



## **PUBLIC DISCLOSURE**

November 12, 2002

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

**DEUEL COUNTY STATE BANK  
RSSD# 538651**

**P.O. BOX 548  
CHAPPELL, NEBRASKA 69129**

**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.

**TABLE OF CONTENTS**

|                                      |   |
|--------------------------------------|---|
| Institution's CRA Rating .....       | 2 |
| Description of Institution .....     | 2 |
| Description of Assessment Area ..... | 3 |
| Conclusions .....                    | 5 |

## GENERAL INFORMATION

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

An institution in this group 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 to Individuals of Different Income Levels and Businesses and Farms of Different Sizes
- ✍ Lending Inside the Assessment Area
- ✍ Geographic Distribution of Loans
- ✍ 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 two loan types sampled for this evaluation included those designated as farm loans and business loans.

The analysis shows that the bank's loan-to-deposit ratio reflects a more than reasonable effort to extend credit within safe and sound banking practices. The majority of lending activity is within the bank's assessment area. The geographic distribution of loans throughout the bank's assessment area was not analyzed, since the assessment area had only one middle-income block numbering area. The distribution of loans to businesses and farms of different revenue sizes reflects a reasonable dispersion. The response to complaints criterion was not rated as the bank has not received any complaints about its performance under the CRA.

## DESCRIPTION OF INSTITUTION

The Deuel County State Bank is located in Chappell, Nebraska, which is in a nonmetropolitan area in the southwest corner of the state. The bank has one office and one automated teller machine located in a convenience store two blocks east of the bank.

The assessment of the bank's CRA performance takes into account its financial capacity, legal impediments, local economic conditions, and demographics, including the

competitive environment in which it operates. Although the Deuel County State Bank is subject to competition from other financial institutions and mortgage companies within and around its assessment area, there are no financial or legal impediments that impact the bank's ability to lend. The bank's lending activity by dollar amount is primarily devoted to agriculture and commercial financing, although consumer real estate and consumer loans are offered as well. According to the June 30, 2002 Call Report, the bank's total assets were \$36,565,000, including loans totaling \$28,355,000 and deposits totaling \$32,186,000. Table 1 illustrates the breakdown of the bank's loan portfolio as of the June 30, 2002 Call Report.

| <b>TABLE 1<br/>                     DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO<br/>                     AS OF JUNE 30, 2002</b> |                  |                        |
|--|------------------|------------------------|
| Type of Loan   | Amount (\$000's) | Percent of Total Loans |
| Commercial Purpose Loans (16%):  |                  |                        |
| Commercial Loans   | 2,946            | 10                     |
| Secured by nonfarm, nonresidential properties  | 1,568            | 6                      |
| Agriculture ( 63%)   |                  |                        |
| Loans to Finance Agriculture Production  | 13,607           | 48                     |
| Secured by Farmland  | 4,361            | 15                     |
| Other Loans Secured by Real Estate: (14%)  |                  |                        |
| Loans secured by 1- to 4-family residential properties (first liens)   | 3,695            | 13                     |
| Construction and Land Development  | 36               | > 1                    |
| Revolving, Open-end Loans  | 89               | > 1                    |
| Consumer Loans   | 1,755            | 6                      |
| Other Loans  | 298              | 1                      |
| <b>TOTAL</b>   | <b>28,355</b>    | <b>100</b>             |

The bank's performance under the CRA was last evaluated at the October 19, 1998 examination, at which time it was also assigned a satisfactory rating.

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

The bank defines its assessment area (AA) as Deuel County, Nebraska, which is a nonmetropolitan area located in the southwestern corner of the state. The county has only one block numbering area (BNA) which is considered middle-income based on 1990 census data. The bank is located in the town of Chappell, which is also the county seat.

Based on 2000 census data, the population of the AA is 2,098 which represents a decrease of 6 percent from the 1990 census. The county is primarily rural with 66 percent of the population in the two towns of Chappell (population 983) and Big Springs

(population 418). The bank's assessment area does not arbitrarily exclude any low- or moderate-income areas. Characteristics of the bank's assessment area are summarized in Table 2.

| <b>TABLE 2<br/>CHARACTERISTICS OF BANK'S ASSESSMENT AREA<br/>(Based on 1990 Census Data)</b> |                |
|--|----------------|
| Total Number of Block Numbering Areas (BNAs)   | 1              |
|  | Number of BNAs |
| Low-Income Areas   | 0              |
| Moderate-Income Areas  | 0              |
| Middle-Income Areas  | 1              |
| Upper-Income Areas   | 0              |
|  |                |
| Total Population   | 2,237          |
| Median-Family Income*  | \$45,800       |
| Percent of Low-Income Families   | 18             |
| Percent of Moderate-Income Families  | 22             |
| Percent of Middle-Income Families  | 28             |
| Percent of Upper-Income Families   | 32             |
| Housing Types  |                |
| Percent of Owner-Occupied  | 63             |
| Percent of Rental Occupied   | 22             |
| Percent Vacant   | 15             |
|  |                |
| Total Businesses   | 127            |
| Total Farms  | 78             |
| Percent of Farms < \$1 Million in Total Revenue  | 97             |
| Percent of Businesses < \$1 Million in Total Revenue   | 90             |

\* Based upon the Department of Housing and Urban Development (HUD) estimated 2002 median-family income for the non-metropolitan portions of Nebraska

Members of the community were interviewed during this review to gain perspective on local economic conditions and possible credit needs. Community contacts included an official from the local government and an official from the county government. Their comments indicated that the local economy is under stress as a result of the recent drought that has reduced crop yields and raised the cost of feed for cattle. The majority of jobs are in the agricultural, retail trade, and education sectors. Major employers in the county include the local school district, city and county government, the Farmers Elevator Company, and Bosselman's Truck Plaza. Affordable housing continues to be in short supply due to the lack of new construction. Additionally, there is an aging population and these people tend to remain in their single-family dwellings and homesteads rather than

move to multi-unit assisted living facilities. Historically, this has been the result of a shortage of assisted living units in the area. However, this situation may begin to ease, as a multi-unit assisted living facility was completed a few years ago.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

This core performance criterion evaluates the reasonableness of the bank's loan-to-deposit ratio in light of information from the performance context, including the institution's capacity to lend, demographic and economic factors present in the assessment area, and the lending opportunities available in the assessment area.

The bank's average net loan-to-deposit ratio for the last eight-quarters was 83.6 percent, which is considered more than reasonable. This average exceeds the eight-quarter average of 67.0 percent for national peer group banks of similar size and the 78.4 percent average for banks in the Tenth District of the Federal Reserve Bank. In addition, the one other bank of similar size located in the AA had an average of only 32.6 percent for the same time period. The bank's loan-to-deposit ratio is more than reasonable and reflects the bank's efforts to lend in their banking market. Therefore, the bank meets the standards for an outstanding rating for the loan-to-deposit ratio performance criterion.

### **Lending in the Bank's Assessment Area**

This core performance criterion evaluates the concentration of loans originated by the bank in its assessment area. An analysis was performed based on data compiled from the statistically-derived sample of loans mentioned earlier. As shown in Table 3, a majority of the loans, 54 percent of the farm and 61 percent of the business, were originated within the bank's AA. In total, 42 of the 74 loans sampled, or 58 percent, were inside the assessment area. The aggregate dollars loaned reflected similar percentages. The loans outside of the AA were all in neighboring counties. Bank management stated that it does not actively solicit loans from outside the AA. In addition, community contacts indicated that the lending needs of the community were generally being met by the local financial institutions. Therefore, the bank meets the standards for a satisfactory rating for this performance criterion.

| TABLE 3<br>DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA |                            |         |                        |         |                             |         |                        |         |
|--|----------------------------|---------|------------------------|---------|-----------------------------|---------|------------------------|---------|
| Type of Loan   | Inside the Assessment Area |         |                        |         | Outside the Assessment Area |         |                        |         |
|  | Number of Loans            | Percent | Amt. Of Loans \$(000s) | Percent | Number of Loans             | Percent | Amt. of Loans \$(000s) | Percent |
| Farm   | 22                         | 54      | 1,186                  | 74      | 19                          | 46      | 419                    | 26      |
| Business   | 20                         | 61      | 619                    | 39      | 13                          | 39      | 953                    | 61      |
| All  | 42                         | 57      | 1,805                  | 57      | 32                          | 43      | 1,372                  | 43      |

**Geographic Distribution of Loans**

In view of the fact that the AA has only one BNA, the analysis of geographic distribution of loans across the AA would not be meaningful. Thus, no evaluation or rating was made for this performance criterion.

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

This core performance criterion evaluates the bank’s loan originations to businesses and farms of different sizes. This criterion focuses particularly upon the amount of penetration to smaller farms and businesses based on their reported gross annual revenue.

*Farm Loans*

Table 4 shows that 100 percent of the loans sampled were to farms with annual revenues less than \$1,000,000 and 55 percent of the loans sampled were to farms with annual revenues less than \$100,000. The bank’s lending levels to farms compares favorably to the demographics of the assessment area. According to Dun and Bradstreet’s 2001 data, 97 percent of the farms in the bank’s assessment area have annual revenues of less than \$1,000,000. Furthermore, 20 of the 22 loans made were for amounts less than \$100,000, reflecting the bank’s willingness to lend in small dollar amounts. Therefore, the lending to farms of various sizes, especially smaller farms, is considered more than reasonable.

*Business Loans*

Table 5 shows that 75 percent of the loans sampled were to businesses with annual revenues less than \$1,000,000. Notably, all of these were to businesses with annual revenues less than \$250,000. The bank’s lending levels to small businesses are somewhat less than the figures suggested by business demographics of the AA. According to Dun and Bradstreet’s 2001 data, 90 percent of the businesses in the bank’s assessment area have annual revenues of less than \$1,000,000. However, the

businesses that reported annual revenue in excess of \$1,000,000 were all located in the town of Chappell, thereby demonstrating the bank's practice of lending to businesses within its community. Furthermore, 19 of the 20 loans were made in amounts less than \$100,000, reflecting the bank's willingness to lend in small dollar amounts. Therefore, the lending to businesses of various sizes is considerable reasonable.

Overall, the lending to farms and businesses of different sizes, especially to smaller entities, is considered reasonable. Therefore, the bank meets the standards for a satisfactory rating for this performance criterion.

| <b>TABLE 4<br/>LENDING TO FARMS OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA</b> |                        |                |
|---|------------------------|----------------|
| <b>Annual Revenue</b>   | <b>Number of Loans</b> | <b>Percent</b> |
| Less than \$100,000   | 12                     | 55             |
| Greater than or equal to \$100,000 but less than \$250,000                        | 4                      | 18             |
| Greater than or equal to \$250,000 but less than \$500,000                        | 6                      | 27             |
| Greater than or equal to \$500,000  | 0                      | 0              |

| <b>TABLE 5<br/>LENDING TO BUSINESSES OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA</b> |                        |                |
|--|------------------------|----------------|
| <b>Annual Revenue</b>  | <b>Number of Loans</b> | <b>Percent</b> |
| Less than \$100,000  | 13                     | 65             |
| Greater than or equal to \$100,000 but less than \$250,000                             | 2                      | 10             |
| Greater than or equal to \$250,000 but less than \$500,000                             | 0                      | 0              |
| Greater than or equal to \$500,000 but less than \$750,000                             | 0                      | 0              |
| Greater than \$750,000 but less than \$1,000,000                                       | 0                      | 0              |
| Greater than \$1,000,000   | 5                      | 25             |

**Record of Responding to Complaints**

This criterion evaluates the bank's performance in responding to complaints regarding the bank's performance in meeting the AA's credit needs. The bank has not received any complaints about its performance in meeting AA credit needs since the previous CRA evaluation. Therefore, the bank's performance in responding to complaints was not assessed.



**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

There were no violations of any anti-discrimination 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. Further, the bank was not engaged in any other illegal credit practices inconsistent with helping to meet community credit needs.

## GLOSSARY OF COMMON CRA TERMS

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

**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.

**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.

**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.”