

PUBLIC DISCLOSURE

May 12, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

CITIZENS BANK
10-31-0270

P.O. BOX 99
BANCROFT, NEBRASKA 68004

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

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 Citizens Bank, Bancroft, Nebraska, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of May 12, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

The bank has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods or households. The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. In addition, a substantial majority of loans are in the institution's assessment area. Furthermore, the distribution of loans among borrowers of different income levels and businesses and farms of different sizes reflects a reasonable dispersion throughout the bank's assessment area.

DESCRIPTION OF INSTITUTION

Citizens Bank is located in Bancroft, Nebraska, a small town in the northeastern portion of the state. Bancroft is 18 miles northeast of West Point, the county seat of Cuming County, and had a population of 494 in 1990. Located in the heart of Bancroft's business district, the bank serves portions of Cuming, Burt, and Thurston Counties. The location of Citizens Bank makes it accessible to the community and its assessment area.

The bank has the ability to meet the credit needs of its defined assessment area based on the institution's size, financial condition, and resources. According to the December 31, 1996 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$9,577M, of which loans constituted \$5,215M or 54.45 percent. Total deposits were \$8,745M, with a loan-to-deposit ratio of 59.63 percent.

As of December 31, 1996, agricultural loans comprised the majority of the bank's lending portfolio; however, the bank offers a variety of loan products in order to meet the credit needs of the assessment area. Some of the lending products offered include home purchase, home improvement, consumer installment, single-payment, and commercial loans.

The bank's CRA performance was last reviewed as of February 20, 1996, when a CRA rating of *Satisfactory* was assigned.

The bank's December 31, 1996 Uniform Bank Performance Report (UBPR) reflected the following loan distribution:

| LOAN PORTFOLIO (As of December 31, 1996) | | |
|--|-----------------------|-------------------------|
| <i>Loan Type</i> | <i>Amount (\$000)</i> | <i>Percent of Total</i> |
| Agricultural Loans | 3,902 | 74.8 |
| Commercial Loans | 771 | 14.8 |
| Individual Loans | 335 | 6.4 |
| Real Estate | 302 | 5.8 |
| Other | 5 | 0.1 |
| Less: Unearned Income/Allowances | (100) | (1.9) |
| | | |

| | | |
|--|--------------|--------------|
| LOAN PORTFOLIO (As of December 31, 1996) | | |
| <i>TOTAL</i> | <i>5,215</i> | <i>100.0</i> |

DESCRIPTION OF THE BANCROFT ASSESSMENT AREA

The bank's assessment area consists of three Block Numbering Areas (BNAs) in portions of three adjacent counties including the southern portion of Thurston County, the northern portion of Burt County and the northeastern portion of Cuming County, where the bank is located. The geography in Thurston County is a moderate-income BNA, while the BNAs in Cuming and Burt Counties are both middle-income. No low-income tracts exist in the bank's assessment area. Citizens Bank is centrally positioned within the boundaries of its assessment area, making it readily accessible to the entire area. Bank management selected the assessment area based on its location and competitive position within the region.

The assessment area's population was 10,034, according to the 1990 Census. Regional Economic Information System (REIS) data indicates that the area's population slightly increased from 1990 to 1994. The county has a relatively high minority population (20 percent) when compared to that of the state (7.4 percent) and rural areas statewide (3.6 percent). Native Americans make up the largest minority group, at 96 percent of the assessment area's minority population, followed by Hispanics at 3.2 percent. African Americans and Asians each comprise less than 1 percent of the assessment area's minority population.

The bank's assessment area is a lower middle-income area with a median family income of \$20,640, compared to \$22, 635 for statewide rural areas. Of the total households in the assessment area, 28.6 percent are low-income, compared to 22.3 percent for statewide rural areas. In addition, 18.8 percent of the households live below the poverty level in the assessment area, compared to 13.3 percent for rural areas statewide. The poverty rate was highest in Thurston County (BNA 9782) at 23.6 percent.

Agriculture is the dominant industry in the assessment area, followed by services, manufacturing, retail trade, wholesale trade, and construction. Unemployment for the assessment area was 6.7 percent in 1990, compared to 4.3 percent for statewide rural areas, despite a lower labor force percentage (55.9 percent) than that of statewide rural areas (64.5 percent). The labor force is the percentage of a given area's population who are 16 years of age or older and eligible to work.

Two community contacts were made in order to determine credit needs and

economic conditions in the area. Both of the contacts discussed the need for more available housing, specifically in Bancroft and nearby Rosalie. Despite the housing shortage expressed by the contacts, the housing affordability ratio of the area was 71.7 percent compared to 58.9 percent in other statewide rural areas, according to the 1990 Census. The higher percentage indicates greater affordability and generally resulted from a large volume of low-cost housing. Rental housing was also more affordable in the assessment area than in statewide rural areas. Median gross rental costs were \$218 for the assessment area, compared to \$284 for statewide rural areas and \$348 for the state of Nebraska. Only 14.2 percent of households paid more than 30 percent of their incomes in rent, compared to 23.3 percent in statewide rural areas.

According to 1990 census data, the median age of the housing stock in the assessment area was 58 years, compared to 41 years for rural areas statewide. Over 54 percent of the area's homes were built before 1950, compared to 46.8 percent for statewide rural areas and 37.8 percent for Nebraska overall. In addition, the median value of homes in the assessment area was significantly lower at \$28,780 than the \$38,424 and \$50,042 median values for statewide rural areas and the entire state, respectively.

Characteristics of the assessment area, based on 1990 Census data, are summarized in the following table:

| BANK ASSESSMENT AREA CHARACTERISTICS | | |
|---|------------------------|------------------------------|
| <i>TRACT SUMMARY</i> | | |
| Total Number of Tracts | 3 | |
| Number of Moderate-Income Tracts | 1 | |
| Number of Middle-Income Tracts | 2 | |
| <i>INCOME SUMMARY</i> | | |
| | <i>Assessment Area</i> | <i>Statewide Rural Areas</i> |
| Median Family Income | \$25,625 | \$27,623 |
| Percent Below-Poverty Families | 17.5 | 9.1 |
| Percent Low-Income Families | 26.3 | 16.8 |
| Percent Moderate-Income Families | 18.8 | 19.7 |
| Percent Middle-Income Families | 25.8 | 25.6 |
| Percent Upper-Income Families | 29.1 | 37.9 |
| <i>UNEMPLOYMENT SUMMARY</i> | | |
| Labor Force Population (Assessment Area) | 7,267 | |
| Percent Unemployment (Assessment Area) | 6.7 | |
| | | |

| | |
|--|----------|
| Percent Unemployment (State) | 3.4 |
| MISCELLANEOUS INFORMATION | |
| Total Population (Assessment Area) | 10,034 |
| Percentage of Households Below Poverty | 18.8 |
| Total Housing Units (Assessment Area) | 4,123 |
| Percentage Owner-Occupied Units to Total Units | 60.6 |
| Percentage Rental Units to Total Units | 28.9 |
| Percentage Vacant Units to Total Units | 10.5 |
| Median Housing Value: Assessment Area | \$28,780 |
| Statewide Nonmetropolitan Areas | \$38,424 |
| State | \$50,042 |

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Various criteria were evaluated to determine the bank's overall CRA performance rating. These criteria include a review of the bank's level of lending in relation to its deposits and to the lending of other comparable institutions; its concentration of lending within the assessment area and record of lending to borrowers of different income levels; and the distribution of loan originations within the bank's assessment area. In addition, two members of the community were interviewed to gather information pertaining to the credit needs of the community and the contacts' perception of the bank's ability to meet those needs. The two contacts were leaders in the education and service sectors in the local area, respectively.

The bank's loan-to-deposit ratio is considered reasonable based on the institution's size and financial condition, the credit needs and relatively lower credit demand of the assessment area, and loan-to-deposit ratios of competing institutions. The bank's average loan-to-deposit ratio, calculated using the bank's Call Reports from the previous four quarters, equaled 58.73 percent. This figure is somewhat lower than that of other local competitors. Five area banks' loan-to-deposit ratios for the same time period of time ranged from 61.3 percent to 91.24 percent. However, the loan-to-deposit ratio for the bank's national peer group over the same period was 57.48 percent, slightly lower than Citizens Bank's ratio. The bank's peer group consists of all commercial banks having assets less than or equal to \$10M and

located in a nonmetropolitan area.

Although the loan-to-deposit ratio is somewhat lower than banks of similar size in the area, Citizens Bank serves several communities that reportedly have relatively low loan demand and in which competition is vigorous among the area's banks.

Two profitable banks operate in Bancroft alone, despite a population of less than 500 residents. To that end, the bank has demonstrated a willingness to serve its assessment area by making all possible loans, while simultaneously addressing risk issues that affect the bank's safety and soundness.

Based on a sample of loans reviewed during the examination, a substantial majority of the bank's lending occurs within its assessment area. Ninety-two percent of consumer installment loans and 100 percent of agricultural loans were originated within the assessment area, for a combined total of 97 percent for all loans sampled.

The distribution of consumer installment loans among individuals of different income levels and agricultural loans to farms of different sizes is reasonable given the demographics of the assessment area. Of the 40 agricultural loans made within the assessment area, 5 percent were to low-income borrowers; 15 percent were to moderate-income borrowers; 53 percent were to middle-income borrowers; and 28 percent were to upper-income borrowers. Although the majority of agricultural loans were made to middle- and upper-income borrowers, the distribution is reasonable and appears to reflect the income levels of farmers in the area and the high capital outlay necessary to enter into and maintain a profitable agricultural operation. Of the 23 consumer installment loans within the assessment area, 22 percent were to low-income borrowers; 69 percent were to moderate-income borrowers; and 9 percent were to middle-income borrowers. Thus, a total of 91 percent of the consumer installment loans were to low- and moderate-income borrowers, which far exceeds the percentage of low- and moderate-income families in the assessment area. For both the agricultural and consumer installment loans, the distributions by different income levels are consistent with borrower characteristics for each loan type.

| PERCENTAGE OF LOANS SAMPLED BY DIFFERENT INCOME LEVELS IN THE ASSESSMENT AREA | | | |
|--|---|-----------------------------------|---|
| AREA MEDIAN INCOME: | | | \$25,625 |
| <i>Income Level of Borrower</i> | <i>Percentage of Agricultural Loans</i> | <i>Percentage of Consumer</i> | <i>Percentage of Families in the Bank's</i> |

| PERCENTAGE OF LOANS SAMPLED BY DIFFERENT INCOME LEVELS IN THE ASSESSMENT AREA | | | |
|--|-----------------|---------------------------------------|------------------------|
| | <i>Reviewed</i> | <i>Installment Loans Reviewed</i> | <i>Assessment Area</i> |
| Low (<50 percent of median income) | 5 | 22 | 26 |
| Moderate (50 < 80 percent of median) | 15 | 69 | 19 |
| Middle (80 < 120 percent of median) | 53 | 9 | 26 |
| Upper (\geq 120 percent of median) | 28 | 0 | 29 |
| TOTAL | 100 | 100 | 100 |

The final criteria used to evaluate the bank's performance under the CRA was the geographic distribution of the loans sampled by the income level of the BNA. Of the three BNAs in the assessment area, one is a moderate-income geography and two are middle-income geographies. There were no low-income geographies in the assessment area. Of the sampled loans made in the bank's assessment area, 52 percent of the consumer installment and 30 percent of the agricultural loans were made in the moderate-income BNA, and the remainder were made in the middle-income BNAs. Lending to moderate- and middle-income tracts closely paralleled the demographics of the assessment area. Accordingly, the bank's performance under this criteria reflects a reasonable dispersion among the two types of income geographies.

The bank is in compliance with the substantive provisions of consumer laws and regulations. A review of bank policies, credit applications, and loans revealed no prohibited practices designed to discourage applications from protected classes. Moreover, management has provided training to staff members in order to prevent violations of the antidiscrimination laws and regulations.