

PUBLIC DISCLOSURE

June 9, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**FARMERS STATE BANK AND TRUST COMPANY
10-31-3590
385958**

**P.O. Box 268
Superior, Nebraska 68978**

**Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198**

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 Farmers State Bank and Trust Company, Superior, Nebraska prepared by Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of June 9, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S CRA RATING: This institution is rated ***outstanding***.

The bank's performance under the CRA is considered outstanding. The bank's loan-to-deposit ratio is higher than other banks in the surrounding area and exceeds the standards for a satisfactory rating given the institution's size, financial condition, and assessment area credit needs. In addition, a substantial majority of its lending is within the assessment area and the distribution of loans among borrowers of different income levels and businesses and farms of different sizes exceed satisfactory standards. Furthermore, the geographic distribution of loans is reasonable given the demographics of the bank's assessment area.

DESCRIPTION OF INSTITUTION

Farmers State Bank and Trust Company is located in Superior, Nebraska, about two miles north of the Nebraska-Kansas state line and 135 miles southwest of Lincoln, Nebraska. Superior is the county seat of Nuckolls County. The population of Superior is 2,397 as reported by the 1990 Census. The bank maintains one office, at 411 North National, having closed its only branch office that was located in Hardy, Nebraska, effective April 1, 1997. An automated teller machine (ATM) is maintained at a local convenience store located at Third Street and Bloom. The office and ATM are readily accessible to the entire assessment area.

The bank has the ability to meet the credit needs of its assessment area based on its financial condition, size, and loan and deposit products. According to the bank's March 31, 1997 Consolidated Report of Condition and Income (Call Report), the bank's assets totaled \$61,594M, of which loans totaled \$37,998 or 62 percent. Although the bank offers a variety of loan products to meet community credit needs, the bank is primarily an agricultural and commercial lender, as shown in Table 1. Most of the residential real estate loans originated by the bank are immediately sold on the secondary market.

Table 1 THE BANK'S LOAN PORTFOLIO (As of 03-31-97)		
Loan Type	Amount (\$000)	Percent of Total
Farmland or agricultural	24,094	63.4
Multiple and 1- to 4-family real estate	7,185	18.9
Nonfarm nonresidential	3,230	8.5
Commercial	2,207	5.8
Consumer	1,086	2.9
Other	196	0.5
TOTAL	37,998	100.0

There are no legal or financial factors that would significantly hinder the bank's ability to meet the credit needs of its assessment area. The bank's CRA

performance was last reviewed as of August 7, 1995, when a rating of outstanding was assigned.

DESCRIPTION OF BANK'S ASSESSMENT AREA

Farmers State Bank's assessment area is located in south-central Nebraska and is a rural area that is sparsely populated and highly dependent on agriculture. It consists of six block numbering areas (BNAs) in three Nebraska counties and two Kansas counties, each adjoining the Nebraska-Kansas state line. In Nebraska, the assessment area includes all BNAs in Nuckolls County (9926 and 9927), one in Thayer County (9931), and one in Webster County (9651). In Kansas, the assessment area includes one BNA in Republic County (9782) and one in Jewell County (9761). As of the 1990 census, the assessment area had a total population of 9,158. According to Regional Economic Information System (REIS) data, the area's population decreased slightly from 1990 to 1994, with the most notable decrease occurring in Jewell County (7.1 percent).

Overall, the bank's community is a middle-income area with a median family income of \$24,048. The median income is about 87 and 86 percent of statewide rural areas in Nebraska and Kansas, respectively. Both assessment area BNAs in Webster and Jewell Counties are classified moderate-income and the other four BNAs are each classified middle-income. The proportion of families in the assessment area that is considered to be low- or moderate-income (45.3 percent of the area) is considerably higher than rural areas statewide in either Nebraska (36.5 percent) or Kansas (37.2 percent). In addition, the ratio of families below the poverty level, at 11.6 percent, is somewhat higher in the assessment area than in Nebraska and Kansas rural areas at 9.1 and 9.8 percent, respectively. The disparity is largely due to lack of major employers in the area that typically pay higher wages or salaries and the loss in recent years of several significant employers that have not been replaced. Also, about 25 percent of the assessment area population is age 65 or older.

Compared to other rural areas of the two states, the age of housing stock in the bank's assessment area is considerably older. The median age of homes in the assessment area is 57 years compared with 41 and 43 years, respectively, in rural areas of Nebraska and Kansas. Consequently, a high percentage of the area's housing stock (63 percent) was built before 1950 compared with only 47 percent in Nebraska and 44 percent in Kansas. Housing values and gross monthly rents are low in the assessment area indicating that housing is highly affordable. However, the demand for housing is relatively low at the present time as indicated by the relatively high housing vacancy rate (16.7 percent) in the area compared with 11.4 and 11.9 percent, respectively, in Nebraska and Kansas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Various factors were considered in evaluating the bank's CRA performance. A review was conducted of the bank's quarterly lending levels relative to its deposits and to other comparable financial institutions for the seven quarters since the August 1995 examination. The bank's level of lending within its assessment area and the bank's lending to borrowers of different income levels and businesses and farms of different sizes were evaluated. Also, the geographic distribution of loan originations within the bank's assessment area was analyzed. In addition, three members of the community were interviewed to gather insight into credit needs of the community and the contacts' perception of the bank's ability to meet those needs. The bank has not received any complaints relative to its performance under the CRA since the last examination. Therefore, this factor was not included in the analysis.

The bank's loan-to-deposit ratio exceeds standards for satisfactory performance based on the institution's size, financial condition, and credit needs of the assessment area. The bank's ratio averaged almost 74 percent for the seven quarters since the prior examination and was significantly higher than other area institutions. Farmers State Bank's national peer group averaged 62 percent over the same time period. The average loan-to-deposit ratio for other banks in the area ranged from the upper 50s to low 70s.

Based on a sample of loans reviewed during the examination, a substantial majority of the bank's lending occurs within its assessment area. Three loan products were reviewed in this analysis. The percentage of each loan product originated within the assessment area varies and is summarized in Table 2.

<p align="center">Table 2 LOANS WITHIN THE BANK'S ASSESSMENT AREA</p>		
Loan Type	Percentage of Total Loans	Percentage of Dollar Volume
Small Business	76	71
Small Farm	96	97
Consumer	93	88
Total Loans	89	91

The bank's distribution of consumer loans among individuals of different income levels and loans to businesses and farms of different sizes exceeds standards for satisfactory performance given the demographics of the assessment area. Of the 50 consumer loans within the assessment area, 46 percent were to low-income borrowers; 40 percent were to moderate-income borrowers, 8 percent were to middle-income borrowers; and 6 percent were to upper-income borrowers. These performance data compare strongly with the demographics of the area which show that about 21 percent of the families are low-income, 24 percent are moderate-income, 28 percent are middle income, and 27 percent are upper-income. Small consumer loans, under \$1M, often benefit lower income individuals. The bank has been cognizant of this credit need and has originated 49 low-dollar consumer loans since the last examination totaling \$30M. The bank originates loans under various government-insured loan programs to help meet the credit needs of individuals in the assessment area. Since the previous examination, it has originated 6 Federal Housing Administration loans totaling \$352M; 3 Veterans Administration loans totaling \$236M; 1 Farmers Home Administration loan totaling \$52M; and 4 Nebraska Investment Finance Authority loans totaling \$161M. In addition to the volume of government-insured loans, the bank originates low interest-rate loans in conjunction with the Nebraska Energy Office for the purchase of energy saving materials and appliances, heating and air conditioning equipment, and certain plumbing fixtures. Some of these loans benefit low-and moderate-income individuals.

All 51 small business loans and 79 small farm loans within the assessment area were for loan amounts of \$100M or less. Several of the small business loans were to the Superior Community Corporation, a not-for-profit organization dedicated to promoting community development projects in Superior. Between October, 1995 and April, 1996, the bank loaned the group \$470M to renovate the Leslie Hotel as a multi-unit low-to moderate-income housing facility. Subsequent minor loans have been extended to the group for additional remodeling and operating expenses. The bank has also been active in lending to start-up businesses and new farming operations in the community. In 1996, the bank provided financing to 20 new businesses and farms. The bank is a leader in promoting the economic growth of Superior through its efforts to meet the credit needs of new businesses.

The final criteria used to evaluate Farmers State Bank's performance under the CRA was geographic distribution of the sampled loans by BNA income level. Two BNAs (33 percent) of the bank's assessment area are considered moderate-income and four BNAs (67 percent) are middle-income. Although the percentage of loans for each loan product reviewed and made in the moderate-income BNAs is

somewhat lower than the demographics as stated, the factor overall is considered reasonable due to the limited number of potential borrowers in the two BNAs and the presence of competing financial institutions in the area that are closer in proximity to the potential borrowers. Percentages of loans by product type and BNA income level are summarized in Table 3. Consequently, the bank's performance under this criteria meets standards for satisfactory performance.

Table 3 PERCENTAGE OF LOANS REVIEWED BY INCOME LEVEL OF BLOCK NUMBERING AREA				
Area Median Family Income		\$24,048		
Income Level of Block Numbering Area	Percent of Business Loans Reviewed	Percent of Agricultural Loans Reviewed	Percent of Consumer Loans Reviewed	Percent of Combined Loans Reviewed
Moderate (50 to 80 percent of median/income)	6	9	4	7
Middle (80 to 120 percent of median/income)	94	91	96	93
Total	100	100	100	100

Persons in the community who were interviewed during the CRA analysis included a local government representative and two small-business owners. Each community contact indicated that the bank is a valuable resource to the community and is serving the credit needs of the area. They did not specify any creative loan products that would be of help to the community; but, one contact perceived a need for more funds to be available for small business loans.

No substantive violations of the antidiscrimination laws and regulations were identified. A review of bank lending policies, credit applications, loan documentation, and loan officer interview procedures with loan applicants revealed no prohibited practices designed to discourage applicants. Finally, the bank has developed adequate policies and procedures to monitor compliance with and provide staff training relative to antidiscrimination laws and regulations.