



## **PUBLIC DISCLOSURE**

June 7, 2004

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**KEARNEY STATE BANK & TRUST COMPANY  
RSSD# 502858**

**3015 2<sup>ND</sup> AVENUE  
P.O. Box 1930  
KEARNEY, NEBRASKA 68847**

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

**NOTE:** This document is an evaluation of this 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. 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.

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## GENERAL INFORMATION

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

Kearney State Bank and Trust Company has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The rating of the bank was assessed under the following five core criteria developed for evaluating Community Reinvestment Act (CRA) performances of small banks:

- Loan-to-Deposit Ratio
- Lending Inside the Assessment Area
- Geographic Distribution of Loans
- Lending to Individuals of Different Income Levels and Businesses of Different Sizes
- Record of Responding to Complaints About the Bank's CRA Performance

Conclusions for each performance criterion were based on data compiled from a statistically-derived sample of files for each major product line. Discussions with bank management, a review of the bank's Report of Condition and Income (Call Report), and a review of the volume of loan originations were used to determine the major product lines of the bank. As a result, the three loan types sampled for this evaluation included those designated as motor vehicle, residential real estate, and commercial loans.

### Summary of Findings

- The bank's loan-to-deposit ratio (LTD) reflected a reasonable effort to extend credit given the bank's size, financial capacity, and assessment area needs.
- The majority of lending activity was within its assessment area.
- Lending patterns revealed an outstanding dispersion among borrowers of different income levels and businesses of different revenue sizes, particularly to very small entities.
- The bank's assessment area consists of middle- and upper-income geographies, the bank's level of lending by geography was considered reasonable.
- The bank's response to complaints was not evaluated because the bank had not received any complaints regarding its performance under the CRA since the last examination.

**DESCRIPTION OF INSTITUTION**

Kearney State Bank and Trust Company operates from its main office in Kearney, located in central Nebraska. The bank has no branches and operates four full-service automated teller machines (ATMs) and two cash-dispensing ATMs.

The analysis of the bank's CRA performance considers the bank's financial impediments, local economic conditions, and demographics including the competitive environment in which the bank operates. Although Kearney State Bank and Trust Company is subject to strong competition from other financial institutions within its assessment area, there are no legal impediments that impact the bank's ability to lend. The bank's lending activity by dollar amount is primarily devoted to commercial and consumer real estate financing. According to the December 31, 2003 Call Report, the bank's total assets were \$134,977,000, including loans totaling \$86,145,000 and deposits totaling \$117,280,000. As illustrated in Table 1, approximately 42 percent of the bank's loan portfolio was comprised of commercial loans, 29 percent residential real estate loans, 17 percent consumer loans, and 12 percent agricultural loans.

TABLE 1 DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF 12/31/03		
Type of Loan	Amount (\$000)	Percentage of Total Loans
Commercial Loans	36,452	42
Residential Real Estate Loans	25,159	29
Consumer Loans	14,559	17
Agricultural Loans	9,975	12
<b>Totals</b>	<b>86,145</b>	<b>100</b>

The bank received an outstanding rating at its previous CRA evaluation on February 1, 1999. The evaluation was conducted by the Federal Deposit Insurance Corporation (FDIC). This is the bank's first CRA evaluation since becoming a Federal Reserve Bank member.

**DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank's assessment area is the geographic area bank management has designated as its primary service area. The assessment area consists of Buffalo County. Kearney is the largest town in the county and serves as the county seat. The assessment area is comprised of eight middle-income and two upper-income tracts. The assessment area does not exclude any low- or moderate-income tracts.

The population for Buffalo County was 37,447, according to 1990 census data. Census data for 2000 shows the population of Buffalo County was 42,259, an increase of approximately 13 percent. The assessment area includes 1,456 businesses, of which approximately 87 percent have revenues of under \$1,000,000. In addition, the assessment area includes 10,302

families that represent approximately 65 percent of the 15,955 households in the bank's assessment area. According to 2000 census data, the median family income for the assessment area was \$46,362 compared to \$41,974 for the state of Nebraska. The 2003 estimated median family income for Buffalo County is \$48,300, an increase of approximately 4 percent.

Characteristics of the bank's assessment area are summarized in Table 2.

<b>TABLE 2 CHARACTERISTICS OF BANK'S ASSESSMENT AREA (Based on 2000 Census Data)</b>	
Total number of Census Tracts	10
	Number of Tracts
Low-Income	0
Moderate-Income	0
Middle-Income	8
Upper-Income	2
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Total Population in 2000	42,259
Median Family Income*	\$48,300
Percent of Low-Income Families	13
Percent of Moderate-Income Families	17
Percent of Middle-Income Families	25
Percent of Upper-Income Families	45
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Housing Types	
Percent of Owner-Occupied Units	60
Percent of Rental Occupied Units	35
Percent of Vacant Units	5
Affordability Ratio**	53
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Total Businesses***	1,456
Percent of Businesses <\$1,000,000 in Total Revenue	87

\* Based on the 2003 U.S. Department of Housing and Urban Development (HUD) estimated figure for Buffalo County.

\*\* The affordability ratio is calculated by dividing 2000 median family income by 2000 median housing value

\*\*\* Based on 2000 Dun & Bradstreet data for Buffalo County.

The largest employers in the area include the University of Nebraska at Kearney (education), the Good Samaritan Health Systems (services), Baldwin Filters (manufacturing of oil, air and fuel filters), and the Eaton Corporation (manufacturing of automotive valves and forged gears).

Competition for financial services is strong, including bank and nonbank entities with both local and multi-state foci. The bank is located in a middle-income census tract. The bank's assessment area does not arbitrarily exclude any low- or moderate-income areas.

Members of the community were interviewed to gain a perspective on local economic conditions and possible credit needs. The contacts included a housing organization and a

member of a local business organization. According to both contacts, the economy has remained stable and strong due to diversified types of businesses in the Kearney area. However, the agricultural economy remains depressed, but this has not yet significantly affected the business economy. Both contacts felt that the general credit needs of the community are being met.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Loan-to-Deposit Ratio**

The bank’s loan-to-deposit (LTD) ratio is satisfactory given the institution’s capacity to lend, demographic and economic factors present in the assessment area, and the availability of lending opportunities. Kearney State Bank and Trust Company’s average LTD over the previous 12 quarters was 77 percent. This compares to the LTD averages of 81 percent for the bank’s peer group (six similarly-situated competitor banks in the area). The LTD of the bank’s national peer group was 69 percent which was similar to Kearney State Bank and Trust Company’s ratio, at 73 percent for the most recent quarter, March 2004.

**Lending in the Bank’s Overall Assessment Area**

This core performance criterion evaluates the concentration of loans originated by the bank within its assessment area. The bank’s lending activity within its assessment area meets the standards for satisfactory performance. Based on a sample of loans reviewed during the examination, a majority of the bank’s lending occurs within its assessment area. A sample of 205 loans consisting of 76 motor vehicle loans, 75 residential real estate loans, and 54 business loans originated from January 2003 thorough December 2003, revealed that 78 percent by number and 86 percent of loans by dollar amount were originated inside the bank’s assessment area as summarized in Table 3 below.

	<b>Inside the Assessment Area</b>				<b>Outside the Assessment Area</b>			
	<b>Number of Loans</b>	<b>%</b>	<b>Dollar Amount of Loans (000)</b>	<b>%</b>	<b>Number of Loans</b>	<b>%</b>	<b>Dollar Amount of Loans (000)</b>	<b>%</b>
<b>Motor Vehicle</b>	52	68	444	63	24	32	261	37
<b>Residential Real Estate</b>	63	84	5773	89	12	16	732	11
<b>Business</b>	46	85	2844	87	8	15	431	13
<b>TOTALS</b>	<b>161</b>	<b>78</b>	<b>9061</b>	<b>86</b>	<b>44</b>	<b>22</b>	<b>1424</b>	<b>14</b>

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

This core performance criterion evaluates the bank's loan originations to borrowers of different income levels, particularly low- and moderate-income individuals, and to businesses of different sizes based on their reported gross annual revenues. The distribution of loans in the bank's assessment area represents an excellent penetration to individuals of different income levels and to businesses of different sizes.

*Motor Vehicle Loans*

Table 4 shows that 67 percent of the number and 58 percent of the dollar amount of the loans sampled in the assessment area were to low- and moderate-income borrowers. This is significantly higher than the demographics of the assessment area, which indicate that 30 percent of the families and 36 percent of households have low and moderate incomes.

<b>Table 4 DISTRIBUTION OF MOTOR VEHICLE LOANS IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER</b>						
<b>Income Level of Borrower</b>	<b>Number of Loans</b>	<b>Percent by Number of Loans</b>	<b>Dollar volume of Loans (000)</b>	<b>Percent by Dollar Volume of Loans</b>	<b>Percent of Families Within Assessment Area by Income Level</b>	<b>Percent of Households Within Assessment Area by Income Level</b>
<b>Low</b>	20	38	137	31	13	19
<b>Moderate</b>	15	29	121	27	17	17
<b>Middle</b>	13	25	133	30	25	20
<b>Upper</b>	4	8	53	12	45	44
<b>Totals</b>	<b>52</b>	<b>100</b>	<b>444</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Residential Real Estate Loans*

Table 5 shows that 29 percent of the number and 21 percent of the dollar amount of the loans sampled in the assessment area were to low- and moderate-income borrowers. This is similar to the demographics of the assessment area, which indicate that 30 percent of the families and 36 percent of households have low- and moderate-incomes. This penetration is considered reasonable. The average price of a house in the Kearney area is around \$86,000.

Table 5 DISTRIBUTION OF REAL ESTATE LOANS IN THE ASSESSMENT AREA BY INCOME LEVEL OF BORROWER						
Income Level of Borrower	Number of Loans	Percent by Number of Loans	Dollar Volume of Loans (000)	Percent by Dollar Volume of Loans	Percent of Families Within Assessment Area by Income Level	Percent of Households Within Assessment Area by Income Level
Low	8	13	446	8	13	19
Moderate	10	16	748	13	17	17
Middle	18	28	1699	29	25	20
Upper	27	43	2880	50	45	44
<b>Totals</b>	<b>63</b>	<b>100</b>	<b>5773</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Small Business Loans*

According to Dun & Bradstreet's 2000 data, 87 percent of businesses in the bank's assessment area have gross annual revenues of less than \$1,000,000. Table 6 shows that 94 percent of the loans sampled by number and 98 percent of loans by dollar amount were to businesses with gross annual revenues of less than \$1,000,000. The bank's penetration is significantly higher than the demographics of the area; this penetration is considered more than reasonable. In addition, the bank demonstrates a willingness to lend in small dollar amounts as 52 percent of loans sampled were originated in loan amounts less than or equal \$100,000.

Table 6 LENDING TO SMALL BUSINESSES OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA				
Annual Revenue	Number of Business Loans	%	Dollar Amount of Loans (000)	%
Less than or equal to \$100,000	24	52	1,099	39
Greater than \$100,000 but less than or equal to \$250,000	8	18	548	19
Greater than \$250,000 but less than or equal to \$1,000,000	11	24	1,137	40
Greater than \$1,000,000	3	6	59	2
<b>SMALL BUSINESS TOTALS</b>	<b>46</b>	<b>100</b>	<b>2,843</b>	<b>100</b>



**Geographic Distribution of Loans**

This core performance criterion focuses on the bank's penetration among census tracts of different income levels in the assessment area. The bank's assessment area consists of eight middle-income and two upper-income census tracts. Table 7 shows that 80 percent of the assessment area tracts are middle-income and 20 percent are upper-income tracts. By number, 73 percent of sampled loans were in the middle-income tracts, while 27 percent were in upper-income tracts. The geographic penetration of families and households is 72 percent and 28 percent respectively, therefore the geographic penetration is considered reasonable.

<b>Table 7 DISTRIBUTION OF MOTOR VEHICLE, RESIDENTIAL REAL ESTATE, AND SMALL BUSINESS LOANS IN THE ASSESSMENT AREA BY INCOME LEVEL OF GEOGRAPHIES</b>								
<b>Loan Type</b>	<b>Low-Income</b>		<b>MODERATE-INCOME</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Motor Vehicle Loans (52)	N/A	N/A	N/A	N/A	42	315	10	129
<b>Percent of Total</b>	N/A	N/A	N/A	N/A	<b>81</b>	<b>71</b>	<b>19</b>	<b>29</b>
Real Estate Loans (63)	N/A	N/A	N/A	N/A	41	4203	22	1570
<b>Percent of Total</b>	N/A	N/A	N/A	N/A	<b>65</b>	<b>73</b>	<b>35</b>	<b>27</b>
Small Business Loans (46)	N/A	N/A	N/A	N/A	34	2013	12	830
<b>Percent of Total</b>	N/A	N/A	N/A	N/A	<b>74</b>	<b>71</b>	<b>26</b>	<b>29</b>
<b>Total Loans (117)</b>	N/A	N/A	N/A	N/A	<b>117</b>	<b>6530</b>	<b>44</b>	<b>2531</b>
<b>Percent of Total</b>	N/A	N/A	N/A	N/A	<b>73</b>	<b>72</b>	<b>27</b>	<b>28</b>
<b>% of each Tract Category*</b>	N/A		N/A		<b>80</b>		<b>20</b>	
<b>% of Families in Designated Tracts*</b>	N/A		N/A		<b>72</b>		<b>28</b>	
<b>% of Households in Designated Tracts*</b>	N/A		N/A		<b>72</b>		<b>28</b>	
<b>% of Businesses in Designated Tracts*</b>	N/A		N/A		<b>80</b>		<b>20</b>	

\* Based on 2000 census data.

**Record of Responding to Complaints**

The bank has not received any complaints about its performance in meeting assessment area credit needs. Therefore, the bank's performance in responding to complaints was not assessed.

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

There were no violations of any antidiscrimination laws and regulations identified during the fair lending component of the compliance examination. Overall, adequate policies, procedures, and training programs have been developed to ensure equal treatment in the bank's lending activities.

## GLOSSARY OF COMMON CRA TERMS

(For additional information, please see the Definitions section of Regulation BB at 12 CFR 228.12.)

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**Assessment Area** – The geographic area(s) delineated by the bank and used in evaluating the bank’s record of helping to meet the credit needs of its community. The assessment area must include the geographies where the main office, branches, and deposit-taking automated tellers machines are located. The assessment area must consist only of whole geographies, may not reflect illegal discrimination, and may not arbitrarily exclude low- or moderate-income geographies.

**Block Numbering Areas (BNAs)** – BNAs are geographic entities similar to census tracts. Metropolitan areas are most often delineated into census tracts, while rural areas are delineated into BNAs.

**Census Tracts** – Census tracts are small, relatively permanent geographic entities within counties delineated by a committee of local data users. Generally, census tracts have between 2,500 and 8,000 residents and boundaries that follow visible features.

**Community Development** – Includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals, community services targeted to low- and moderate-income individuals, activities that promote economic development by financing businesses or farms that have gross annual revenues of \$1 million or less, or activities that revitalize or stabilize low- or moderate-income geographies.

**Community Development Loan** – A loan that has community development as its primary purpose and (except in the case of a wholesale or limited-purpose bank).

1. Has not been reported or collected by the bank or an affiliate as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan and
2. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

**Community Development Service** – A service that has as its primary purpose community development, is related to the provision of financial services, has not been considered in the evaluation of the bank’s retail banking services, benefits the banks assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area and has not been claimed by other affiliated institutions.

**Consumer Loans** – Loans to individuals for household, family and other personal expenditures. These loans do not include real estate-secured loans.

**Dun & Bradstreet Data** – Data collected by Dun & Bradstreet regarding types of businesses and their respective gross annual revenues. The data can be sorted by geographies.

**Geography** – A census tract or a block numbering area.

**Income Level** – Both geographies and individuals can be described in terms of their income levels. In MSAs, the level is based on the MSA median income. In nonMSA areas, the level is based on the statewide, nonMSA median income.

**Low-Income** – Less than 50 percent of the area median income

**Moderate-Income** – At least 50 percent and less than 80 percent of the area median income

**Middle-Income** – At least 80 percent and less than 120 percent of the area median income

**Upper-Income** – At least 120 percent or more of the area median income

**Metropolitan Statistical Area (MSA)** - The general concept of an MSA is that of a core area containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Generally, a single city with at least 50,000 inhabitants or an urbanized area with a total population of at least 100,000 would meet the definition of an MSA.

**Qualified Investment** – A lawful investment, deposit, membership share or grant that has as its primary purpose community development.

**Small Business** – A business with gross annual revenues of \$1 million or less.

**Small Business Loan** – A loan with an original amount of \$1 million or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by nonfarm nonresidential properties” or “Commercial and industrial loans.”

**Small Farm** – A farm with gross annual revenues of \$1 million or less.

**Small Farm Loan** – A loan with an original amount of \$500,000 or less that has been reported in the Consolidated Report of Condition and Income in the category “Loans secured by farmland” or “Loans to finance agricultural production and other loans to farmers.”