

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Full-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography - A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA) - The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Limited-Scope Review - Performance under the Lending, Investment and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Low-Income - Income levels that are less than 50% of the median family income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Small Business Loans - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120% or more of the MFI.

Overall CRA Rating

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

The following table indicates the performance level of the **Pinnacle Bank, National Association** with respect to the Lending, Investment, and Service Tests:

Performance Levels	Pinnacle Bank, National Association Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X		
High Satisfactory			
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			

* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.

The main factors contributing to this rating include:

- ▶ Pinnacle Bank, National Association's (Pinnacle Bank) lending levels reflect an excellent responsiveness to the Butler County/Polk County, Nebraska assessment area's (AA) credit needs.
- ▶ Pinnacle Bank had an excellent record of meeting the credit needs of small businesses and small farms in the AA. For example, 100% of the bank's small farm loans were to enterprises with revenues of \$1 million or less. This closely compares with small farm income demographics. In the 1990 census, 98% of farms reported revenues of \$1 million or less. In addition, 86% of the bank's small loans to businesses were to businesses with revenues of \$1 million or less. This reasonably compares to the business demographics which shows that 91% of all businesses in the AA had revenues of \$1 million or less.

- ▶ The bank also achieved a good distribution of home purchase loans to borrowers of moderate-income levels. Seventeen percent of the bank's home purchase loans were to moderate-income borrowers, while demographics showed 18% of families in the AA were moderate-income.
- ▶ The bank has an excellent distribution of home improvement loans to borrowers of different income levels. We note 17% of home improvement loans were made to borrowers with low-incomes and another 17% were made to borrowers with moderate-incomes. This distribution exceeded the demographic data for low-income families, and closely matched the data for moderate-income families which were 16% and 18% of families in the AA, respectively.
- ▶ The level of qualified investments was adequate at \$3 thousand, given limited investment opportunities within the AA.
- ▶ Retail delivery systems were reasonably accessible to geographies and individuals of different income levels in the bank's AA.

Description of Institution

Pinnacle Bank is a full-service financial institution headquartered in Shelby, Nebraska. Pinnacle Bancorp, Inc. (PBI), a \$1.9 billion multibank holding company located in Central City, Nebraska, owns 100% of outstanding shares of the bank. PBI directly owns fifteen affiliated banks located throughout Nebraska, Colorado, Kansas and Wyoming. Shareholders of PBI also own five additional banks in Nebraska and one in Iowa. The management of Pinnacle Bank did not request our consideration of any activities of these affiliates for its own CRA performance during this evaluation. Pinnacle Bank does not have any subsidiaries. The bank has not conducted any merger or acquisition activity during the evaluation period.

There are no known legal or financial impediments, which hinder Pinnacle Bank's ability to help meet the credit needs of its AA. The bank offers a full range of credit products including agricultural, real estate, business and consumer loans. As of December 31, 1998, the bank had \$25 million in total assets. The bank's loan-to-deposit ratio on that date was 85% and gross loans represented 83% of total assets. By dollar amount, the loan portfolio consisted of the following types of credit: 64% agricultural and agricultural real estate; 13% commercial and commercial real estate; 13% one- to four-family residential real estate; 7% consumer and 3% other. Pinnacle Bank sells the majority of its home purchase and refinancing mortgage loans on the secondary market. The loan-to-deposit ratio and loan portfolio mix does not reflect these loans. From January 1, 1997 through December 31, 1998, the bank originated and sold 24 residential mortgage loans totaling \$1.4 million.

Pinnacle Bank's main office is located in Shelby, population 690, in east-central Nebraska. The bank's management opened a loan production office (LPO) in Columbus, Nebraska in May 1999. Columbus, population 20,898, is approximately 20 miles from Shelby. The staff in this LPO offers all loan products. None of the offices are located in a Metropolitan Statistical Area (MSA). The bank has one cash-dispensing automated teller machine (ATM) located in a convenience store in Shelby.

Pinnacle Bank is an intrastate bank due to its only branch office being in a single state.

Pinnacle Bank received an "Outstanding" rating during the January 12, 1996 CRA evaluation.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated Pinnacle Bank using the Lending, Investment, and Service Tests for large banks pursuant to the revised CRA regulation. These tests assess the bank's record of helping to meet community credit needs, making community development investments, and providing services throughout the AA. For the Lending Test, we focused on small farm, small business and residential real estate loans, as these were the primary loan products extended during the evaluation period. The current evaluation covers the bank's lending activity for 1997 and 1998. The evaluation period does not include activity in 1999, hence it does not include any loan applications received at the Columbus LPO. The evaluation period covers community development lending, qualified investments and service activities since the last evaluation, January 12, 1996.

Because the bank and its LPO are outside an MSA, the bank is not required to collect and report home lending activity for Home Mortgage Disclosure Act (HMDA) purposes. In order to evaluate the bank's performance for this type of lending, we used the bank's database of all purchase, refinance and home improvement loans originated between January 1, 1997 and December 31, 1998. For these loans, we analyzed the borrower's income data, as well as the geographic location of the loan.

Data Integrity

Based on the results of our review we concluded that the accuracy of the bank's data was satisfactory. Examiners verified the integrity of data used in this evaluation of the bank's performance by comparing original credit file information which describes the type of loan, date, location, amount, whether purchased from another source or directly originated, and borrower revenue. We applied this review to a sample of 30 small business and farm loans, which the bank originated. We also conducted a review of the bank's one- to four-family real estate loan register using similar procedures, except we verified the record of applicant personal income.

Selection of Area for Full-Scope Review

We assigned the bank's CRA rating based on its lending, investment and service performance within the AA. The bank's main headquarters location is in the AA. Seventy-four percent of real estate, farm and business loans and 83% of deposits are with customers who reside in the two counties within the AA.

Please refer to the table in Appendix A for more information regarding the evaluation's scope.

Ratings

The bank's overall rating is based on the full-scope review of the Butler County/Polk County, Nebraska AA.

Other

Examiners made three community contacts during this examination and reviewed five previous contacts conducted within the assessment period by financial institution regulators. Contacts made early in the assessment period stated the area had a moderate need for rental housing in the communities of Osceola, Polk and Stromsburg. Community contacts made more recently stated rental housing needs were generally being met in Shelby and for low-income elderly people in Osceola. These recent contacts also stated that start-up small business loans and continuing loans for struggling farmers are needed. Seven of the eight contacts stated that local financial institutions were meeting the area's credit needs. The eighth contact did not express an opinion regarding financial institution performance. One contact involved with basic emergency needs of low- and moderate-income (LMI) individuals and families stated that area banks support these needs through grants and donations. Four contacts held local governmental positions, two were business leaders, and two were heads of area social service organizations.

Fair Lending Review

We did not identify any violations of substantive provisions of anti-discrimination laws. Our fair lending review consisted of analyzing rates and terms granted to all individual female and all individual male borrowers for direct automobile purchase loans from May 1, 1998 to May 31, 1999. Our review included six loans to females and eight loans to males. We found no evidence of discrimination based on gender in the rates and terms given for the loans reviewed.

Conclusions with Respect to Performance Tests

Pinnacle Bank's lending levels reflected a good responsiveness to community credit needs. The bank had a good record of lending to farms and businesses of different revenue sizes and to home mortgage borrowers of different income levels. For borrower distribution, the bank's performance consistently met, and in some cases exceeded, comparable demographic information in the AA. Pinnacle Bank's record of extending refinancing mortgage loans to low-income borrowers was notably weaker; however, this did not diminish from the bank's overall performance due to compensating factors described below. An analysis of the geographic distribution of loans, including any gaps in lending, was not meaningful, as the AA contained only middle-income BNAs. We note the bank made the majority of its loans to borrowers within the AA.

Pinnacle Bank also provided an adequate level of investments which benefit the AA. Management was aware of the limited investment opportunities within the AA and participated whenever possible.

We consider the bank's performance under the Service Test to be adequate. Pinnacle Bank's single office location easily provided accessibility to its products and services. There are no LMI geographies available in which the bank could develop special services or facilities.

LENDING TEST

Conclusions for Area Receiving Full-Scope Review

Pinnacle Bank's performance under the Lending Test is rated "Outstanding". Based on our full-scope review, the bank's performance in the AA is good.

Lending Activity

Please refer to Table 1 in Appendix C for the facts and data used to evaluate the bank's lending activity.

Pinnacle Bank's lending levels reflected an excellent responsiveness to the assessment area's small farm and small business credit needs. We based this conclusion on loan data taken from the bank's records, which show a strong number of loan originations for farm and business purposes. Farm and business loans are the bank's primary loan products. We were able to compare Pinnacle Bank's lending performance for these two products with ten other similarly situated local lenders within Butler and Polk Counties who submitted aggregate loan data for 1997 to the Federal Financial Institutions Examination Council (FFIEC). FFIEC lender data is available only on a county-wide basis. This data showed Pinnacle Bank originated the largest number of small business and small farm loans within the two counties despite ranking seventh in deposits. FFIEC data includes loan information for financial institutions with total assets of \$250 million or more or financial institutions of any size that are affiliates

of bank holding companies with \$1 billion or more in total assets. Other banks are similarly situated through their locations in small communities and their offering of similar lending products.

Pinnacle Bank also supported the AA's demand for residential real estate loans by originating an adequate number of home purchase, improvement and refinance loans. Of the 84 loans made for residential real estate purposes, ten were for the purchase of rental houses. This directly assisted in meeting an area credit need as stated by several community contacts. Opportunities for real estate lending were not as great given the small size of area towns and large number of competing lenders. We could not make direct comparisons with other local lenders for residential real estate loans, as market share data was not readily available in nonmetropolitan areas in a standard format.

Distribution of Loans by Income Level of the Borrower

Small Farm Loans

Refer to Table 11 in the Appendix C for the facts and data used to evaluate the borrower distribution of the bank's small farm loan originations.

Pinnacle Bank had an excellent record of lending to farms of different revenue sizes, including farms with gross annual revenues of \$1 million or less. Also, the bank extended a high percentage of its reported farm loans in relatively small dollar amounts.

Bank data showed 100% of its reported small loans to farms were to farms with revenues of \$1 million or less. Pinnacle Bank's performance compares closely to demographic data where 98% of all farms in the AA reported revenues of \$1 million or less. Similarly, 1997 FFIEC aggregate data for all other lenders in the AA showed 94% of the number of all reported small loans to farms were to agricultural operations with revenues of \$1 million or less.

Table 11 also shows Pinnacle Bank extended a high percentage of its reported farm loans in relatively small dollar amounts. This is another indication of the bank's efforts to meet the needs of smaller farms as loan size generally correlates to the size of the farm. During the evaluation period, Pinnacle Bank extended 92% of its total reported loans in amounts of \$100 thousand or less to farms of all revenue sizes. This performance exceeds 1997 FFIEC aggregate data for all other lenders in the AA, which showed 87% of the number of all reported loans to farms were in amounts of \$100 thousand or less.

Pinnacle Bank's average farm loan size was a relatively small \$37 thousand. The average size loan of five competing banks in the AA with significant lending volume was \$50 thousand, or 1.4 times larger. Average loan size is a possible indicator of whether a bank's lending to farms reflects support of smaller operations.

Small Business Loans

Refer to Table 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's small business loan originations.

Pinnacle Bank had a good record of lending to businesses of different revenue sizes. Performance was good for loans to businesses with revenues of \$1 million or less. As seen in Table 10, 86% of the number of Pinnacle Bank's small loans to businesses within the AA were to businesses with gross annual revenues of \$1 million or less. This compares reasonably well to demographic data which showed 91% of all businesses in the AA had revenues of \$1 million or less. While this performance was somewhat under the demographics, FFIEC aggregate loan data from other lenders for 1997 revealed only 77% of the number of all reported small loans to businesses were to commercial operations with revenues of \$1 million or less.

Table 10 also displays the overall distribution of Pinnacle Bank's small loans to businesses by loan size within the AA. Pinnacle Bank extended a significant proportion of its reported business loans in relatively small dollar amounts. During the evaluation period, Pinnacle Bank extended 95% of its total reported loans in amounts of \$100 thousand or less to businesses of all revenue sizes. This is directly comparable to 1997 FFIEC aggregate data for all other lenders in the AA, which also showed 95% of the number of all reported loans to businesses were in amounts of \$100 thousand or less.

Home Mortgage Loans

Please refer to Tables 7, 8 and 9 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations.

Pinnacle Bank had a good distribution of home mortgage loans to borrowers of different income levels, including (LMI) borrowers. Performance was especially good for home mortgage refinance lending to moderate-income families.

As shown in Table 7, Pinnacle Bank's percentage of home purchase loans to low-income borrowers was 1.7 times the percentage of low-income families in the AA. It should be noted that a significant portion of these loans were for non-owner occupied properties. The income reported in connection with these loans is often very low, as it reflects only the income generated from the property and not the borrower's total income. In this case, eliminating all loans secured by non-owner occupied properties resulted in approximately 9% of total home purchase loans being to low-income borrowers. While this percentage is below demographics, this is not considered unreasonable. Low-income families would have a more difficult time qualifying for residential mortgage loans due to their more limited income.

Homes are available in the area in the \$30 to \$50 thousand range, which a low-income individual or family could purchase if they had no other personal debts to service with their disposable income. However, additional vehicle or credit card debt servicing requirements, when added to the payments required to service home loans in this range frequently disqualifies applicants under standard loan programs.

The bank had a good penetration of home purchase loans to moderate-income borrowers, which closely matched the demographics for the area. Seventeen percent of the bank's home purchase loans were to moderate-income borrowers, while 18% of area families were moderate-income.

Table 8 also shows an excellent level of lending to LMI borrowers who are financing improvements to their homes. We note 17% of home improvement loans were made to borrowers with low incomes and another 17% were made to borrowers with moderate incomes. This distribution exceeded the demographic data for low-income and closely matched the demographic data for moderate-income borrowers. Sixteen percent and 18% of families in the AA were low-income and moderate-income, respectively.

As Table 9 shows, the bank's performance for home mortgage refinance loans to moderate-income borrowers was significantly above the demographics, but was considerably weaker for refinance loans to low-income borrowers. Pinnacle Bank made 23% of its refinance loans to moderate-income borrowers while demographics showed 18% of families in the AA were moderate-income. Only 4% of the bank's refinance loans were to low-income borrowers who comprise 18% of the area's families. We note that it is more difficult for low-income borrowers to refinance due to the need to pay additional closing costs. The bank does not have a large number of purchase loans to low-income borrowers who could refinance. As stated below the bank started a program to assist low-income applicants having minimal down payment funds.

An analysis of market rank and market share is not applicable because Pinnacle Bank and other banks in the AA are outside an MSA, and are not required to collect and report home lending activity for Home Mortgage Disclosure Act (HMDA) purposes.

Community Development Lending

Table 1 in Appendix C provides the facts and data used to evaluate the bank's level of community development lending.

Pinnacle Bank originated a reasonable level of community development loans in its AA considering the limited opportunities in the rural communities it serves. We determined this conclusion based on discussions with community contacts, bank management, and the examiner's knowledge of the area. All

of the loans benefited the AA by providing funding resources to a local nonprofit community development corporation, which in turn provided financing to a small start-up business in Shelby. The loans included:

- ▶ Two loans totaling \$85 thousand to a local nonprofit development corporation, which in turn used the funds to acquire equipment and provide low interest rate term financing to attract a new service business to Shelby.

Product Innovation and Flexibility

Pinnacle Bank provided a reasonable level of flexibility when meeting the credit needs of the community. The bank used flexible direct lending terms to individuals operating small commercial or farm businesses. The bank provided short term financing for inventory and other operating expenses with no minimum amount. The bank's staff also assisted applicants for low down payment Federal Housing Administration loans or the Nebraska Investment Finance Authority (NIFA) loan program for first-time homebuyers, by processing applications for an independent mortgage company. These programs include lower down payment requirements (generally 3% to 5%). To-date, the bank has assisted three homebuyers with these programs.

Distribution of Loans by Income Level of the Geography

It is not meaningful to evaluate the distribution of loans by income level of the geography because the bank's AA contain only middle-income geographies (BNAs).

Assessment Area Concentration

Pinnacle Bank originated or purchased a satisfactory percentage of reported loans within its AA. For all loans evaluated under CRA for 1997 and 1998, the bank originated or purchased 74% by number within its AA. By loan product, the bank made or purchased 90% of small loans to farms, 80% of residential real estate loans, and 46% of small loans to businesses within its AA.

The low percentage of business loans within the bank's AA is not a concern. Business credit needs within the AA are adequately served as evident by the large number of business loans detailed in Table 1. Pinnacle Bank management recognized a significant number of business loans originating from the Columbus, Nebraska area and opened a LPO in May 1999. If we included business loans from this expanded AA, the percentage of reported loans originated within the AA increases to 87%, while the percentage of business loans within the AA increases to 83%.

INVESTMENT TEST

Conclusions for Area Receiving Full-Scope Review

Refer to Table 12 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

Pinnacle Bank's performance under the Investment Test is rated "Low Satisfactory". Pinnacle Bank provided a satisfactory level of qualified community development grants, which benefited the AA. Our discussion with bank personnel and area public contacts indicated that opportunities for investments were extremely limited. During the assessment period, there were no qualified community development investment opportunities available for bank funding. The AA lacked significant infrastructure targeting the needs of LMI individuals with the exception of a small privately funded branch office of a community action group. Pinnacle Bank officials supported the needs of this organization with donations and worked closely with other local qualified individuals to ensure the emergency needs of LMI individuals and households were met. The bank gave \$3 thousand in donations or grants over the assessment period to help insure these "safety net" services to LMI individuals and families remained sufficient. Comparable aggregate information was not available for other competing financial institutions in the AA.

SERVICE TEST

Conclusions for Area Receiving Full-Scope Review

Pinnacle Bank's performance under the Service Test is rated "Low Satisfactory". Based on our full-scope review, the bank's performance in the AA is adequate.

Retail Banking Services

Please refer to Table 13 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch and ATM delivery system.

Pinnacle Bank's single banking office and services were adequately accessible to its customers. Office hours provided reasonable access and convenience. The bank's main lobby and drive-in offered Saturday hours until 11:00 A.M. The staff conducted all lending activities from the bank's headquarters in Shelby and offered after-hours appointments to customers who could not conduct banking business during the regular business day. The ATM at a Shelby convenience store location was available 24 hours each day for demand and savings account withdrawals and transfers.

In April 1996, the bank implemented 24 hour telephone banking services which allowed customers access to select financial services, including the ability to conduct account and loan inquiries and enact funds transfers. In addition, customers were able to make loan payments and leave messages for the

staff with this telephone service. We could not place significant weight on this alternative method of delivering services because the bank did not collect information on how this benefited LMI individuals and families.

The bank offered no cost demand deposits to individuals who are students or 50 years or older. These groups frequently have restricted incomes. In addition, a demand deposit product with a \$100 minimum balance provided a low cost checking account for LMI individuals and households.

There have been no branch openings or closings during this evaluation period.

Community Development Services

Pinnacle Bank provided a reasonable 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 provided an important community development service by serving as president for a local non-profit economic development corporation. Local business leaders formed the corporation in 1998 to provide development financing for small businesses and the construction of LMI rental housing in Shelby and Osceola. It provided the financing for a new small service business, which started up in Shelby in 1998. Two other bank officers also served on the board of this economic development corporation.
- ▶ The bank administered the Village of Shelby's Home Improvement Loan Program. This program offered long-term low interest rate loans for home improvement projects in Shelby to LMI borrowers who did not qualify for bank financing. The bank collects the loan payments, tracks balances, and reports delinquencies to the Village. Twelve of these loans are currently outstanding with eight having previously paid off.
- ▶ A bank officer was the originator and chairman of a youth mentoring program for the area. Clients in this program are predominately the children of single parents in low-income families. The officer administered the financial portion of the program including grant applications and expense payments.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term "Full-Scope") and those that received a less comprehensive review (designated by the term "Limited-Scope").

Time Period Reviewed	Lending Test: January 1, 1997 to December 31, 1998 Investment Test: January 12, 1996 to June 1, 1999 Service Test: January 12, 1996 to June 1, 1999	
Financial Institution		Products Reviewed
Pinnacle Bank, National Association Shelby, Nebraska		Small Farm, Small Business, one- to four-family Real Estate Loans, Community Development Loans
Affiliate(s)		
Affiliate Relationship		Products Reviewed
None.		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Butler County/Polk County, Nebraska	Full-Scope	

Appendix B: Market Profile for Area Receiving Full-Scope Review

Butler County/Polk County, Nebraska

Demographic Information for Full-Scope Area: Butler County/Polk County, Nebraska						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	4	NA	NA	100%	NA	NA
Population by Geography	11,444	NA	NA	100%	NA	NA
Owner-Occupied Housing by Geography	3,359	NA	NA	64%	NA	NA
Businesses by Geography	313	NA	NA	100%	NA	NA
Farms by Geography	1,430*	NA	NA	100%	NA	NA
Family Distribution by Income Level	3,258	16%	18%	26%	40%	NA
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,127	NA	NA	100%	NA	NA
Median Family Income	= \$29,077			Median Housing Value		= \$28,065
HUD Adjusted Median Family Income for 1998	= \$39,300			Unemployment Rate: April 1999		= 2.5%
Households Below the Poverty Level	= 11.6%					

Source: 1990 U.S. Census, 1992 Census of Agriculture and 1998 HUD updated MFI.

*1992 Census of Agriculture, Data available only by whole counties.

Pinnacle Bank defined its AA for its operations as the two largest BNAs in Polk County and Butler County. This AA consists of four block numbering areas (BNAs). The AA did not include the Butler County BNA containing the David City area, which was serviced by four branches of other larger banks. When bank management expanded the AA in May 1999 to add five BNAs in southern Platte County, they also included a remote low-income BNA in northwest Polk County. This geographically small area is sparsely populated with only 31 people. It is approximately 23 miles from Shelby, located along the Platte River near Columbus, Nebraska. The area 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 Pinnacle Bank's previous exclusion of this low-income BNA due to its distance from the bank.

According to 1990 census data, the AA population was 11,444. Shelby, a noncounty seat with a population of 690, is the third largest town in the AA. The AA has fourteen other small towns, the largest having a population of 1,241. There were 3,258 families in the AA, with 16% designated low-income, 18% moderate-income, 26% middle-income and 40% upper-income. Eight percent of total families (268) were below the poverty level. The 1990 statewide nonmetropolitan median family income was \$27,623. The estimated statewide nonmetropolitan median family income for 1997 and

1998 were \$37,100 and \$39,300, respectively.

Agriculture dominates the AA's 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, 20 miles to the north.

Significant Shelby employers and the size of their workforce include the Shelby Public Schools 42, Bell Farms (pork production) 40, and Selden Trucking 32. Other major AA employers located in the county-seat town of Osceola, seven miles to the west, include the Good Samaritan Center (retirement home) 72, the County Hospital 69, and Polk County Government 56. Prospects for the agricultural sector are currently not favorable due to large swings in commodity prices. Despite the current downturn for agricultural markets, Nebraska's unemployment rate in April 1999 was only 2.5%. This figure compares favorably to the national average, which approximates 4.3%.

Banking and financial services competition within the AA market was strong. The AA was served by six locally headquartered full-service financial institutions and the branches of two other banks from outside the area. As of June 30, 1998, Pinnacle Bank had the third largest deposit base of these eight financial institutions. Pinnacle Bank's \$22 million of deposits were 15% of the total market. The eight other financial institutions deposit size ranged from \$11 million to \$24 million. Additional competition came from banks, brokerage houses and lenders headquartered outside the AA.

Examiners completed three community contacts during the examination and reviewed five previous contacts conducted recently by financial institution regulators in Pinnacle Bank's AA. A primary credit need as identified by previous contacts was to finance rental housing in Osceola, Polk and Stromsburg. Contacts at this examination stated entrepreneurial loans to start-up small businesses and support loans for struggling farms were the primary needs. They did not believe Shelby currently had a strong need for loans for rental housing.

Appendix C: Tables of Performance Data

Content of Standardized Tables

The tables cover the entire CRA evaluation period. References to the "bank" include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: purchased loans are treated as originations; market rank is based on the number of loans made by the bank as compared to all other lenders in the MSA/assessment area; and market share is the number of loans originated by the bank as a percentage of the aggregate number of reportable loans originated by all lenders in the MSA/assessment area. The following is a listing and brief description of the tables included in each set:

Table 1. **Lending Volume** - Presents the number and dollar amount of reportable loans originated by the bank over the evaluation period by MSA/assessment area.

Table 2. **Geographic Distribution of Home Purchase Loan Originations** - Compares the percentage distribution of the number of loans originated by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

Table 3. **Geographic Distribution of Home Improvement Loan Originations** - See Table 2.

Table 4. **Geographic Distribution of Refinance Loan Originations** - See Table 2.

Table 5. **Geographic Distribution of Small Business Loan Originations** - The percentage distribution of the number of small loans (<\$1 million) to businesses originated by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

- Table 6.** **Geographic Distribution of Small Farm Loan Originations** - The percentage distribution of the number of small loans (<\$500,000) to farms originated by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 7.** **Borrower Distribution of Home Purchase Loan Originations** - Compares the percentage distribution of the number of loans originated by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market rank and market share information based on the most recent aggregate market data available.
- Table 8.** **Borrower Distribution of Home Improvement Loan Originations** - See Table 7.
- Table 9.** **Borrower Distribution of Refinance Loan Originations** - See Table 7.
- Table 10.** **Borrower Distribution of Small Business Loan Originations** - Compares the percentage distribution of the number of small loans (<\$1 million) originated by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. The table also presents the percentage distribution of the number of loans originated by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 11.** **Borrower Distribution of Small Farm Loan Originations** - Compares the percentage distribution of the number of small loans (<\$500 thousand) originated by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. The table also presents the percentage distribution of the number of loans originated by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 12.** **Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/assessment area.
- Table 13.** **Distribution of Branch and ATM Delivery System** - Compares the percentage distribution of the number of the bank's retail branches and ATMs in low-, moderate-, middle- and upper-income geographies to the percentage of the population within each geography.

Table 1. Lending Volume

LENDING VOLUME State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998												
MSA /Assessment Area	% of Total Bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farms		Community Development		Total Reported Loans		% of Total Reported Bank Loans in Rated Area
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
Full Scope:												
Butler County/Polk County, Nebraska	100%	67	\$2,422	181	\$4,749	578	\$21,640	2	\$85	828	\$28,896	100%
Limited Scope:												

Sources: FFIEC CRA Aggregate and Disclosure Data for 1997 small loans to business and farms; and bank records for 1997 and 1998 real estate and all loans originated in 1998.

Table 2. Geographic Distribution of Home Purchase Loan Originations

MSA /Assessment Area	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank	Market Share by Geography					Total Home Purchase Loans		
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total	
Full Scope:																	
Butler County/Polk County, Nebraska	ANALYSIS OF GEOGRAPHIC DISTRIBUTION NOT MEANINGFUL													22	100%		
Limited Scope:																	

Source: Bank records for loans originated in 1997 and 1998.

Table 3. Geographic Distribution of Home Improvement Loan Originations

Geographic Distribution: HOME IMPROVEMENT State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank	Market Share by Geography					Total Home Improvement Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
Butler County/Polk County, Nebraska	ANALYSIS OF GEOGRAPHIC DISTRIBUTION NOT MEANINGFUL												17	100%		
Limited Scope:																

Source: Bank records for loans originated in 1997 and 1998.

Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations

Geographic Distribution: HOME MORTGAGE REFINANCE State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank	Market Share by Geography					Total Home Mortgage Refinance Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
Butler County/Polk County, Nebraska	ANALYSIS OF GEOGRAPHIC DISTRIBUTION NOT MEANINGFUL												28	100%		
Limited Scope:																

Source: Bank records for loans originated in 1997 and 1998.

Table 5. Geographic Distribution of Small Business Loan Originations

MSA /Assessment Area	Geographic Distribution: SMALL BUSINESS State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998								Market Share by Geography				Total Small Business Loans			
	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank	Overall	Low	Mod	Mid	Upper	#	% of Total
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
Butler County/Polk County, Nebraska	ANALYSIS OF GEOGRAPHIC DISTRIBUTION NOT MEANINGFUL													181	100%	
Limited Scope:																

Sources: FFIEC CRA Aggregate and Disclosure Data for 1997 small loans to business; and bank records for business loans originated in 1998.

Table 6. Geographic Distribution of Small Farm Loan Originations

MSA /Assessment Area	Geographic Distribution: SMALL FARM State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998								Overall Market Rank	Market Share by Geography					Total Small Farm Loans					
	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies			Overall	Low	Mod	Mid	Upper	#	% of Total				
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans												
Full Scope:																				
Butler County/Polk County, Nebraska	ANALYSIS OF GEOGRAPHIC DISTRIBUTION NOT MEANINGFUL													578	100%					
Limited Scope:																				

Sources: FFIEC CRA Aggregate and Disclosure Data for 1997 small loans to farms ; and bank records for farm loans originated in 1998.

Table 7. Borrower Distribution of Home Purchase Loan Originations

MSA /Assessment Area	Borrower Distribution: HOME PURCHASE State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998								Overall Market Rank	Market Share by Borrower Income					Total Home Purchase Loans		
	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers			Overall	Low	Mod	Mid	Upper	#	% of Total	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*									
Full Scope:																	
Butler County/Polk County, Nebraska	16%	27%	18%	17%	26%	17%	40%	39%	ANALYSIS OF MARKET RANK AND MARKET SHARE NOT APPLICABLE					22	100%		
Limited Scope:																	

Sources: Bank records for 1997 and 1998 real estate loans.

(*) As a percentage of loans with borrower income information available. No information was available for 18% of loans originated by Pinnacle Bank.

Table 8. Borrower Distribution of Home Improvement Loan Originations

Borrower Distribution: HOME IMPROVEMENT State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998																
MSA /Assessment Area	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank	Market Share by Borrower Income					Total Home Improvement Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upper	#	% of Total
Full Scope:																
Butler County/Polk County, Nebraska	16%	17%	18%	17%	26%	33%	40%	33%	ANALYSIS OF MARKET RANK AND MARKET SHARE NOT APPLICABLE					17	100%	
Limited Scope:																

Sources: Bank records for 1997 and 1998 real estate loans.

(*) As a percentage of loans with borrower income information available. No information was available for 29% of loans originated by Pinnacle Bank.

Table 9. Borrower Distribution of Home Mortgage Refinance Loan Originations

MSA /Assessment Area	Borrower Distribution: HOME MORTGAGE REFINANCE State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998								Total Home Mortgage Refinance Loans						
	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank	Market Share by Borrower Income					
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upper	#
Full Scope:															
Butler County/Polk County, Nebraska	16%	4%	18%	23%	26%	23%	40%	50%	ANALYSIS OF MARKET RANK AND MARKET SHARE NOT APPLICABLE					28	100%
Limited Scope:															

Sources: Bank records for 1997 and 1998 real estate loans.

(*) As a percentage of loans with borrower income information available. No information was available for 7% of loans originated by Pinnacle Bank.

Table 10. Borrower Distribution of Small Business Loan Originations

Borrower Distribution: SMALL BUSINESS State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998											
MSA / Assessment Area	Businesses with Revenues of \$1 Million or Less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans		
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	>\$100,00 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less	#	% of Total	Avg Loan Size
Full Scope:											
Butler County/Polk County, Nebraska	91%	86%	77%	95%	4%	1%	35%	38%	181	100%	\$26,000
Limited Scope:											

Sources: FFIEC CRA Aggregate and Disclosure Data for 1997 small loans to businesses; and bank records for business loans originated in 1998.

(*) As a percentage of businesses with known revenues.

(**) As a percentage of loans with revenue information available. Revenue information was available for all loans originated by Pinnacle Bank.

(***) The market consists of all other Small Business reporters in Pinnacle Bank's assessment area and is based on 1997 Aggregate Small Business Data only.

(****) Based on 1997 Aggregate Small Business Data only.

Table 11. Borrower Distribution of Small Farm Loan Originations

Borrower Distribution: SMALL FARM State: NEBRASKA Evaluation Period: January 1, 1997 to December 31, 1998											
MSA /Assessment Area	Farms with Revenues of \$1 Million or Less			Loans by Original Amount Regardless of Farm Size			Market Share****		Total Small Farm Loans		
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	>\$100,00 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less	#	% of Total	Avg Loan Size
Full Scope:											
Butler County/Polk County, Nebraska	98%	100%	94%	92%	6%	2%	29%	31%	578	100%	\$37,000
Limited Scope:											

Sources: FFIEC CRA Aggregate and Disclosure Data for 1997 small loans to farms ; and bank records for farm loans originated in 1998.

(*) As a percentage of farms with known revenues.

(**) As a percentage of loans with revenue information available. Revenue information was available for all loans originated by Pinnacle Bank.

(***) The market consists of all other Small Farm reporters in Pinnacle Bank's assessment area and is based on 1997 Aggregate Small Farm Data only.

(****) Based on 1997 Aggregate Small Farm Data only.

Table 12. Qualified Investments

Source: Bank records.

(*) "Prior Period Investments" means investments made in a previous evaluation period that remain outstanding.

(**) Percentage of the dollars invested in that MSA/Assessment Area that are prior period investments or current period investments.

Table 13. Distribution of Branch and ATM Delivery System

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM State: NEBRASKA Evaluation Period: January 12, 1996 to June 1, 1999													
MSA /Assessment Area	Deposits	Branches				ATMs				Population			
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp
Full Scope:													
Butler County/ Polk County, Nebraska	100%	1	100%	ANALYSIS NOT MEANINGFUL				1	100%	ANALYSIS NOT MEANINGFUL			
Limited Scope:													

Source: Bank records.