

**PUBLIC DISCLOSURE**

**February 18, 1997**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**CRETE STATE BANK  
10-31-0960  
543057**

**P.O. BOX 66  
143 E. 13TH STREET  
CRETE, NEBRASKA 68333**

**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 Crete State Bank prepared by the Federal Reserve Bank of Kansas City, the institution=s supervisory agency, as of February 18, 1997. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. The agency rate the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

## INSTITUTION

**INSTITUTION=S RATING:** *This institution is rated **Satisfactory**.*

Crete State Bank adequately serves the assessment area in which it operates, based upon a review of the bank=s lending record, qualified investments, and services. As demonstrated by the types of products and services offered by the bank, it is responsive to the credit needs of the community, including low- and moderate-income individuals, as well as small businesses and small farms. The bank primarily serves its assessment area through its direct lending of real estate and agricultural loans. The majority of these loans were originated within the assessment area. While the bank=s participation in qualified investments is limited, the bank=s lending and services performance effectively meets the needs of its community.

*The following table indicates the performance level of Crete State Bank with respect to the lending, investment, and service tests.*

PERFORMANCE LEVELS	CRETE STATE BANK		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory			X
Needs Improvement		X	
Substantial Noncompliance			

\*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

## DESCRIPTION OF INSTITUTION

Crete State Bank is located in Crete, Nebraska, approximately 25 miles southwest of Lincoln, Nebraska. According to 1990 census figures, the city has a population of 4,841. The bank has one office and four Automated Teller Machines (ATMs) located throughout the city. Crete State Bank is a subsidiary of Pinnacle Bancorp, Inc., a bank holding company with assets of \$1,598,908 as of September 30, 1996. According to the bank's September 30, 1996 Consolidated Reports of Condition and Income (Call Report), the bank's assets totaled \$48,864M, of which loans totaled \$33,033M or 68 percent. As shown in the following distribution table, the bank is primarily a real estate and agricultural lender; however, the bank offers a variety of loan products that meet community credit needs.

The 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's September 30, 1996 Call Report reflected the following loan distribution:

**THE BANK=S LOAN PORTFOLIO**

<b>Loan Type</b>	<b>Amount (\$000)</b>	<b>Percent of Total</b>
Multiple & 1- to 4-Family Real Estate	13,845	41.91
Farmland or Agricultural	9,224	27.92
Consumer	4,476	13.55
Nonfarm Nonresidential	3,040	9.20
Commercial	2,057	6.23
Leases	353	1.07
Other	38	0.12
<b>TOTAL</b>	<b>33,033</b>	<b>100.00</b>

The bank=s CRA performance was last reviewed as of September 11, 1995 when a Satisfactory rating was assigned.

**DESCRIPTION OF ASSESSMENT AREA**

Crete State Bank=s assessment area is an area in southeast Nebraska which includes all four block numbering areas (BNAs) in Saline County, one BNA in the southern portion of Seward County, and one census tract in the most southwest portion of Lancaster County. All five BNAs and the census tract are middle-income. The census tract is part of the Lincoln metropolitan statistical area (MSA).

The assessment area does not exclude any low- and moderate-income areas. Within the six middle-income geographies, no specific low- or moderate-income neighborhoods could be identified. However, two community contacts, a local government official and a private individual, indicated that low- and moderate-income individuals are dispersed throughout the area as indicated in the table below. Per 1990 census data, the population of the assessment area is 20,704. In addition, the median family income is \$31,165, which is 13 percent higher than that for state nonmetropolitan areas and only 1.5 percent lower than that for the entire state. The median family income annualized for the assessment area for 1996 is \$35,100. The following table depicts the assessment area distribution of families by income level based upon 1990 census data.

<b>DISTRIBUTION OF HOUSEHOLDS AND FAMILIES BY INCOME</b>				
	<i>Household Income Summary</i>		<i>Family Income Summary</i>	
Income Category	Number	Percent of Households	Number	Percent of Families
Low-Income <sup>1</sup>	1,490	19.4%	753	13.7%
Moderate-Income <sup>2</sup>	1,143	14.9%	964	17.6%
Middle-Income <sup>3</sup>	1,541	20.1%	1,432	26.1%
Upper-Income <sup>4</sup>	3,493	45.6%	2,330	42.6%
<b>Total</b>	<b>7,667</b>	<b>100.0%</b>	<b>5,479</b>	<b>100.0%</b>

<sup>1</sup> Less than 50 percent of the assessment area median family income.

<sup>2</sup> At least 50 percent and less than 80 percent of the assessment area median family income.

<sup>3</sup> At least 80 percent and less than 120 percent of the assessment area median family income.

<sup>4</sup> 120 percent or more of the assessment area median family income.

Comparison of the income distribution of households within the assessment area to those statewide demonstrated a variance. The number of households considered low- or moderate-income within the assessment area was lower at 34.3 percent compared to state nonmetropolitan areas and for the entire state at 39.1 and 38.9 percent, respectively. Furthermore, the percentage of households considered below poverty at 11.4 percent was much lower for the assessment area than that for state nonmetropolitan areas at 13.3 percent and only slightly lower than that for the entire state at 11.8 percent.

A review of family median income figures reveals a similar picture. The number of families in the assessment area designated as low- and moderate-income at 31.7 percent was relatively low compared to state nonmetropolitan areas and the entire state at 36.5 and 35.9 percent, respectively. In addition, the percentage of families below poverty within the assessment area at 7.7 percent was lower than that for state nonmetropolitan areas and the entire state at 9.1 and 8.0 percent, respectively.

A fairly diverse economy and low unemployment has caused moderate growth in the bank=s assessment area. According to the Regional Economic Information System (REIS), employment increased between 1990 and 1994 in Saline, Seward and Lancaster Counties. In Saline County alone, total full-time and part-time employment increased 12.2 percent between 1990 and 1994, which includes a 3.6 percent increase between 1993 and 1994. Seward and Lancaster Counties experienced 6.3 and 7.7 percent growth between 1990 and 1994, respectively.

The largest increases in employment for Saline and Seward Counties involved the manufacturing and construction sectors. In contrast, Lancaster County experienced its largest job expansion in the retail and service industries. In 1990, the unemployment rate for the assessment area at 2.7 percent was lower than the average for state nonmetropolitan areas at 3.4 percent and the entire state at 3.6 percent. The major employers within the assessment area include Farmland Foods, Inc. with 1,200 employees, Friskies PetCare with 376 employees, Doane College with 236 employees, and Crete Mills with 185 employees.

According to 1990 census data, the cost of housing appears to be another positive indicator of the economy of the bank's assessment area. The median housing age within the assessment area is 39 years which is consistent with the median housing age for nonmetropolitan areas within the state at 40 years. Housing units are more affordable within the assessment area compared to state nonmetropolitan area housing. However, community contacts indicated a median housing value much higher than that listed in the 1990 census data. According to community contacts, the median housing value in Crete is \$65,000; while the 1990 census data indicates that the median housing value for the assessment area is \$40,850. They also indicated that the housing market is stable.

The average list price of ten homes currently on the market in Crete is \$75,890; the lowest priced home selling for \$45,000 and the highest priced at \$115,000. Community contacts indicated that the lower priced homes (\$40,000 to \$50,000) generally require a significant investment to repair the home at, or shortly after, purchase which increases the overall cost of the home. Currently, homes for sale in smaller communities surrounding Crete are listed between \$28,000 and \$69,500. In addition, the median housing value in the MSA, which includes census tract 103, is \$61,845 per 1990 census data. The median housing value for the assessment area, per 1990 Census data, is probably understated given the current home listings and the listings for homes outside of Crete. It is important to note that the bank originates the majority of its 1- to 4-family residential real estate loans in the city of Crete because that is where its office is located.

With regard to rental units, the 1990 census data indicates that median rent is \$302 per month. Community contacts indicated that apartments in Crete rent for between \$300 to \$550 a month, and homes rent for as much as \$650 a month. Within the assessment area, there are a total of 8,342 housing units according to the 1990 Census, of which 5,668 are owner occupied. Multifamily dwellings make up a smaller portion of the assessment area compared to other areas in the state. According to 1990 Census data, 3.8 percent of all housing was multifamily in the assessment area compared to 5.3 and 12.9 percent for nonmetropolitan areas within the state and statewide, respectively.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

The conclusions regarding the lending, investment, and service tests are summarized at the beginning of each section. Supporting information includes performance characteristics that are described in Appendix A of the regulation. A peer group of seven similarly situated financial institutions was developed as a contextual reference by which to evaluate Crete State Bank=s performance in the lending, investment, and services tests under the CRA. The peer group was determined on the basis of similarities in asset size and service area.

## **LENDING TEST**

Crete State Bank is effectively meeting the needs of its assessment area based on its size, financial condition, and resources. The bank offers a number of credit products that help meet area credit needs. Analysis of the assessment area concentration of lending revealed that the majority of the bank=s lending occurred within the assessment area. The distribution of borrowers reflects, given the products offered, good penetration among retail customers of different income levels and agricultural and business enterprises of different sizes. Further, the bank exhibits an adequate record of serving the credit needs of low- and moderate-income individuals, small businesses, and small farms. The bank=s assessment area provides limited opportunities for community development loans. In an effort to compensate, the bank utilizes flexible lending practices in order to help meet assessment area credit needs.

### **Lending Activity**

The bank offers a variety of conventional loan products to meet the credit needs of its assessment area as well as federally guaranteed loans through the Federal Housing Administration (FHA), and the Small Business Administration (SBA). In addition, the bank makes originations through the Nebraska Investment Finance Authority (NIFA) which sponsors a first-time farm borrower loan program and the Nebraska Energy loan program. The bank offers long-term, fixed-rate residential mortgages, home improvement, small business, small farm, and consumer loans.

The bank=s average loan-to-deposit ratio (LTD) for the previous six quarters since the previous CRA examination was 70.67 percent. Overall, the bank compares favorably to its seven selected area peers. The seven area peers had average LTDs ranging from a low of 57.14 percent to a high of 83.5 percent; the average being 71.85 percent.

### **Assessment Area**

A large majority of the bank=s lending occurs within its assessment area. The analysis was based upon a sample of 100 percent of the agricultural and commercial loans, and 76 percent of the residential real estate loans originated between January 1, 1996 and



December 31, 1996. The three loan types reviewed consisted of 309 agricultural, 237 commercial, and 47 residential real estate loans. The following table demonstrates, by product type, the percentage of loans reviewed that were located within the bank=s assessment area.

<b>LOANS WITHIN THE BANK=S ASSESSMENT AREA</b>	
<b>Loan Type</b>	<b>Percentage</b>
Residential Real Estate	77
Agricultural	98
Commercial	84
<b>Total</b>	<b>69</b>

### **Geographic Distribution of Loans**

The bank=s geographic distribution of loans by income level of geography reflects adequate penetration in its assessment area. However, as noted above, the assessment area consists of entirely middle-income geographies. As a result, a meaningful analysis of the geographic distribution of loans by income level of geography was not possible.

### **Borrowers= Profile**

Given the demographics of Crete State Bank=s assessment area, the distribution of loans to borrowers of different income levels, including small businesses and small farms, is reasonable. As demonstrated in the following table, the percentage of residential real estate loans made to borrowers of different income levels approximates the percentage of families in the bank=s assessment area.

<b>PERCENTAGE OF LOANS REVIEWED MADE TO INDIVIDUALS OF DIFFERENT INCOME LEVELS IN THE BANK=S ASSESSMENT AREA</b>		
<b>Income Level of Borrower<sup>5</sup></b>	<b>Percentage of Residential Real Estate Loans Reviewed</b>	<b>Percentage of Families in the Bank=s Assessment Area</b>
Low-Income	6%	13.7%
Moderate-Income	25%	17.6%
Middle-Income	25%	26.1%
Upper-Income	44%	42.6%
<b>Total</b>	<b>100%</b>	<b>100.0%</b>

<sup>1</sup> The income categories are based upon the same percentages as those listed on page 5.

The assessment area is characterized by primarily small farms and businesses. A review of 304 agricultural loans and 200 commercial loans, all located within the bank=s assessment area, revealed that 100 percent were made to small farms and small businesses. For reporting purposes, small businesses and small farms are defined as having gross annual revenues of \$1MM or less. Furthermore, 96 percent of the small farm loans and 98 percent of the small business loans were for amounts less than \$100,000 which indicates the bank is meeting the credit needs of small farms and businesses.

### **Responsiveness to Credit Needs and Product Innovation**

Crete State Bank originates a reasonable amount of loans to low- and moderate-income borrowers and a substantial number of loans to small farms and businesses. As mentioned earlier, the bank participates in a number of government loan programs that benefit low- and moderate-income individuals and small farms and businesses. The programs include: FHA, SBA, NIFA, and Nebraska Energy loans. Between January 1, 1996 and December 31, 1996, the bank originated six FHA loans totaling over \$238M. Through the bank=s participation in the secondary market, the bank offers loans supported by private mortgage insurance, with down payments as low as 5 percent. In addition, the bank does not have a minimum loan amount. During 1996, loans made to individuals and businesses were in amounts as low as \$150 and \$200, respectively.

### **Community Development Loans**

Community development lending opportunities are limited within the bank=s assessment area. As a result, the bank has not originated any community development loans as defined by the CRA since the prior CRA evaluation.

## **INVESTMENT TEST**

Crete State Bank=s participation in community development investments (hereafter Aqualified investments@), as defined by the CRA, is limited to one donation. As mentioned the economy of the assessment area is growing and residents are fully employed. In addition, no low- or moderate-income tracts are found in the assessment area. Consequently, few opportunities for qualified investments are present. However, some opportunities do exist and the bank is encouraged to improve its record of participating in qualified community development investments. The bank=s portfolio contains a variety of securities; however, none meet the definition of a qualified investment.

### **Grant Activity**

The bank=s single qualified investment consists of participation in an event called the

A Holiday Giveaway@ which took place in December of 1996. Bank customers who spent at least \$15 at a Crete retail outlet business could submit their receipt and be eligible for one of several gift certificates from the stores. The bank donated a total of \$2,000. This event encouraged residents' patronage of small business and the bank's donation qualifies as an investment since 98 percent of the businesses in Crete are small businesses. Because the bank's assessment area does not contain any low- or moderate-income geographies, relatively few organizations within the assessment area target primarily low- and moderate-income individuals.

### **Responsiveness to Community Development Needs**

Community contacts indicated a need for affordable housing throughout the assessment area. Crete officials have attempted to initiate affordable housing developments in the past; however, builders have been reluctant to participate in such a project because of the limited profit expectations. A few industries within the assessment area have also indicated that it is difficult to maintain a stable employment base because a large number of their employees, unable to find affordable housing, must commute from outside of Crete. These industries have not initiated any affordable housing development. The bank has indicated a willingness to participate in such a project should it be approached for financing, yet it has not initiated efforts to explore affordable housing development options for Crete.

### **SERVICES TEST**

Crete State Bank's delivery systems are reasonably accessible to essentially all portions of the bank's assessment area. In addition, services do not vary in a way that inconveniences certain portions of the bank's assessment area. 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. Finally, the bank provides a reasonable level of community development services given the characteristics and available opportunities within the assessment area.

### **Accessibility of Delivery Systems**

The bank's location, including the location of its ATMs, and credit services are targeted to meet the convenience and needs of the assessment area. The bank has one full-service location with a drive-through facility, as well as two full-service ATMs and two cash dispensing only ATMs. The ATMs are located at the main bank, a local grocery store, Farmland Industries, and at Doane College. The hours of operation are reasonable compared to other institutions in the area. Generally, lobby hours are from 8:30 a.m. to 4:00 p.m. with the drive-through window open from 8:00 a.m. to 5:00 p.m., and to 5:30 p.m. on Fridays. The bank also has Saturday hours from 8:30 a.m. to 12:00 p.m., with the

drive-through window open from 7:30 a.m. to 12:00 p.m.

Recently, the bank began offering alternative delivery systems to its customers. The bank offers a debit check card, which may be used in conjunction with an overdraft line of credit. The bank also offers ATelebank@ which allows customers to make loan payments, pay bills and transfer funds by telephone 24 hours a day. In addition, the bank has initiated personal computer banking so that customers may bank at home.

### **Community Development Services**

Bank management and staff has been active in providing technical assistance and education to organizations throughout the bank=s assessment area. A bank representative spoke with a group of students at the Blue Valley Community Action & Neighborhood Center about fiscal responsibility. Members of the Blue Valley=s education program must be low- income in order to qualify. President Florendo spoke with a finance class at Doane College regarding small business underwriting and start-up financing issues. In addition, a bank representative speaks annually with the Future Business Leaders of America about fiscal responsibility.

The bank also provides technical assistance to the Chamber of Commerce through the Downtown Redevelopment Committee. President Florendo is the chairman of the committee. The committee is responsible for initiating the construction of new streets and sidewalks, as well as the acquisition of new street lights and benches for a designated area in downtown Crete. This area is comprised of 98 percent small business which will directly benefit from the redevelopment.

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

**APPENDIX A**

<b>SCOPE OF EXAMINATION Crete State Bank</b>		
<b>TIME PERIOD REVIEWED</b>		February 18, 1997 through February 21, 1997
<b>FINANCIAL INSTITUTION</b>		
<b>NAME</b>		<b>PRODUCTS REVIEWED</b>
Crete State Bank Palmer, Nebraska		Residential Real Estate Loans Small Business Loans Small Farm Loans
<b>AFFILIATE(S)</b>	<b>AFFILIATE RELATIONSHIP</b>	<b>PRODUCTS REVIEWED</b>
Pinnacle Bancorp, Inc., Central City, NE	Bank Holding Company	None
Bank of Colorado - Front Range, Windsor, CO	Bank Holding Company	None
Bank of Colorado - Western Slope, Grand Junction, CO	Bank Holding Company	None
Pinnacle Bank, Papillion, NE	Bank Holding Company	None
Citizens Bank and Trust Company, Torrington, WY	Bank Holding Company	None
Havelock Bank, Lincoln, NE	Bank Holding Company	None
State Bank, Palmer, NE	Bank Holding Company	None
The Farmers State Bank and Trust Company, Aurora, NE	Bank Holding Company	None
Farmers State Bank and Trust Company, Lexington, NE	Bank Holding Company	None
First National Bank, Abilene, KS	Bank Holding Company	None
First National Bank, Worland, WY	Bank Holding Company	None
The First National Bank, Shelby, NE	Bank Holding Company	None
First Security Bank, Newcastle, WY	Bank Holding Company	None
The First Security Bank of Craig, Craig, CO	Bank Holding Company	None
The First Security Bank, Fort Lupton, CO	Bank Holding Company	None
First United Bank, Neligh, NE	Bank Holding Company	None
Schuyler State Bank and Trust Company, Schuyler, NE	Bank Holding Company	None
Western Bank of Cody, Cody, WY	Bank Holding Company	None
Archer, Inc., Central City, NE	Bank Holding Company	None
Osceola Insurance, Inc., Central City, NE	Bank Holding Company	None
Gretna State Bank, Gretna, NE	Bank Holding Company	None
First National Bank of Osceola, Osceola, NE	Bank Holding Company	None
Central Grain, Inc., Central City, NE	Bank Holding Company	None
Farmers National Bank of Central City, Central City, NE	Bank Holding Company	None
Dinsdale Brothers, Inc., Central City, NE	Bank Holding Company	None
The First National Bank of Wisner, Wisner, NE	Bank Holding Company	None
First Security Bank, Mitchell, NE	Bank Holding Company	None
Guaranty Corporation, Denver, CO	Bank Holding Company	None

Guaranty Bank and Trust Company, Denver, CO Pinnacle Bancorp, Iowa, Sioux City, IA Morningside Bank and Trust, Sioux City, IA	Bank Holding Company  Bank Holding Company Bank Holding Company	None  None None
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**LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION**

<b>ASSESSMENT AREA</b>	<b>TYPE OF EXAMINATION</b>	<b>BRANCHES VISITED</b>	<b>OTHER INFORMATION</b>
Nebraska  Five BNAs, including 9906, 9907, 9908, and 9909 in Saline County, and 9904 in Seward County. One Census Tract 103.00 in Lancaster County.	Full scope/On-site	N/A	

## **Identification of Ratings**

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

### **Outstanding record of meeting community credit needs.**

*An institution in this group has an outstanding record of, and is a leader in, helping to meet the credit needs of its entire assessment area community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.*

### **Satisfactory record of meeting community credit needs.**

*An institution in this group has a satisfactory record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.*

### **Needs to improve record of meeting community credit needs.**

*An institution in this group needs to improve its overall record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.*

### **Substantial noncompliance in meeting community credit needs.**

*An institution in this group has a substantially deficient record of helping to meet the credit needs of its entire assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.*