



PUBLIC DISCLOSURE

September 27, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**PINNACLE BANK
RSSD# 866550**

**301 EAST 11th STREET
P.O. BOX 427
SCHUYLER, NEBRASKA 68861-0427**

**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.

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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 Pinnacle Bank, Schuyler, Nebraska, prepared by the Federal Reserve Bank of Kansas City (Reserve Bank), the institution's supervisory agency, as of September 27, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION

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

An institution in this group has a satisfactory record of meeting the credit needs of its assessment area, including low- and moderate-income neighborhoods or households, in a manner consistent with its resources and capabilities. Table 1 outlines the bank's individual performance ratings under the lending, investment, and service tests, the three performance criteria on which the overall CRA rating is based.

Table 1 PINNACLE BANK - SCHULER, NEBRASKA			
Performance Levels	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
<i>Outstanding</i>			
<i>High Satisfactory</i>			
<i>Low Satisfactory</i>	X	X	X
<i>Needs to Improve</i>			
<i>Substantial Noncompliance</i>			

As Table 1 indicates, the bank's performance under each of the performance tests is satisfactory, based on an analysis of small farm and small business loan data collected by the bank and a sample of consumer real estate loans. The review also evaluated the level, complexity, and uniqueness of community development loans, qualified investments, and retail and community development services. The primary conclusions of this evaluation are:

- The bank is reasonably meeting the credit needs of the assessment area given its size, financial condition, resources, competition, and management's lending philosophy.
- A majority of the loans included in the analysis are within the bank's assessment area, and the distribution of loans to borrowers of different income levels and businesses and farms of varying sizes is reasonable.
- The bank's delivery systems are accessible and convenient to all segments of the assessment area.
- The bank's involvement in community development loans, qualified investments, and community development services is adequate, given the limited opportunities for community development activities.

The bank's performance under the lending, investment, and service tests is detailed in the analysis that follows.

DESCRIPTION OF INSTITUTION

Pinnacle Bank (the bank), Schuyler, Nebraska, operates in a small rural community located approximately 80 miles west of Omaha, Nebraska. The bank has two full service offices and two automated teller machines (ATMs) in Schuyler; one full-service ATM at the branch location; and one cash-dispensing machine, at a local grocery store.

According to the bank's June 30, 1999, Consolidated Report of Condition and Income (Call Report), the bank's assets totaled \$81.5 million. Loans outstanding, which total \$43.8 million, represented approximately 54 percent of total assets.

Pinnacle Bank has the ability to meet the credit needs of its defined assessment area based on its financial condition, size, and product offerings. The bank offers a variety of loan products that meet the credit needs of the community, including agricultural, commercial and real estate loans. The June 30, 1999 Call Report reflected the following loan distribution in Table 2.

Loan Type	Amount (\$000)	Percent of Total
Farm land or Agricultural	19,452	44.5
Multiple and 1- to 4-Family Real Estate	10,657	24.3
Commercial	7,418	16.9
Consumer	4,965	11.3
Other	1,335	3.0
TOTAL	43,827	100

The bank is a subsidiary of Pinnacle Bancorp, Inc., a multibank holding company with assets over \$2 billion as of June 30, 1999. Pinnacle Bancorp, Inc. has 16 bank and 6 holding company affiliates operating in Colorado, Iowa, Kansas, Nebraska, and Wyoming. A listing of the bank holding company affiliates may be found in Appendix A.

The Federal Reserve Bank of Kansas City last reviewed the bank's CRA performance on March 27, 1997 using the large bank examination procedures. A satisfactory rating was assigned at that time.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is comprised of two middle-income block-numbering areas (BNAs) which encompass the lower two-thirds of Colfax County. According to 1990 Census data, the area is rural and sparsely populated. The assessment area population of 6,536 represented approximately 72 percent of Colfax County's total population of 9,139. The area has experienced substantial growth since 1990; Census Bureau data estimated an increase of 17.8 percent from 1990 to 1998, which exceeded the 5.3 percent population increase for the state. Census Bureau estimates indicated that the majority of the county's growth occurred because of migration into the area by individuals from other parts of the country.

The assessment area economy is highly dependent on farming and agriculture-related businesses. According to 1997 United States Department of Agriculture (USDA) data, the area was comprised primarily of small-acre farms that produce a combination of livestock and row crop commodities, including cattle, hogs, corn, soybeans and alfalfa. Over the past five years, however, the consolidation of smaller farms into larger operations has substantially reduced the number of farming entities in the area.

Data provided by the USDA indicates that the average size of the 604 Colfax County farms was 381 acres in 1997, compared to an average of 885 acres statewide. However, farm size increased by an average of 15 percent from 1992 to 1997, compared to a 5 percent increase for the state over the same time period. In addition, fewer Colfax County farms were full-time farming operations. From 1992 to 1997, full-time farming operations in the county decreased by 16 percent.

Colfax County farms were more prosperous than farms statewide in 1997 despite their smaller size. Over 38 percent of farms had sales exceeding \$100,000, compared to 35 percent statewide. The average net cash return from sales per farm was \$44,713 in Colfax County and \$40,717 statewide.

However, the agricultural sector has experienced an economic downturn due to depressed grain and livestock prices. Regional Economic Information System (REIS) data showed that farm income in Colfax County fluctuated over the past few years. From 1996 to 1997, the total net farm proprietors' income decreased by 22.9 percent from \$44,577 to \$34,368. The declining agricultural economy, combined with a statewide labor shortage, could affect the growth of other area industries, particularly manufacturers and retailers.

In 1997, manufacturing, agriculture, and service industries, particularly health services, provided the largest portion of personal earnings and the largest number of area jobs. Nebraska Department of Economic Development (NDED) data indicated that the city of Schulyer contains a beef processing plant, which is the county's largest employer, providing 1,975 jobs.

According to 1990 Census data, the area median family income was \$27,990, compared to \$27,623 for the state. As a percentage of families by income classification, the bank's assessment area contained 8.7 percent low-income, 21.1 moderate-income, 32.6 percent middle-income, and 37.6 percent upper-income families. In 1990, 4.7 percent of the families in the assessment area were below the poverty level, compared to 9.1 percent for statewide rural areas. Additional assessment area characteristics, based on 1990 Census data, are summarized in Table 3.

**Table 3
Bank Assessment Area Characteristics**

<i>Tract Summary</i>		
Total Number of Tracts		2
Number of Middle-Income Tracts		2
<i>Income Summary</i>		
	Assessment Area	Statewide Rural Areas
Median Family Income	\$27,990	\$27,623
Percent Below Poverty Families	4.7	9.1
Percent Low-Income Families	8.7	16.8
Percent Moderate-Income Families	21.1	19.7
Percent Middle-Income Families	32.6	25.6
Percent Upper-Income	37.6	37.9
<i>Business Summary*</i>		
Total Number of Businesses		173
<i>Unemployment Summary</i>		
Labor Force Population (Assessment Area)		3,177
Percent Unemployment (Assessment Area)		3.8
Percent Unemployment (State)		3.6
<i>Miscellaneous Assessment Area Information</i>		
Total Population		6,536
Percentage of Households Below Poverty		10.2
Total Housing Units		2,772
Percentage Owner-Occupied Units to Total Units		66.8
Percentage Rental Units to Total Units		23.6
Percentage Vacant Units to Total Units		9.6
Median Housing Value: Assessment Area		\$38,434
Statewide Nonmetropolitan Areas		\$38,424
State		\$50,042

*Dunn and Bradstreet Data for July 1998

More recent data indicates that the percentage of families classified as low- and moderate-income has increased. Data projections from CACI, a company that provides demographic and market information, indicate that the percentage of low-income families increased from 8.7 percent in 1990 to 14.7 percent in 1998. The increase was also noticeable for moderate-income families, rising from 21.1 percent to 30.7 percent over the same time period. Although no low- or moderate-income neighborhoods could be identified within the two middle-income geographics in the assessment area, two community contacts, an individual with a trade association and a local government official, indicated that low- or moderate-income families are interspersed throughout the area.

In 1990, the bank's assessment area contained a higher concentration of owner occupied housing units (66.8 percent) than statewide rural areas (62.1 percent), and the percentage of vacant housing units was lower in the assessment area (9.6 percent) than

in other statewide rural areas (11.4 percent). The area affordability ratio¹ was .62, compared to .59 for rural areas statewide. A higher ratio generally indicates greater housing affordability. In addition, the percentage of mobile homes in the assessment area was 11.6 percent, compared to 8.1 percent in rural areas statewide and 5.6 percent for the entire state. Community contacts stated that there was a shortage of housing in Schuyler and the surrounding area. To address the scarce housing supply, the city of Schuyler applied for and received a \$400,000 grant to fund loans to low- and moderate-income borrowers for owner-occupied housing rehabilitation.

The median housing value for the assessment area (\$38,434) was almost identical to statewide rural areas (\$38,424) and considerably less than that of the state (\$50,042). Twenty-five percent of the assessment area homes were valued at less than \$25,000 in 1990, compared to 27.7 for rural areas statewide and 16.3 for the state. In addition, median gross rental costs were lower in the assessment area (\$262) compared to statewide rural areas (\$284) and the state (\$348).

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The conclusions for the bank's performance under the lending, investment, and service tests are summarized at the beginning of each section. Issues, facts, and supporting information regarding performance characteristics for the assessment area follow. A peer group of similarly situated financial institutions was analyzed as a contextual reference to use in the evaluation of the bank's performance under the CRA. The peer group was selected on the basis of similarities in asset size, product type, and geographic proximity. Two community contacts provided individual perspectives relating to area credit and community development needs and whether those needs are being met.

LENDING TEST

In assessing the bank's performance under the lending test, the review focused on the bank's lending activity, including its overall level of lending and concentration of lending in the assessment area; borrower income profile; community development lending; responsiveness to credit needs of low- and moderate-income individuals, small businesses, and small farms; and product innovation and flexibility.

The bank is reasonably meeting the credit needs of its assessment area based on its size, financial condition, and resources. The bank offers a variety of lending products that help meet the credit needs of the area, including agricultural, commercial, consumer, and real estate loans. In addition, the bank sells real estate loans on the secondary market.

A majority of the bank's loans reviewed under the lending test are within its assessment area. In addition, the distribution of loans reflects a good penetration to borrowers of

¹ Affordability Ratio is calculated by dividing the Median Housing Income by Median Housing Value

different income levels and to businesses and farms of all sizes. The bank offers flexible lending terms to further meet the credit needs of its community. The bank's level of community development lending and the responsiveness of its credit products to lower income borrowers is reasonable, particularly considering the agricultural and commercial focus of the bank's lending activity.

Lending Activity

Lending levels represent a reasonable responsiveness to the credit needs of the bank's assessment area, given the local economy, competition, area loan demand, and management's lending philosophy. The bank's average net loan-to-deposit ratio was 62.3 percent, using the past seven quarterly Call Reports filed from December 31, 1997 to June 30, 1999. Although the bank's loan-to-deposit ratio has increased since the previous compliance examination when it was 55.6 percent, it is low compared to its competitors, state peer group and national peer group. For the same time period, the loan-to-deposit ratios for five of the bank's competitors ranged from 72.4 percent to 86.2 percent, while the state and national peer group ratios were 73.5 percent and 65.8 percent, respectively. The bank's peer group is defined as all insured commercial banks having assets between \$50 million and \$100 million, with two or fewer banking offices, and located in a nonmetropolitan area.

The bank's lower loan-to-deposit ratio is partially due to bank management's conservative lending philosophy. In addition, the bank's participation in selling residential mortgage loans on the secondary market also impacts its loan-to-deposit ratio. For instance, in 1998 the bank originated 41 loans through the secondary market totaling over \$2.3 million. For year-to-date September 27, 1999, the bank has sold \$875,750 in residential loans.

Assessment Area Concentration

A majority of the bank's lending occurs within its assessment area. This conclusion was based on a statistical sample of 32 residential real estate loans and all of the bank's 1998 and year-to-date September 2, 1999 small business (287 loans) and small farm loans (662 loans). Table 4 illustrates the percentage of loans in each category made within the assessment area.

Table 4 Total Loan Volume Inside Assessment Area				
Loan Type	Percentage of Loans Reviewed		Percentage of Total Amount	
	Number	Percent	\$(000)	Percent
Residential	24	75	936	82
Small Business	167	58	4,495	51
Small Farm	502	76	21,987	74
Total	693	71	\$27,418	69

Borrower Characteristics

The distribution of loans to borrowers of different income levels and to businesses and farms of different sizes is good given the assessment area's business and demographic characteristics. All of the business and farm loans reviewed were originated to small businesses and farms, defined as having gross annual revenues of less than \$1 million. This compares favorably to Dunn & Bradstreet data for 1998, which indicates that a majority of the businesses (92 percent) and farms (95 percent) in the bank's assessment area were small businesses and small farms. In addition, a majority of the small business and small farm loans originated by the bank were for smaller dollar amounts, as shown in Table 5. This further illustrates the bank's willingness to make small business and small farm loans.

Loan Amount	Small Business Loans		Small Farm Loans	
	Number	% of Total	Number	% of Total
< = \$100,000	160	95.8	452	90.0
> \$100,000 to < = \$250,000	5	3.0	39	7.8
> \$250,000	2	1.2	11	2.2
<i>TOTAL</i>	167	100	502	100

The bank's dispersion of real estate loans to low- and moderate-income borrowers shows excellent penetration and exceeds the proportion of low- and moderate-income families in the assessment area. According to 1990 Census data, 29.8 percent of the families² in the assessment area were low- or moderate-income, compared to 45.8 percent of the loans sampled that were made to low- and moderate-income borrowers. The distribution reflects favorably on the bank, considering that low- and moderate-income borrowers often lack the income viability to qualify for loans secured by residential real estate. The percentage of residential real estate loans made to each borrower income level compared to the percentage of families in the assessment area that are designated low-moderate; middle-, and upper-income is illustrated in Table 6.

Area Median Family Income *		\$37,100
Income Level of Borrower	Percentage of Residential Loans Reviewed	Percentage of Families within Assessment Area **
Low (Less Than 50 Percent Of Median Income)	12.5	8.7

² Families are a subset of households and represent households where the individuals are related by marriage, adoption, or birth.

Moderate (50 To 80 Percent of Median Income)	33.3	21.1
Middle (80 To 120 Percent of Median Income)	25.0	32.6
Upper (Greater Than 120 Percent of Median Income)	29.2	37.6
* Area Median Family Income is based on the 1997 HUD estimated median family income for Oklahoma. ** The Percentage of Families in Assessment Area is based on 1990 census data.		

Geographic Distribution of Loans

The bank's geographic distribution of loans by income level of BNAs reflects reasonable penetration. Since the bank's assessment area consists of two middle-income BNAs, the bank does not have the opportunity to lend in low- and moderate-income geographies within its assessment area. Therefore, the geographic distribution of loans within the bank's assessment area was not considered to be a meaningful part of the CRA evaluation.

Community Development Loans

The bank's volume of community development (CD) lending remains low. Opportunities for the bank to make CD loans, as defined by the CRA, is limited since there are no low- or moderate-income BNAs within the assessment area. In addition, limited development has occurred in the community since the last compliance examination and the bank has not originated any CD loans since that time. However, the bank has made loans that were originated before the previous examination on March 27, 1997 which still have an outstanding balance³.

The bank provided financing in 1993 for a low-income multifamily housing complex for senior citizens. The current balance of the loan is \$215,000. A second loan, which was originated in 1991 to finance the development of 10 duplexes (20 units) for low- and moderate-income individuals through the Department of Housing and Urban Development, has a current outstanding balance of \$101,000. From 1994 to 1997, the bank originated five unsecured CD loans to the Schuyler Energy Commission, a nonprofit organization. The commission used the funds to provide loans to low- and moderate-income homeowners for weatherizing their homes. The outstanding balance of the loans to the organization is currently \$91,000.

Responsiveness to Credit Needs and Product Innovation

Pinnacle Bank is primarily an agricultural lender and originates a substantial number of loans to small businesses and small farms, as well as a reasonable number of consumer and real estate secured loans to low- and moderate-income borrowers. The bank offers a variety of credit products, including those typically offered in larger financial institutions operating in metropolitan areas, such as: adjustable rate mortgages, home equity lines of credit, secondary market real estate, multi-purpose consumer, commercial, and agricultural loans. The bank also makes a number of small dollar loans to accommodate

³ Credit for CD loans originated before the March 27, 1997 examination is limited to the current outstanding balance of the loan, and not the originating balance.

the low- and moderate-income borrowers in its community. In addition, the bank generates secondary market real estate loans that provide borrowers long term, fixed-rate mortgage loans.

INVESTMENT TEST

The bank has an adequate level of qualified community development grants considering the limited offering in the assessment area. The bank's participation in community development investments (hereafter, qualified investments), as defined by the CRA, consists of two grants totaling \$3,700. Although the bank has not initiated or solicited any qualified investments other than the two grants since the last examination, one community contact indicated that the local banks typically participate in local community development initiatives. Many of the bank's employees are also involved in various community groups and organizations, enabling the bank to remain informed about community needs and opportunities for community development.

Grant Activity

The bank's qualified investments or grants target low- and moderate-income individuals. The first qualified grant was a \$700 donation to fund a local ministerial program that provides aid to low- and moderate-income families in crisis. The recipients use the funds for housing and medical expenses. The second grant was a \$3,000 donation to the local Student Assistance Fund, which provides monies to students from low- and moderate-income families that need assistance for basic needs, including eyeglasses, dental and medical care, school supplies, and clothing. The bank provides the donation to the student fund annually.

SERVICE TEST

The bank's delivery systems are reasonably accessible to essentially all portions of the bank's assessment area. Services do not vary in a way that inconveniences certain portions of the community, particularly low- and moderate-income individuals. The bank's hours and services are reasonable and consistent with the bank's resources. There have been no changes in branch locations since the prior CRA evaluation, and the bank provides a reasonable level of community development services.

Accessibility of Delivery Systems

Pinnacle bank offers two full-service locations in Schuylers with drive-through facilities and an ATM machine at the branch location. The bank also has a cash-dispensing ATM at a local grocery store. To accommodate a rapidly changing banking environment, the bank offers telephone and personal computer banking services that allow customers to make loan payments, pay bills, and transfer funds between accounts 24-hours a day. Like the telephone banking service, the personal computer banking service, which was introduced subsequently to the prior examination, is available to all customers free of charge. The bank provides customers with free compact discs that enable them to access the same

information that is available when using the 24-hour telephone banking service. The telephone and personal computer services are offered both in English and Spanish.

The bank also offers free government check cashing to bank and nonbank customers. In addition, bank's loan officers will meet with customers outside normal working business hours.

Community Development Services

Opportunities for the bank to provide community development services in the assessment area are limited. President Larry Bazata sits on the Schuyler City Rehabilitation Committee, which is a spin-off of the Northeast Nebraska Economic Development District (NENEDD). This committee was established to oversee the disbursement of a \$400,000 community development block grant. The NENEDD grant was jointly awarded to the city of Schuyler and the villages of Dodge and Snyder. The funds are used to provide low cost housing rehabilitation loans to low- and moderate-income homeowners. The grant was needed to improve the area's aging and dilapidated housing stock. Mr. Bazata also provides financial expertise by reviewing credit applications from targeted applicants. According to one of the community contacts, Mr. Bazata also assisted the city in developing the initial proposal for the grant.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

No substantive violations of antidiscrimination laws and regulation were identified. A review of bank policies and procedures revealed no prohibited practices designed to discourage loan applicants.

SCOPE OF EXAMINATION

Pinnacle Bank is owned by Pinnacle Bank corp., located in Central City, Nebraska. The bank's 16 banking affiliates and 6 holding company affiliates are located in Colorado, Iowa, Kansas, Nebraska, and Wyoming. Loans originated by the bank's affiliates were not considered for purposes of this CRA examination.

SCOPE OF EXAMINATION		
TIME PERIOD REVIEWED	Small Business Loans 1-1-98 through 8-2-99 Small Farm Loans 1-1-98 through 8-2-99 Consumer Real Estate 8-3-98 through 8-2-99	
FINANCIAL INSTITUTION		PRODUCTS REVIEWED
Pinnacle Bank Schuyler, Nebraska		Small Business Loans Small Farm Loans Consumer Real Estate Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Pinnacle Bancorp. - Central City, NE	Holding Company	None
Pinnacle Bank - Papillion, NE	Holding Company	None
Pinnacle Bank - Cody, WY	Holding Company	None
Pinnacle Bank - Palmer, NE	Holding Company	None
Pinnacle Bank, National Association - Stebly, NE	Holding Company	None
First National Bank - Abilene, KS	Holding Company	None
Pinnacle Bank - Torrington, Torrington, WY	Holding Company	None
Crete State Bank - Crete, NE	Holding Company	None
Pinnacle Bank - New Castle, WY	Holding Company	None
Pinnacle Bank, National Association - Ogallala, NE	Holding Company	None
AFFILIATE(S) – (Cont'd)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Pinnacle Bank - Lexington, NE	Holding Company	None

Pinnacle Bank - Aurora, NE	Holding Company	None
Bank of Colorado, Western Slope - Grand Junction, CO	Holding Company	None
Bank of Colorado - Fort Lupton, CO	Holding Company	None
Pinnacle Bank, National Association - Central City, NE	Holding Company	None
Pinnacle Bank - Neligh, NE	Holding Company	None
Pinnacle Bank - Lincoln, NE	Holding Company	None
Archer, Inc.	Holding Company	None
Osceola Insurance, Inc.	Holding Company	None
Central Grain, Inc.	Holding Company	None
Dinsdale Brothers, Inc.	Holding Company	None
Pinnacle Bancorp., Iowa	Holding Company	None

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
<i>Assessment Area</i>	<i>Type of Examination</i>	<i>Branches Visited</i>	<i>Other Information</i>
BNAs 9847 and 9848 in Colfax County, Nebraska	On-site	Main Office, Schuyler, NE	Personal Visit

