

# PUBLIC DISCLOSURE



August 9, 1999

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

PINNACLE BANK  
337452  
10-31-0230

1234 "L" Street  
AURORA, NEBRASKA 68818

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 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 each 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, Aurora, Nebraska, prepared by the Federal Reserve Bank of Kansas City (Reserve Bank), the institution's supervisory agency, as of August 9, 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 helping to meet 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 indicates the performance level of Pinnacle Bank with respect to the lending, investment, and service tests.

Table 1			
PERFORMANCE ON THE THREE CRA TESTS			
Performance Levels	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
<i>Outstanding</i>			
<i>High Satisfactory</i>	X		X
<i>Low Satisfactory</i>		X	
<i>Needs to Improve</i>			
<i>Substantial Noncompliance</i>			

The bank's lending and service test results were generally strong, and its performance under the investment test was considered satisfactory given the limited level of community development activity in the immediate area. The primary conclusions of the CRA evaluation are:

- The bank is reasonably meeting the credit needs of its assessment area given its size, financial condition, and resources, and makes a substantial majority of its loans in the assessment area.
- The distribution of loans to borrowers of all income levels, including low- and moderate-income borrowers, and to small businesses and small farms was reasonable and representative of the assessment area. The bank has been proactive in financing affordable housing despite limited opportunities.
- The bank has been proactive in providing community development services that help address issues pertaining to affordable housing and lower income household needs in Aurora. In addition, the bank's service delivery systems are reasonably accessible and convenient to all portions of the assessment area.
- Although its overall level of qualified investments is limited, the bank has made investments in the Aurora Development Corporation and several other local

organizations involved primarily in community development programs that benefit lower income individuals. In general, there appears to be limited opportunities for qualified investments in the assessment area.

## DESCRIPTION OF INSTITUTION

Pinnacle Bancorp, Inc., a bank holding company based in Central City, Nebraska, owns Pinnacle Bank in Aurora, Nebraska. The bank has 20 affiliated banks and 6 affiliated holding companies operating in Colorado, Iowa, Kansas, Nebraska, and Wyoming.

The bank's total asset size, according to its June 30, 1999 Reports of Condition and Income (Call Report), was \$61,155M, with \$32,015M in net loans representing a 52.4 percent share. The bank's asset size, net loans, and total deposits have all grown by 5 to 6 percent in the last 12 months.

The bank's main office and one branch office are located in Aurora, Nebraska. Agricultural lending dominates the bank's loan portfolio, as illustrated in Table 2, which shows the breakdown of the bank's portfolio as of the June 30, 1999 Call Report.

<b>Table 2</b>		
<b>PINNACLE BANK'S LOAN PORTFOLIO</b>		
<b>Loan Type</b>	<b>Amount (\$000)</b>	<b>Percent of Total</b>
Farm land or Agricultural	14,398	48.9
1- to 4-Family Residential	7,448	25.3
Commercial	4,339	14.7
Consumer	2,380	8.1
Other	869	3.0
Less: Unearned Income	(2)	(0)
<b>TOTAL</b>	<b>29,432</b>	<b>100.0</b>

Table 2 shows that agricultural loans are the bank's primary lending focus, followed by residential real estate and commercial loans, respectively. All three of these loan types were reviewed at this examination. The Federal Reserve Bank of Kansas City last evaluated the bank's CRA performance on February 3, 1997. The bank was rated "Satisfactory" at that time.

No legal impediments or factors related to the bank's asset size or financial condition affect its ability to meet assessment area credit needs.

## DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area includes all of Hamilton County, Nebraska, an area in south central Nebraska, about 50 miles west of Lincoln and 18 miles east of Grand Island. The area is not in a metropolitan statistical area (MSA).

Hamilton County is comprised of three middle-income block numbering areas (BNAs), and its 1990 median family income of \$28,894 was 104.6 percent of the average for statewide rural areas. Although the geographies are defined as middle-income, the area has a relatively low concentration of low-income families and a high concentration of

upper-income families. The percentages of low-income families and below poverty level families are 13 percent and 5.9 percent, respectively, significantly lower than statewide rural area figures of 16.8 percent and 9.1 percent, respectively. Middle- and upper-income families in the assessment area comprise 28.2 percent and 36.7 percent, respectively. In statewide rural areas, middle-income families comprise 25.6 percent and upper-income families comprise 37.9 percent.

The assessment area has an economy heavily reliant on farming industries for employment and personal earnings. In 1997, 30.1 percent of the area's personal income was from farming. Agricultural industries provided 16 percent of the jobs, which was second to services industries at 24.5 percent. A community contact with the local government indicated that although some residents of the assessment area commute to jobs in nearby Grand Island, most worked in the immediate area.

The bank is located in Aurora, the seat of Hamilton County. Chamber of Commerce representatives estimate Aurora's 1999 population to be 4,300, up 12.9 percent from the 1990 figure of 3,810. However, Census Bureau estimates indicate a county population increase of 6.9 percent from 1990 to mid-year 1998, compared to a statewide population growth of only 5.3 percent.

Aurora and Hamilton County are both heavily reliant on agri-business, although both have diverse economies. Large employers include the Memorial Hospital, Iams Pet Foods, Bonna Villa Manufactured Homes, and Nebraska Energy LLC, a local ethanol manufacturer.

Census information from 1990 indicated that the assessment area had a lower housing vacancy rate, at 9.9 percent, than the 11.4 figure for statewide rural areas in Nebraska. In addition, the area had slightly more rental units than statewide rural Nebraska, at 27.6 percent and 26.6 percent, respectively. Community contacts indicated that while Aurora's affordable housing shortage in the early 1990's was nearly critical, the situation has changed "dramatically" with both single-family and multiple-family affordable housing having been built.

Table 3 below includes a summary and comparison of demographic and economic information for the assessment area and statewide rural areas.

<b>Table 3</b>		
<b>BANK ASSESSMENT AREA COMPARED TO STATEWIDE RURAL AREAS</b>		
	<i>Assessment Area</i>	<i>Statewide Rural</i>
<b><i>Tract Summary</i></b>		
Total Number of Tracts	3	NA
Number of Middle-Income Tracts	3	NA
<b><i>Income Summary</i></b>		
Median Family Income	\$28,894	\$27,623
Percent Low-Income Families	13.0	16.8
Percentage Below Poverty Level	5.9	9.1
Percent Moderate-Income Families	20.0	19.7
Percent Middle-Income Families	28.2	25.6
Percent Upper-Income Families	38.7	37.9
<b><i>Unemployment Summary</i></b>		
Labor Force Population (Assessment Area)	4,377	384,262
Percent Unemployment	2.5	3.4
<b><i>Miscellaneous Information</i></b>		
Total Population	8,862	791,050
Total Housing Units	3,589	343,743
Percentage Owner-Occupied/Total Units	62.6	62.1
Percentage Rental Units to Total Units	27.6	26.6
Percentage Vacant Units to Total Units	9.9	11.4



## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The conclusions regarding Pinnacle 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 are as follows. A peer group of similarly-situated financial institutions was analyzed as a contextual reference to use in the evaluation of Pinnacle's performance under the CRA. The peer group was identified on the basis of similarities in asset size, product type, and geographic proximity. Community contacts, including a local government official and a business leader, provided information regarding 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 persons, 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 large variety of credit products that help meet area credit needs, and a substantial majority of loans are made within the bank's assessment area. In addition, the distribution of loans reflects a good penetration to borrowers of all income levels and to businesses and farms of all sizes. The bank offers flexible lending terms, including participation in government loan programs, 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 good, particularly considering the agricultural and business focus of the bank's lending activity.

### **Lending Activity**

Lending levels reflect a reasonable responsiveness to the credit needs of Pinnacle Bank's assessment area, given the local economy, competition, area loan demand, and the lending philosophy of the bank's management. The bank's average net loan-to-deposit ratio (LTD) is 56.3 percent, using the eight quarterly Call Reports filed since the last examination on February 3, 1997. This figure is relatively low compared to three similarly-situated area banks, which had average LTDs of 63.8 percent, 67.3 percent, and 77.7 percent for the same period. The figure is also lower than Pinnacle Bank's state peer group average of 73.2 percent and national peer group average of 65.6 percent. The bank's peer group has been defined as all commercial banks with assets between \$50 million and \$100 million with two or fewer banking offices and located in a nonmetropolitan area.

The bank's relatively low average LTD is mitigated by several factors. For example, the bank's average LTD has increased since the most recent compliance examination, when it

was 52 percent. In addition, the LTD is more comparable to the 63.8 percent ratio of the only competitor bank located in the town of Aurora. The other two competitor banks are located in the northeastern corner of Hamilton County and do not share the same trade area, according to the most recent CRA Public Evaluations of those banks. Another factor mitigating the low LTD is that over half of the bank's loan portfolio is comprised of agricultural loans, traditionally subject to seasonal fluctuations and wide swings based on market prices of livestock and crops.

The bank's lower LTD is also offset by the fact that the bank sells more than half of its residential real estate loans on the secondary market. During the second quarter of 1999, the bank sold \$758M out of a total of \$1,508M in residential loans. In addition, as of June 30, 1999, the bank had on its books \$3,339M in deposits from governmental entities, a figure representing 11 percent of its total deposits. These funds are pledged and cannot be loaned out, effectively reducing the bank's funds available for lending. Another factor is the conservative lending philosophy of bank management and greater focus on agricultural/business and real estate lending, with much less emphasis on consumer lending.

### **Assessment Area Concentration**

A substantial majority of the bank's total lending occurs within its assessment area. This conclusion was based on a statistical sample of 31 residential real estate loans and all of the bank's 1997 and 1998 small farm (482 loans) and small business loans (170 loans). Table 4 below illustrates the percentage of loans in each loan category made within the bank's assessment area.

<b>Table 4 LOANS WITHIN THE BANK'S ASSESSMENT AREA</b>		
<b>Loan Type Sampled</b>	<b>Percentage of Loans Reviewed</b>	<b>Percentage of Total Dollar Amount</b>
Residential Mortgage	97	96
Small Business	96	95
Small Farm	99	99
<b><i>TO TALS</i></b>	97	96

Combining the three products, the bank's percentage of loans within its assessment area is 97 percent, which is nearly equivalent to the 96 percent of loan dollar amounts in the assessment area. Both figures reflect the bank's commitment to meeting credit needs in the immediate area.

### **Borrowers' Profile**

The bank's distribution of loans to businesses and farms of different sizes and consumers of different income levels is more than reasonable given the assessment area's business and demographic characteristics. The bank's lending levels represent good penetration to

small businesses and small farms. Table 5 illustrates the bank's lending activity by size of business and farm and indicates the bank's willingness to make small business and small farm loans.

<b>Table 5 DISTRIBUTION OF COMMERCIAL AND AGRICULTURAL LOAN ORIGINATIONS WITHIN THE BANK'S ASSESSMENT AREA BY LOAN AMOUNT</b>				
<b>Revenue Size of Business or Farm</b>	<b>Commercial Loans</b>		<b>Agricultural Loans</b>	
	<i>Percentage of Loans Reviewed</i>	<i>Percentage of Dollar Amount</i>	<i>Percentage of Loans Reviewed</i>	<i>Percentage of Dollar Amount</i>
<b>Less than or equal to \$1MM</b>	100	100	100	100
<b>Greater than \$1MM</b>	0	0	0	0
<b>TOTAL</b>	100	100	100	100

A review of the 169 commercial loans and 463 farm loans originated within the bank's assessment area showed that all were originated to businesses and farms with revenues less than \$1 million. According to 1998 Dun and Bradstreet data, 88.2 percent of the businesses in the bank's assessment area have revenues of less than \$1 million. The bank's commercial loan distribution to small businesses exceeds the small business representation in the community, and penetration to small farms is excellent. In addition, a substantial majority of the small business and small farm loans the bank originated were for smaller dollar amounts. This further demonstrates the bank's willingness to extend lower dollar loans needed by small businesses and small farms.

Table 6 on the following page illustrates 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.

**Table 6  
PERCENTAGE DISTRIBUTION OF LOANS REVIEWED WITH IN THE BANK'S  
ASSESSMENT AREA BY INCOME LEVEL OF BORROWER**

Assessment Area Median Family Income:		\$28,894*
Income Level of Borrower	Percentage of Consumer Loans Reviewed	Percentage of Families within Assessment Area **
<i>Low (Less Than 50 Percent Of Median Income)</i>	6.7	13.0
<i>Moderate (50 To 80 Percent Of Median Income)</i>	21.6	20.0
<i>Middle (80 To 120 Percent Of Median Income)</i>	36.6	28.3
<i>Upper (Greater Than 120 Percent Of Median Income)</i>	36.7	38.7
* Area Median Family Income is based on the 1997 HUD estimated median family income.		
** Percentage of Families in Assessment Area is based on 1990 census data.		

The bank's record of residential real estate lending to moderate-income borrowers exceeds the proportion of moderate-income families in the assessment area. While 20 percent of assessment area families are moderate income, the bank made 21.6 percent of residential real estate loans to moderate-income borrowers. This demonstrates the bank's strong efforts to meet the credit needs of lower income borrowers in the community.

The percentage of residential real estate loans to low-income borrowers is similar to the approximate percentage of low-income families within the bank's assessment area who are above the poverty level. According to 1990 Census data, 5.9 percent of families within the assessment area live below the poverty level and, thus, are less likely to have sufficient financial viability for residential real estate loans requiring higher capital outlays and monthly payments. The effective loan demand for residential real estate loans from low-income individuals is generally reduced by the percentage of borrowers below the poverty level. Therefore, the 6.7 percent figure for the bank's residential lending to low-income borrowers is comparable to the 7.1 percent of assessment area low-income families above the poverty level. In summary, the bank's dispersion of real estate loans to low- and moderate-income borrowers shows good penetration.

**Distribution of Lending Among Geographies of Different Income Levels**

The bank's assessment area is comprised of three middle-income BNAs. The distribution of loan originations within the bank's assessment area by income level of BNA was not considered meaningful since the bank did not have any low- or moderate-income geographies within its assessment area.

**Responsiveness to Credit Needs and Product Innovation**

As Tables 5 and 6 demonstrate, Pinnacle Bank originates a reasonable percentage of loans to low- and moderate-income borrowers and a substantial percentage of loans to small farms and businesses. Although the bank's loan products are those typically offered by rural banks of similar size and location, the bank has demonstrated flexibility in accommodating the credit needs of its assessment area. For example, the bank offers a full range of government loans, which are relatively time consuming and costly to process. The government loan programs specifically target low- to moderate-income (LMI) individuals and small businesses and farms.

Since the previous compliance examination, the bank has originated and sold on the secondary market 4 Veterans Administration (VA) home loans for a total of \$239M, 11 Federal Housing Administration (FHA) loans for a total of \$546M, 3 Rural Economic and Community Development (RECD) loans for a total of \$128M, and 1 Federal Agricultural Mortgage Corporation (Farmer Mac) loan for \$39M. The bank also has originated a number of Small Business Administration (SBA) loans, Nebraska Investment Finance Authority (NIFA) loans for first-time LMI home buyers, Nebraska Energy loans used for home improvements for LMI individuals, Farm Service Agency (FSA) loans, and Guaranteed Student loans in amounts already included in the LTD. In addition, the bank offers small-dollar consumer loans; a product usually extended to lower income borrowers.

### **Community Development Loans**

Opportunities to make qualified community development loans, as defined by the CRA, are limited since there are no low- or moderate-income BNAs within the assessment area, and only limited development has occurred within the community since the most recent compliance examination. Despite limited opportunities, the bank has financed activities to provide affordable housing in Aurora and was given credit for its effort in the assessment of the bank's small business lending activities.

### ***INVESTMENT TEST***

The bank's participation in qualified community development investments, as defined by the CRA, is reasonable based upon the opportunities within the assessment area and the bank's size. The assessment area contains no low- or moderate-income geographies to target for qualified investments.

## **Investment and Grant Activity**

The bank's most significant investment was the \$5,000 purchase of 50 shares of Aurora Development Corporation stock, which was established in part as an incubator for small business development. Refer to additional discussion of the Aurora Development Corporation under "Community Development Services" on page 13.

There are a limited number of organizations involved primarily in community development programs that benefit low- and moderate-income individuals. In spite of the lack of low- and moderate-income geographies and high concentration of middle- and upper-income families, the bank has made the following qualified donations: (1) \$100 annually and an additional one-time \$1,000 contribution to The Cellar Youth Center, created to offer a safe and clean atmosphere for disadvantaged teenagers to assemble (2) \$1,000 annually to the Hamilton County Ministerial Services used to help families in financial need (3) \$1,000 annually to the Aurora Elementary School to purchase supplies for children of LMI families; (4) \$1,000 annually to the Hamilton County Food Pantry; (5) \$250 to the Central Nebraska Goodwill Industries; and (6) \$200 to the Rural Enterprise Assistance Project (REAP), formed to provide small business management training.

## **Responsiveness to Community Development Needs**

The bank president has been very active over the years in the Aurora Development Corporation and the Aurora Housing Development Corporation; both discussed more fully below. Both groups have been instrumental in addressing the community's affordable housing needs and the needs of local small businesses. Community contacts stated that affordable housing is no longer a problem in Aurora.

## ***SERVICE TEST***

### **Accessibility of Delivery Systems**

The bank's delivery systems are reasonably accessible and generally convenient to all portions of the assessment area, based on the bank's size and resources. Services do not vary in a way that inconveniences certain portions of the community, particularly LMI individuals. The institution provides an adequate level of community development services.

The bank has one full-service office located in the central business district of Aurora. This facility is reasonably accessible to the entire assessment area. The hours of operation are Monday through Friday from 9:00 a.m. to 3:00 p.m. and Saturday, 9:00 a.m. to noon. The bank also has a drive-through facility at 16th & M Streets open from 7:45 a.m. to 5:30 p.m. on Monday through Friday and 7:45 a.m. to noon on Saturday. Also located at the drive-through facility is a full-service, 24-hour Automatic Teller Machine (ATM). In addition, a cash-dispenser ATM has been installed since the previous examination at the Pump & Pantry Convenience Store at 1304 Q Street in Aurora. Customers can use debit cards at non-proprietary ATMs. There is also a night depository at the bank.

In addition, the bank offers several innovative systems for the delivery of banking services. For example, seniors over the age of 55 can obtain Golden Club checking accounts with a minimum balance, no services charges, interest paid monthly, and free cashiers' check, travelers checks, notary service, copy service, and checks. Student accounts have similar features. The bank has also formed a partnership with Memorial Hospital that allows the hospital to guarantee low-interest loans used by LMI individuals without medical insurance to pay their hospital bills. The bank currently has one such loan on its books.

Other services offered by the bank include trust services, electronic banking, and bank by mail. Telebanking has also been introduced since the previous examination and includes checking and savings account information, loan information, funds transfer, and loan or bill payment.

### **Community Development Services**

Bank management has taken a very proactive approach in addressing issues pertaining to affordable housing and LMI households in the community of Aurora. Bank President Rod Rudebusch was president of the Aurora Housing Development Corporation (AHD) from the date of its formation in 1990 until 1998, and is currently on its board of directors. AHD is a nonprofit corporation formed under Section 501(c)(3) of the Internal Revenue Codes for the purpose of building affordable housing. Mr. Rudebusch provided financial and technical assistance to AHD in its application for a grant under the Nebraska Community Development Block Grant Program (CDBG). These funds are available as down payment assistance to LMI borrowers. Lowering the amount of the down payment allows the borrower to lower the amount of the mortgage and qualify for federally-guaranteed mortgages at a level to match their current income. In addition, AHD assisted the city of Aurora in obtaining CDBG funds to build affordable housing. Since the most recent compliance examination, nine houses have been built. Of the 40 units built since 1990, families qualifying as LMI families have purchased 87 percent. Also since the previous examination, three apartment buildings of 6 units each have been built with 14 of the 18 units targeted for LMI individuals.

Mr. Rudebusch is also on the board of directors for the Aurora Development Corporation (ADC). ADC's mission is to improve the economic conditions of Hamilton County by encouraging investment in agriculture, manufacturing, business, housing, and community facilities. The group serves as an incubator for small businesses. For qualified businesses, ADC assists in the arrangement of industrial development bonds, community development block grants, small business loans, and other governmental programs. The ADC coordinates activities with the Nebraska Department of Economic Development, the Nebraska Technical Assistance Center, and the Nebraska Job Services. A business advisory team, comprised of area business executives, meets with and advises those parties seeking to start their own businesses.

## COMPLIANCE WITH THE ANTIDISCRIMINATION LAWS AND REGULATIONS

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, a review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants.



**SCOPE OF EXAMINATION**

<b>SCOPE OF EXAMINATION</b>			
<b>TIME PERIOD REVIEWED</b>			
Home Purchase 11/25/08 - 5/25/09 Small Business & Small Farm 1/1/07 - 12/31/08			
<b>FINANCIAL INSTITUTION</b>		<b>PRODUCTS REVIEWED</b>	
Pinnacle Bank Aurora, Nebraska		Home Purchase Small Business Small Farm	

The bank is owned by Pinnacle Bancorp, and the bank's twenty banking affiliates and six holding company affiliates are located in Colorado, Iowa, Kansas, Nebraska and Wyoming. However, loans originated by the bank's affiliates were not considered for purposes of this examination.

<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<b>ASSESSMENT AREA</b>	<b>TYPE OF EXAMINATION</b>	<b>BRANCHES VISITED</b>	<b>OTHER INFORMATION</b>
Nebraska  BNAs 9891, 9892, 9893	On-Site	Not applicable	