PUBLIC DISCLOSURE

JUNE 03, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

BANK OF NEWMAN GROVE
RSSD# 41955

416 HALE AVENUE
NEWMAN GROVE, NEBRASKA 68758

Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64108

NOTE: **This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.**

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INSTITUTION'S COMMUNITY REINVESTMENT ACT RATING

Bank of Newman Grove (the bank) is rated Satisfactory. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of the bank's loans are originated inside the AA.
- Lending reflects a reasonable penetration among farms of different sizes.
- Geographic distribution of loans throughout the AA was not evaluated as the AA consists entirely of middle-income census tracts and the analysis would not have been meaningful.
- Neither the bank nor the Federal Reserve Bank of Kansas City (Reserve Bank) received any Community Reinvestment Act (CRA)-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's (FFIEC's) *Interagency Examination Procedures for Small Institutions* were utilized to evaluate the bank's CRA performance. The evaluation considered CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as AA demographic and economic characteristics, and credit needs. The lending performance was assessed within the bank's East Central Nebraska AA and the following data was reviewed:

- The bank's 17-quarter average NLTD ratio was calculated for the bank and compared to a sample of similarly situated institutions within the AA.
- A statistical sample of 75 agricultural loans from a universe of 118 loans originated between January 1, 2018 through December 31, 2018, was reviewed and compared to applicable demographic data.

DESCRIPTION OF INSTITUTION

The bank is a community bank headquartered in Newman Grove, Nebraska. The bank's characteristics include:

- The bank is a wholly owned subsidiary of First Newman Grove Bankshares Corporation.
- The bank has total assets of $35.0 million (MM) as of December 31, 2018.
- The bank's primary business focus is agricultural lending.

TABLE 1 COMPOSITION OF LOAN PORTFOLIO AS OF DECEMBER 31, 2018		
Loan Type	**$(000)**	**%**
Agricultural	25,200	95.5
Commercial	927	3.5
Consumer	264	1.0
Residential Real Estate	0	0.0
Other	0	0.0
Gross Loans	26,391	100.0
Note: Percentages may not total 100.0 percent due to rounding.		

The bank was rated Satisfactory under the CRA at its March 9, 2015 performance evaluation. There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA is comprised of Boone County in its entirety, two census tracts in Madison County, and one census tract in Platte County, all in Nebraska. (Refer to Appendix A for an AA map).

- The AA is rural in nature and is comprised of five middle-income census tracts.
- As of June 30, 2018, the bank had a 1.0 percent share of Federal Deposit Insurance Corporation (FDIC)-insured deposits in Boone, Madison, and Platte Counties and ranked 21st out of 25 FDIC-insured institutions operating within these counties.
- One community contact was made during the examination. This contact was a representative from an agency knowledgeable about local agricultural conditions and was contacted to provide insight into the credit needs, economic conditions, and demographic changes within the bank's AA.

TABLE 2 POPULATION CHANGE			
Area	**2010 Population**	**2015 Population**	**Percent Change**
Boone County	5,505	5,373	(2.4)
Madison County	34,876	35,111	0.7
Platte County	32,237	32,642	1.3
State of Nebraska	1,826,341	1,869,365	2.4
Source: 2010 U.S. Census Bureau Decennial Census 2011-2015 U.S. Census Bureau: American Community Survey			

- All three counties within the AA have a relatively small combined population, representing just 3.9 percent of the state's total population. The population in Madison and Platte Counties has remained stable, while Boone County has seen a decrease in population. All three counties lag behind the state of Nebraska in population growth.

- The community contact noted that the decline in population for Boone County is due to a lack of employment opportunities and limited commerce available for residents.
- Madison and Platte Counties have more industrial development, community colleges, and larger medical facilities than Boone County. The presence of these amenities may contribute to the slight population growth in those counties and the decline in Boone County.

TABLE 3
MEDIAN FAMILY INCOME CHANGE

Area	2010 Median Family Income	2015 Median Family Income	Percent Change
Boone County	51,981	63,569	22.3
Madison County	57,819	61,591	6.5
Platte County	59,691	67,420	12.9
State of Nebraska	61,888	67,225	8.6

Source: 2006-2010 U.S. Census Bureau: American Community Survey
2011-2015 U.S. Census Bureau: American Community Survey

- The median family income (MFI) for all three counties increased from 2010.
- The community contact noted the growth in MFI can be attributed to both preparation for a pipeline development, and a number of wind farms that have been built in the area. These projects brought in both permanent and temporary workers who have helped boost the local economies through retail trade.
- Wind farms in Boone County have provided landowners with a significant source of passive income to supplement farm income and are likely the reason for the more substantial increase in MFI in that county.

TABLE 4
HOUSING COSTS CHANGE

Area	Median Housing Value		Percent Change	Median Gross Rent		Percent Change
	2010	2015		2010	2015	
Boone County	71,100	97,700	37.4	415	557	34.2
Madison County	100,500	118,300	17.7	523	616	17.8
Platte County	108,100	125,200	15.8	541	658	21.6
State of Nebraska	123,900	133,200	7.5	648	726	12.0

Source: 2006-2010 U.S. Census Bureau: American Community Survey
2011-2015 U.S. Census Bureau: American Community Survey

- In 2017, all three counties saw an increase in housing costs which outpaced the increases seen in housing values statewide.
- The community contact indicated the increase in housing values may be attributed to the operational development of both the pipeline and wind farms; as these two developments have brought in a host of new families to the area, with demand

exceeding supply of available units for both single- and multi-family units. The representative further indicated that affordable housing remains a challenge and that the price of new construction in the area is not reasonably priced for either potential buyers or renters.

TABLE 5
UNEMPLOYMENT RATES

Region	2014	2015	2016	2017	2018
Boone County	2.6	2.5	2.6	2.4	2.2
Madison County	2.9	2.7	2.7	2.6	2.5
Platte County	3.0	3.0	3.5	2.9	2.6
State of Nebraska	3.3	3.0	3.1	2.9	2.8

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- Overall, all three counties have low unemployment rates which align with the unemployment rate for the state of Nebraska.
- Per the community contact, lower unemployment rates present a challenge for local businesses to hire qualified and skilled workers. Due to these labor shortages, the area is seeing an increase in migrant workers, especially to assist with farming.
- The AA's major industries include farming, manufacturing, retail trade, and health care.
- Major employers within the three counties include Faith Regional Health Services, Tyson Fresh Meats, Inc., and Cargill.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank's capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on the area where they were located, with secondary consideration given to product offerings and asset size. The bank's NLTD ratio is reasonable.

Although the bank's NLTD is the lowest of the comparable banks, it is considered reasonable as it is only 1.1 percent below the next closest competitor reviewed. In addition, all competitors used in the analysis offer residential real estate loan products. Therefore, the absence of this product from the bank's portfolio may lessen opportunities to lend to borrowers who seek this product. Additionally, three of the comparable banks have multiple offices; some of these offices are outside of the bank's market area, which could present additional lending opportunities that may not be available to the bank. Finally, although agriculture loans were the primary product for all competitors in the analysis, none of the comparable banks had concentrations to the extent of the subject bank, with the bank's targeted product focus on agriculture possibly limiting opportunities for growth within its portfolio.

TABLE 6
COMPARATIVE NLTD RATIOS

Institution	Location	Asset Size ($000s)	NLTD Ratio (%) 17-Quarter Average
Bank of Newman Grove	Newman Grove, Nebraska	35,016	75.2
Great Plains State Bank	Petersburg, Nebraska	195,526	99.9
Cedar Rapids State Bank	Cedar Rapids, Nebraska	48,804	93.4
Columbus Bank & Trust Company	Columbus, Nebraska	138,052	91.8
Tilden Bank	Tilden, Nebraska	82,074	76.3

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. A substantial majority of the bank's loans, by number and dollar, were originated inside the AA.

TABLE 7
LENDING INSIDE AND OUTSIDE THE AA

Loan Type	Inside				Outside			
	#	$(000)	#%	$%	#	$(000)	#%	$%
Small Farm Loans	68	6,688	90.7	90.1	7	734	9.3	9.9
Total Loans	68	6,688	90.7	90.1	7	734	9.3	9.9

Note: Percentages may not add to 100.0 percent due to rounding.

Geographic Distribution of Loans

This performance criterion evaluates the bank's distribution of lending within its AA by income level of census tracts. This performance criteria was not meaningful because the AA is composed of middle-income census tracts only, therefore, this criteria was not evaluated.

Absent diversity in the income levels of census tracts within the AA, dispersion of loans throughout the AA was reviewed. The bank's lending reached all census tracts within its AA, with a majority of the bank's loans, 64.7 percent, made in the census tract where the bank's sole office is located. Two census tracts closest to the bank's office accounted for another 32.4 percent of the loans originated within the AA. While the remaining two tracts only contained one sampled loan each, or 1.5 percent of the bank's loans, those tracts were the most distant from the bank's physical location. Boone County includes the city of Albion, which is served by three other financial institutions. Similarly, the portion of the bank's AA (single census tract) in Madison County is also served by three other financial institutions.

Lending to Farms of Different Sizes

This performance criterion evaluates the bank's lending to farms of different revenue sizes. The bank's lending had a reasonable penetration among farms of different revenue sizes.

Small Farm Lending

The distribution of small farm lending is reasonable. The bank originated 98.5 percent of its small farm loans to farms with gross revenues of $1MM or less. Approximately 99.0 percent of area farms have revenues of $1MM or less, indicating the bank is doing a reasonable job of serving small farms in its AA. Additionally, the majority of small farm loans originated were in amounts of $100,000 or less, indicating the bank is willing to meet the credit needs of small farms.

TABLE 8
DISTRIBUTION OF 2018 SMALL FARM LENDING BY REVENUE SIZE OF FARMS

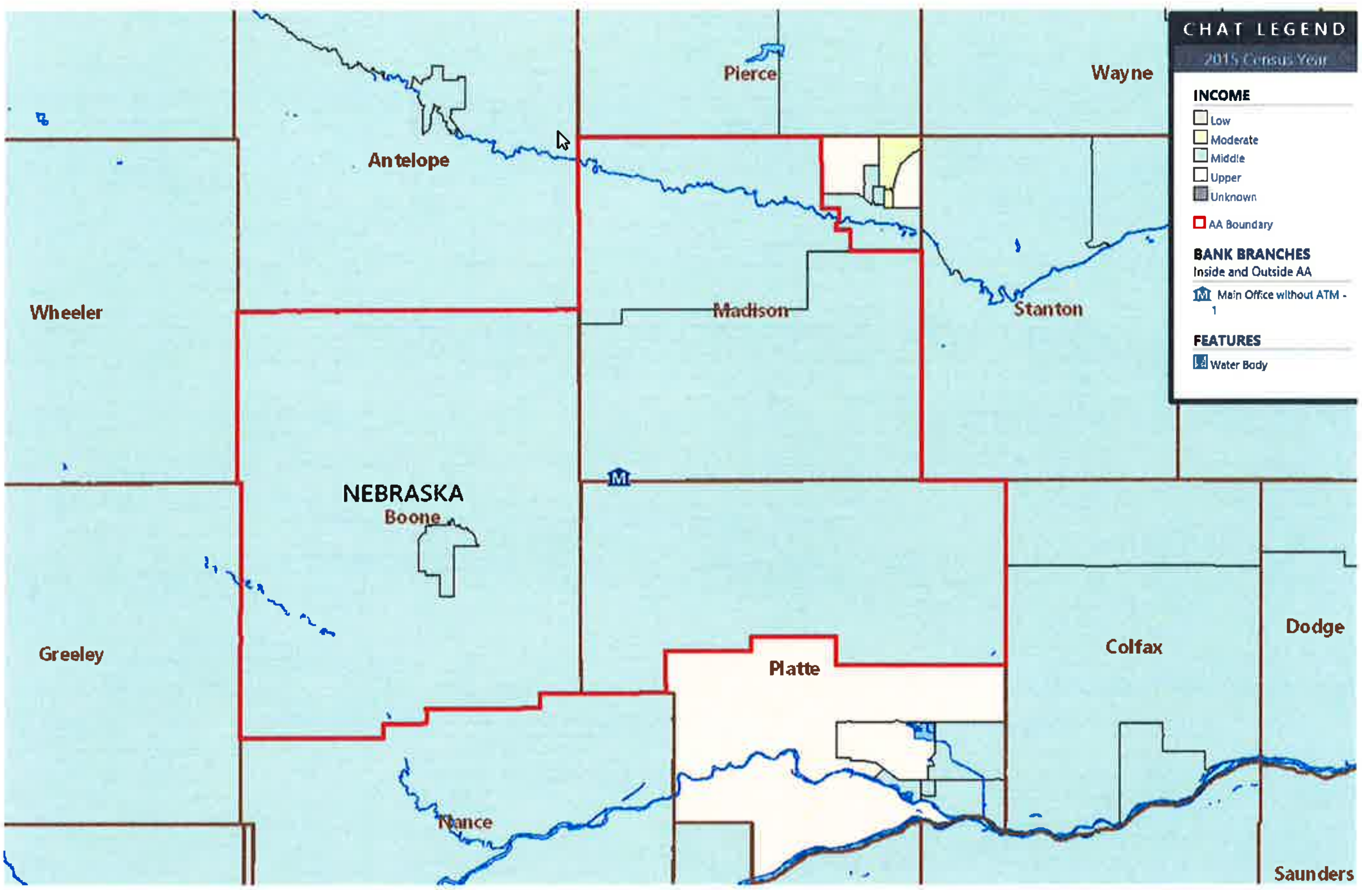
	Bank Loans				Total Farms
	#	**$(000)**	**#%**	**$%**	**%**
By Revenue					
$1 Million or Less	67	6,488	98.5	97.0	99.0
Over $1 Million	1	200	1.5	3.0	1.0
Not Known	0	0	0.0	0.0	0.0
Total	**68**	**6,688**	**100.0**	**100.0**	**100.0**
By Loan Size					
$100,000 or less	48	1,922	70.6	28.7	
$100,001 – $250,000	14	2,466	20.6	36.9	
$250,001 – $500,000	6	2,300	8.8	34.4	
Total	**68**	**6,688**	**100.0**	**100.0**	
By Loan Size and Revenue $1 Million or Less					
$100,000 or less	48	1,922	71.6	29.6	
$100,001 – $250,000	13	2,266	19.4	34.9	
$250,001 – $500,000	6	2,300	9.0	35.5	
Total	**67**	**6,488**	**100.0**	**100.0**	

Source: 2018 FFIEC Census Data
2018 Dun & Bradstreet Data
2011 - 2015 U.S. Census Bureau: American Community Survey
NOTE: Percentages may not add up to 100.0 percent due to rounding.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank's fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – MAP OF THE ASSESSMENT AREA



APPENDIX B – DEMOGRAPHIC INFORMATION

TABLE B-1
2018 AA DEMOGRAPHICS

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	823	16.6
Moderate	0	0.0	0	0.0	0	0.0	792	16.0
Middle	5	100.0	4,954	100.0	347	7.0	1,329	26.8
Upper	0	0.0	0	0.0	0	0.0	2,010	40.6
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**5**	**100.0**	**4,954**	**100.0**	**347**	**7.0**	**4,954**	**100.0**

	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	7,944	5,396	100.0	67.9	1,591	20.0	957	12.0
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	**7,944**	**5,396**	**100.0**	**67.9**	**1,591**	**20.0**	**957**	**12.0**

	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	868	100.0	763	100.0	72	100.0	33	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**868**	**100.0**	**763**	**100.0**	**72**	**100.0**	**33**	**100.0**
Percentage of Total Businesses:				**87.9**		**8.3**		**3.8**

	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = $1 Million		Over $1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	413	100.0	409	100.0	4	100.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	**413**	**100.0**	**409**	**100.0**	**4**	**100.0**	**0**	**0.0**
Percentage of Total Farms:				**99.0**		**1.0**		**0.0**

Source: 2018 FFIEC Census Data
2018 Dun & Bradstreet data
2011 - 2016 U.S. Census Bureau: American Community Survey
NOTE: Percentages may not add up to 100.0 due to rounding.

APPENDIX C – GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of $1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancing's of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Reports of Condition and Income (Call Report) instructions. These loans have original amounts of $1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of $500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.