



PUBLIC DISCLOSURE

August 27, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**CITIZENS STATE BANK
RSSD# 672957**

**190 NORTH MAIN STREET
P. O. BOX 89
POLK, NEBRASKA 68654**

**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

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 the Community Reinvestment Act (CRA) performance of small banks:

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

Conclusions for each of the performance criteria were based on data compiled from a statistically-derived sample of files reviewed for each major loan 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 that were sampled for this evaluation were those designated as agricultural and commercial loans.

The analysis shows that the bank's loan-to-deposit ratio reflects a more than reasonable effort to extend credit, consistent with safe and sound banking practices. A majority of the lending activity was found to be within the bank's assessment area, and the lending to businesses and farms of different sizes was reasonable based on the location of the bank. The geographic distribution of loans and the response to complaints criterion were not rated, as there are no lower- or moderate-income geographies in the area and the bank has not received any complaints about its performance under the CRA.

DESCRIPTION OF CITIZENS STATE BANK

Citizens State Bank has one full-service facility located in the Village of Polk, Nebraska, that is readily accessible to the entire community. The bank does not have any branches or automated teller machines. The bank's primary lending activity is agricultural and small commercial loans, but it also offers small consumer loans and real estate loans. The bank reported total assets of \$10,831,000, including net loans totaling \$7,879,000 or 72.7 percent of total assets, in its June 30, 2001 Consolidated Call Report. Table 1 illustrates the breakdown of the bank's loan portfolio as of the June 30, 2001 Call Report.

**TABLE 1
DISTRIBUTION OF LOANS IN THE LOAN PORTFOLIO AS OF 6/30/2001**

Type of Loan	Amount (In Thousands)	Percentage of Total Loans
Commercial Loans	2,055	26.08%
Agricultural Loans	4,755	60.35%
Consumer Loans	883	11.21%
Loans Secured by Real Estate:		
Construction and land development	0	0.00%
Loans secured by 1- to 4-family residential properties	173	2.20%
Other (Less Unearned Income)	13	0.16%
TOTAL	7,879	100.00%

No legal or financial factors exist that would hinder the bank's ability to meet the credit needs of its assessment area. The bank's CRA performance was last evaluated on June 23, 1997, at which time it was considered Satisfactory.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Citizens State Bank is located in the Village of Polk, Nebraska, which is in east-central Nebraska and within the southwestern edge of Polk County. The Village of Polk is located approximately 75 miles northwest of Lincoln, Nebraska, and about 30 miles east of Grand Island, Nebraska. The bank has defined its assessment area as portions of Polk, Merrick, Hamilton and York counties. The bank's assessment area is located in a nonmetropolitan statistical area and is comprised of five contiguous middle-income Block Numbering Areas (BNAs). The bank has included one BNA from each county, while there are two BNAs from within Merrick County. (Please reference the attached assessment area map for further detail.) The surrounding BNAs outside the bank's assessment area are also classified as middle income; therefore, the bank has not excluded any low- to moderate-income areas. The bank's assessment area has been reduced from six BNAs to five BNAs since the last examination on June 27, 1997. The BNA in northern Polk County, which includes Osceola, the county seat, has been excluded, as very limited loan and deposit activity has occurred in this area. According to the 1990 Census, the population of the assessment area is 16,421.

The median family income for the assessment area using 1990 census data was \$28,664, compared to \$27,623 for other nonmetropolitan areas and \$31,634 for the state. Of families within the assessment area 14.2 percent are low-income; 18.9 percent moderate-income; 28.7 percent middle-income; and 38.1 percent upper-income. Only 6 percent of families are below the poverty level, compared to 9 percent for other nonmetropolitan areas and about 12 percent for the state.

Members of the community were interviewed during the examination to gain a perspective on local economic conditions and possible credit needs. Community contacts included one local government official and one local trade association director.

The assessment area's economy is largely dependent upon agricultural products, crops and cattle. According to the community contact from the nearby trade association, the area is considered one-of-five "garden agriculture spots" in the United States, due to the rich soil, stability of crops and the underground water (continuous irrigation for the crops). Both community contacts stated that crops have been stable and prices have been very good, so the current economy has been prosperous. However, these same contacts mentioned that there has been a decline of the population and a flow of dollars from the rural areas to the larger towns and cities, primarily due to technological advancements in farming that require less labor. Further, many of the younger population from 18-to-39 years of age are leaving rural areas for larger neighboring towns to seek more advanced employment. As a result, the number of small businesses in the area has declined, and the population of this rural community is aging. According to the Census Reports as of 1990, 18.3 percent of the population within the assessment area is 65 years and older. Moreover, a local government official stated that the Village of Polk is comprised predominantly of residents over 60 years of age, and this trend is continuing to increase. Updated 2000 census information for the Village of Polk indicates that 37.9 percent of the population are over the age of 60. Both community contacts stated that the financial institutions are serving the credit needs of the assessment area and do not discriminate on the basis of any protected class.

According to 1995 Regional Economic Information System data, the major industries for the four counties that include the bank's assessment area are farming, government, retail trade and services. The counties have seen full and part-time employment increase by 9.32 percent from 1990 to 1995, with the largest increase noted for manufacturing, transportation and services. Dun and Bradstreet data for 2000 indicates that, within the bank's assessment area, agriculture and services are the primary employers. The Dun and Bradstreet data also shows that 92 percent of businesses and almost 99 percent of the farms within the assessment have revenues under \$1 million.

The community contacts stated that overall the financial institutions are serving the credit needs of the assessment area and do not discriminate on the basis of any protected class.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, assessment area credit needs, and local competition. Citizens State Bank's average loan-to-deposit ratio since the last examination (16 quarters) ending June 30, 2001, was 77.99 percent. For comparison, the peer average according to the Uniform Bank Performance Report

(UBPR) for the same time period was 63.97 percent. The average loan-to-deposit ratio for the bank's three local competitors was 64.95, 76.00, and 79.16 percent for the same time period. Citizens State Bank's average loan-to-deposit ratio is significantly above its peer group and above most other banks within its competitive area. The bank's peer group consists of all insured commercial banks having assets between \$10 million and \$25 million with one banking office, and located in a nonmetropolitan area.

Lending in the Bank's Assessment Area

This core performance criterion evaluates the concentration of business and farm loans originated by the bank in its assessment area. An analysis was performed on data compiled from a statistically-derived sample of loans mentioned earlier. As shown in Table 2, the substantial majority of farm loans and subsequent dollar amounts (92 percent and 90 percent, respectively) were generated within the bank's assessment area. However, Table 2 shows that only 49 percent of the volume and 61 percent of the dollar amount of business loans were made within the bank's assessment area. Further analysis shows that some of this anomaly in business loans can be attributed to the bank's floor plan lending to two auto dealers in Aurora, Nebraska (the Hamilton County seat). Aurora is just outside the southwestern edge of the bank's assessment area. The bank originated the 20 loans to these dealers totaling \$187,533. If these loans were within the assessment area, the percentages of the total number and total amount of loans would be 79 and 82 percent, respectively. Considering the above and the total percentages noted below in Table 2, the bank's rating for this performance criterion is satisfactory.

TABLE 2								
DISTRIBUTION OF LOANS IN AND OUT OF THE ASSESSMENT AREA								
	Inside the Assessment Area				Outside the Assessment Area			
	Number of Loans	%	\$ Amount of Loans	%	Number of Loans	%	\$ Amount of Loans	%
Small Business	33	49	533,400	61	34	51	344,950	39
Small Farms	65	92	2,158,969	90	6	8	244,930	10
Total	98	71	2,692,360	82	40	29	589,880	18

Lending to Businesses of Different Revenue Sizes

This core performance criterion evaluates the bank's loan originations to businesses and farms of different sizes. Table 3 shows that 97 percent of the number of business loans and 90.6 percent of the total amount of loans within the bank's assessment area were to businesses with gross annual revenue less than or equal to \$1,000,000. In addition, Table 3 indicates that 95.4 percent of the number of farm loans and 63.3 percent of the total amount of loans within the bank's assessment area were to farms with gross annual revenue less than or equal to \$500,000. The dollar percentage of farm loan originations compared to the number percentage

for revenues greater than \$1 million, is higher. The reason is that the bank has a relationship with one large farming corporation with gross sales of about \$3,000,000, to which the bank has committed \$970,000 on four separate lines of credit. Overall, the distribution of loans in the bank's assessment area revealed a reasonable dispersion to businesses and farms of different sizes. Therefore, the bank meets the standards for a satisfactory rating for this performance criterion.

TABLE 3 DISTRIBUTION OF BUSINESS AND FARM LOANS SAMPLED IN THE ASSESSMENT AREA BASED ON GROSS ANNUAL REVENUE* (98 Loans Total)				
Annual Revenue (Based on gross annual revenues)	Business		Farm	
	# of loans	\$ amount of loans	# of loans	\$ amount of loans
Less than or equal to \$100,000	67.67%	32.32%	43.08%	17.15%
\$100,001 to \$250,000	6.06%	34.77%	24.62%	18.68%
\$250,001 to \$500,000	15.15%	17.44%	27.69%	27.46%
\$500,001 to \$750,000	0.00%	0.00%	0.00%	0.00%
\$750,001 to \$1,000,000	9.09%	6.09%	0.00%	0.00%
Greater than \$1,000,000	3.03%	9.37%	4.61%	36.71%

* Revenues taken by proxy

Geographic Distribution

This core performance criterion focuses on the bank's penetration of loans among geographies of different income levels, primarily in low- and moderate-income geographies in the bank's assessment area. Since all of the geographies in the bank's assessment area are classified as middle-income, an analysis of loans by income level of geography would not be meaningful and, as such, was not performed.

Response to Complaints

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

Compliance with Antidiscrimination Laws and Regulations

There were no significant violations of antidiscrimination laws and regulations identified during the fair lending component of the CRA examination. Overall, adequate policies, procedures, and training programs have been developed to support non-discrimination in lending activities.

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

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."