

**PUBLIC
DISCLOSURE**

March 24, 1997

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**GRETN A STATE BANK
10-31-1615
6954**

**817 VILLAGE SQUARE
GRETN A, NEBRASKA 68028-0519**

**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 Gretna State Bank, Gretna, Nebraska, prepared by the Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of March 24, 1997. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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 RATING: This institution is rated as having a **Satisfactory Record of Meeting Community Credit Needs.**

Gretna State Bank is satisfactorily meeting the credit needs of the assessment area in which it operates, based on a review of the bank's lending record, qualified investments, and services. In arriving at the rating, primary emphasis was placed on the bank's performance in meeting the needs for residential mortgage and small business loans within its assessment area, as these are the types of credit most in demand and have been targeted by the bank as desirable loans.

The bank's home lending record for 1996 showed good penetration within its assessment area and to low- and moderate-income borrowers. Seventy-five percent of the home purchase, refinance, and improvement loans were made inside the assessment area. Although upper-income families comprise almost half of the population, 36 percent of the bank's home loans were to low- and moderate-income borrowers. Loans made to these borrowers exceeded the proportion of both low- and moderate-income families and households in the assessment area. In addition, the bank added a new loan product that targets first-time low- and moderate-income home buyers. These factors indicate that the bank is providing financing to those population sectors most likely to seek affordable housing.

The record of loans to small businesses in 1996 also reflected favorably on the bank's lending performance. Eighty-four percent of the bank's business-purpose loans were made within the assessment area and 76 percent of all business loans were to small businesses. Also indicative of the bank's record of serving small business credit needs was the fact that 78

percent of all business loans were for amounts of \$100,000 or less.

Opportunities for making qualified investments and providing community development services are limited due in part to the absence of low- and moderate-income census tracts in or near the bank's assessment area and also to the fact that the area is largely undeveloped. The bank had no qualified investments and is involved in only one substantive community development service.

The bank's CRA performance was rated Outstanding as of the previous examination dated December 18, 1995.

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

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

DESCRIPTION OF INSTITUTION:

Gretna State Bank, Gretna, Nebraska, is affiliated with Pinnacle Bancorp, Inc., Central City, Nebraska, and Pinnacle Bancorp, Iowa, Sioux City, Iowa (the Pinnacle group). Although the bank is not a direct subsidiary of either Pinnacle group, it shares common ownership. The Pinnacle group owns 26 banks operating in Colorado, Iowa, Kansas, Nebraska, and Wyoming. A listing of the bank's affiliates appears in Appendix A.

The bank in Gretna has only one full-service office, with one on-site and one off-site automated teller machine, as well as a detached drive-up deposit facility. Total assets as of December 31, 1996, were \$24 million, 58 percent of which were loans and 32 percent securities. There are few banks of similar asset size within the assessment area. The bank's primary competition comes from a bank with a branch facility in Gretna. Because most residents in the area commute to Omaha for work, the bank competes for customers with lenders throughout the metropolitan statistical area (MSA).

A variety of loan and deposit products is offered. Residential mortgage loans are made for

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construction and land development, rental property, home purchase and refinance, home equity lines of credit, and home improvement. Consumer loans are available for virtually any legitimate personal, family or household purpose. The bank also offers business and farm loans for capital assets, operating expenses, livestock, farmland, commercial properties, and other general purposes. The following table shows the number and dollar volume of loans originated in 1996, by loan type, excluding paid-off loans.

Loan Product Mix for 1996

	Total	Residential	Business	Farm	Consumer
Number of Loans	259	36	75	20	128
Percentage of Loans	100	14	29	8	49
Dollars Loaned (in thousands)	\$9,239	\$1,629	\$5,824	\$991	\$795
Percentage of Dollars	100	18	63	11	8

Although most of the loans made were for consumer purposes, these are not a primary focus of the bank, and other banks in the assessment area have significantly more consumer dollars loaned. The bank's board of directors has emphasized meeting the credit demand for home purchase and construction loans, as well as land development loans. There are no financial or legal impediments that detract from the bank's capacity to meet these demands other than legal lending limits, which are overcome by participating large loans with affiliate banks.

DESCRIPTION OF ASSESSMENT AREA:

Gretna State Bank's assessment area covers five census tracts on the southwest outskirts of the Omaha, Nebraska-Iowa MSA. This area is roughly bordered on the south and west by the Platte River, on the north by Highway 92, and on the east by Highway 50. The specific census tracts included in the assessment area are listed in the table below and include two in Douglas County and three in Sarpy County, Nebraska. Four of the census tracts are classified as middle-income, while the fifth is an upper-income tract that lies immediately north of Gretna in Douglas County. Much of the area is either farmland or undeveloped land, with small towns scattered throughout.

As of the 1990 census, there were 24,499 persons in the assessment area, which constituted 3.8 percent of the MSA population. Gretna is in Sarpy County and has an estimated current population of approximately 2,400, but local businesses service an area of about 6,000 persons. The census tract where the bank is located (tract 106.09) has the smallest population of the five tracts and the fewest families and households. The assessment area is more affluent than the MSA overall, with median family and household incomes that exceed the MSA medians by 19 percent and 32 percent, respectively.

The following two tables summarize various demographic data for the area. The first table shows the population, number of families and households, and median incomes for each of the census tracts in the assessment area and the MSA. The second table shows the percentage of families and households in the assessment area by low-, moderate-, middle-, and upper-income designations. All data are as of 1990.

1990 Demographics for Assessment Area Census Tracts and MSA

	# 75.01	# 75.03	# 106.09	# 106.10	# 107.00	MSA
Population	5,098	3,546	8,830	2,893	4,132	639,580
Number of Families	1,465	1,011	2,364	772	1,201	168,528
Number of Households	1,905	1,097	2,756	942	4,096	240,250
Median Family Income	\$36,470	\$64,912	\$41,166	\$40,714	\$42,532	\$36,011
Median Household Income	\$31,596	\$63,516	\$39,809	\$35,833	\$38,514	\$30,259

Percentage of Families and Households by Income Level (Relative to 1990 Median Incomes for Assessment Area)

	Total Number	Percentage by Income Level			
		Low	Moderate	Middle	Upper
Families in Assessment Area (Based on median of \$42,939)	6,813	9.7	13.6	27.1	49.6
Households in Assessment Area (Based on median of \$39,850)	8,104	11.3	12.0	19.5	57.2

The Omaha area has a strong economy and a very low unemployment rate compared to the national average. Sarpy County, where the bank is located and where its lending is concentrated, has lost government sector jobs due to layoffs at nearby Offutt Air Force Base.

However, there have been strong gains in the wholesale trade and construction sectors, the latter fueled largely by the demand for new homes. Planners for Gretna and Sarpy County have approved residential developments that would add 1,000-1,800 new middle- and upper-priced homes in and around Gretna over the next ten years. Many of the young families

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moving to the area are employed in white collar jobs and 90 percent of residents commute to Omaha. One outside source estimated that 50 percent of the commuters bank near where they work rather than in Gretna.

Existing housing stock in the assessment area is in generally good condition, but pressures from the population growth make housing available only at premium prices. Estimates are that the lowest priced homes in Gretna are in the \$58,000-\$65,000 range, and 40 year-old homes with 1,000 square feet are currently selling for \$78,000-\$85,000. Gretna has three subsidized apartment buildings that are relatively new. The availability of affordable housing is expected to become a more critical issue if these trends continue, but there are no plans by the public or private sectors to build more affordable single- family or multifamily housing.

Most of the businesses in the immediate tracts around the bank are classified as small (having annual gross revenues of \$1 million or less). The number of large establishments can be expected to grow as the MSA population expands to the western and southern sectors of the MSA. Due to the proximity to Omaha and its primary suburbs, the number of large businesses adjacent to the assessment area is higher than would typically be seen in a small town.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:

Two factors combined to influence the bank's rating. First, the bank is located in what is still a small town, despite its evolution into a bedroom community. Because the assessment area is more comparable to a rural community than to a suburban area of an MSA, the bank's performance was analyzed in this context. Second, market forces are directing community development efforts toward meeting the demand for new, middle- and upper-priced homes. These same forces reduce opportunities for making home loans to low- and moderate-income borrowers.

LENDING TEST

Three loans products --- residential mortgage loans, small business loans, and small farm loans --- were reviewed to determine the bank's lending performance within its assessment area. Each specific performance criteria analyzed is discussed separately below. Since there are no low- or moderate-income census tracts in the bank's assessment area, the geographic distribution of loans was not a major factor in evaluating the bank's record under this test. Factors that weighed most heavily were the percentage of loans made inside the assessment area, the percentage of residential mortgage loans made to low- and moderate-income borrowers, the percentage of business loans made to small-sized businesses, and the percentage of small-dollar business loans made. Because residential mortgage loans are most in demand, primary emphasis was placed on the bank's home loan performance.

Lending In and Out of the Assessment Area

As evidenced in the table below, the majority of the loans originated in 1996 were made within the bank's assessment area. Loans made outside the assessment area were primarily in nearby census tracts or block numbering areas to the west and northeast. The proportion of lending inside and outside the assessment area is good, given the small geography covered by the five tracts within the assessment area relative to the size of the MSA. Most of the bank's lending is concentrated in two of the five census tracts: 106.09 and 106.10. These are the tracts immediately surrounding the bank.

The residential mortgage loan figures were taken from the bank's 1996 HMDA LAR and exclude an estimated 100 loans sold on the secondary market. Data for small business and small farm loans were taken from the bank's 1996 report on small business and small farm lending, with minor adjustments for loans not reported.

Lending In/Out of Assessment Area

Loan Type	Totals	In Assessment Area		Outside Assessment Area	
		Number and Dollars	Percent of Total	Number and Dollars	Percent of Total
Residential Mortgage Loans:					
Number of Loans	36	27	75	9	25
Dollars Loaned (in thousands)	\$1,629	\$1,220	75	\$409	25
Business Loans:					
Number of Loans	75	63	84	12	16
Dollars Loaned (in thousands)	\$5,824	\$4,872	84	\$952	16
Farm Loans:					
Number of Loans	20	17	85	3	15
Dollars Loaned (in thousands)	\$991	\$907	92	\$84	8

Lending to Borrowers of Different Incomes and Businesses/Farms of Different Sizes

Residential Mortgage Loans:

The bank's 1996 HMDA data showed good penetration among borrowers with low and moderate incomes, with the percentage of loans made to these borrowers exceeding their representation within the assessment area.

Residential Mortgage Loans by Borrower Income

	Borrower's Income Level (Relative to 1990 Median Family Income)			
	Low	Moderate	Middle	Upper
Percentage of Loans	14	22	36	28
Percentage of Dollars Loaned	11	14	33	42
Percentage of Families in Assessment Area	9.7	13.6	27.1	49.6

Although the above data are based on borrowers' current income relative to the 1990 median family income for the assessment area, personal incomes for the two counties within the area increased by an average of 20 percent between 1990 and 1994. A current median income figure is not available, but assuming that it has increased since 1990, the percentage of loans to low- and moderate-income borrowers is likely understated. Most of the dollars loaned were to borrowers in the middle- and upper-income categories. This is a function of loan demand being primarily for homes in these price ranges and was not regarded as a negative performance factor for the bank. Few low- or moderate-priced homes have been on the market, according to outside contacts.

Loans to Small Businesses:

The bank's 1996 small business/small farm loan report was used to determine the extent of lending to these entities. As the data below indicates, the majority of business-purpose loans are being made to small businesses. The percentage of loans to small businesses would be somewhat low for a bank in a strictly rural community. However, given the bank's proximity to a large city, it would be expected that its percentage would be lower, as more of the businesses in the assessment area are likely to have annual gross revenues exceeding \$1 million. Dollars

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loaned were almost evenly split between small and large businesses, but most of the loans are for small dollar amounts. Further analysis of the loan sizes showed that the small-dollar loans are being made to small businesses.

Lending To Small Businesses

By Size of Business (Gross Revenues <= \$1 Million and > \$1 Million)				
	No. of Loans	Percent of Total	\$ Loaned (in thou.)	Percent of Total
Loans to Small Businesses	57	76	\$2,996	51
Loans to Large Businesses	18	24	\$2,828	49
TOTALS	75	100	\$5,824	100

By Size of Loan (In Thousands of Dollars)						
	<= \$100	> \$100 - <= \$250	> \$250 - <= \$500	> \$500 - <= \$1000	> \$1000	Total
Number of Loans	59	14	2	0	0	75
Percentage of Loans	78	19	3	0	0	100

Loans to Small Farms:

There are few farmers in the assessment area, but the bank lends more farm-related dollars than do its closest peer banks in the same area. Data for 1996 show that all of the agricultural loans were made to small farming operations.

Lending To Small Farms

By Size of Business (Gross Revenues <= \$1 Million and > \$1 Million)				
	No. of Loans	Percent of Total	\$ Loaned (in thou.)	Percent of Total
Loans to Small Farms	20	100	\$991	100
Loans to Large Farms	0	0	\$ 0	0
TOTALS	20	100	\$991	100

By Size of Loan (In Thousands of Dollars)					
	<= \$100	> \$100 - <= \$250	> \$250 - <= \$500	> \$500	Total
Number of Loans	18	2	0	0	20
Percentage of Loans	90	10	0	0	100

Geographic Distribution of Loans:

Because there are no low- or moderate-income census tracts in the bank's assessment area, the geographic distribution of loans had less importance in evaluating the bank's overall lending performance. The levels of lending in middle- and upper-income census tracts are in proportion to the percentage of these tracts in the assessment area and the population breakdown. Consequently, a meaningful analysis of the geographic distribution of loans by income level of census tracts was not possible.

Lending by Income Level of Census Tracts

	Income Level of Census Tracts (Relative to 1990 Median Family Income)			
	Low	Moderate	Middle	Upper
Percent of Census Tracts	0	0	80	20
Percent of Population	0	0	86	14
Residential Mortgages: Percent of Loans Dollars Loaned (in thousands)	0 N/A	0 N/A	92 \$1,500	8 \$129
Small Business Loans: Percent of Loans Dollars Loaned (in thousands)	0 N/A	0 N/A	85 \$5,523	15 \$301
Small Farm Loans: Percent of Loans Dollars Loaned (in thousands)	0 N/A	0 N/A	85 \$861	15 \$130

Responsiveness to Credit Needs of Low-Income Persons and Small Businesses

This is regarded as a weak part of the bank's lending test performance, although it is somewhat due to market forces driving up home prices, thus making it more difficult for low-income borrowers to qualify even for the lowest-priced homes. The bank recently made its first loan under a guaranteed rural housing loan program developed by the Nebraska Investment Finance Company (NIFA). The program is designed for first-time home buyers with low or moderate incomes and who are buying low- and moderate-priced homes. No down payment is required and a higher debt-to-income ratio is permitted.

The bank also offers home loans insured by the Veterans Administration (VA) and the Federal Housing Administration (FHA). However, none of the seven VA and FHA loans made by the bank in 1996 were to low-income borrowers. Privately insured loans with down payments as low as 5 percent are also available through the bank. These loans are sold to investors and

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therefore not reflected in the bank's residential mortgage loan data. Although the borrower must pay for the loan insurance, whether through the VA, FHA, or private companies, this is offset by lower down payment requirements for these loans, which is more often an obstacle for lower income persons wanting to buy a home.

Lenders can participate in a variety of county, state, and federal programs designed to finance small businesses and farms. However, except for Small Business Administration (SBA) loans, the bank does not offer any of these special credit programs.

Community Development Loans

The absence of low- and moderate-income areas and the small number of businesses and farms in the assessment area limit the bank's opportunities for making community development loans. Since the bank's last CRA performance evaluation in December 1995, only one SBA loan has been originated. As mentioned above, one loan was made under the NIFA program that is designed to provide financing for affordable housing.

Product Innovation

Loan products offered by the bank are those typically offered by banks of similar size and location and, thus, are not regarded as especially innovative in terms of assisting low-income persons or very small businesses and farms. However, the bank has recently begun participating in NIFA's affordable housing loan program.

INVESTMENT TEST

The bank had no investments that qualify under the definition of community development investments. Since the assessment area has no low- or moderate-income census tracts and only limited business growth at this time, there are few opportunities for making qualified investments.

Investment and Grant Authority

Much of the investment portfolio not pledged against public deposits is invested in mortgage-backed securities sold on the secondary mortgage market. These securities do not specifically involve affordable housing, nor target low- and moderate-income persons and, therefore, are not qualified investments. The bank's investment portfolio includes some municipal bonds, but none involve affordable housing, financially aid small businesses or farms, or promote economic revitalization.

Responsiveness to Community Development Needs

Most of the qualified investment opportunities within the bank's assessment area involve organizations that help to finance or attract businesses or that generally attempt to promote economic development. Community contacts indicated that affordable housing will become more of an issue in the future. However, public and private sector development efforts are being directed at meeting the infrastructure demands generated by the new housing developments, and these are being largely financed through facilities charges on new home lots or through bond issues that would not meet the definition of a "qualified investment."

Community Development Initiatives

Gretna State Bank has not initiated or participated in any qualified community development programs since its previous CRA evaluation.

SERVICE TEST

Gretna State Bank's product delivery systems meet the needs of the assessment area. Due to the income level of the bank's assessment area and the fact that much of the area is yet undeveloped, opportunities for providing community development services are limited.

Accessibility of Delivery Systems

The bank's only full-service office is reasonably accessible to those portions of the assessment area most likely to conduct business in Gretna. Lobby hours are 9 a.m. to 5 p.m. Monday through Friday and 8:30 a.m. to 4:30 p.m. on Saturday. Drive-up hours are 7 a.m. to 7 p.m. Monday through Friday and 8 a.m. to 1 p.m. on Saturday. Loan applications can be made after hours with an appointment. For customers unable to come to the bank in person, telephone and home computer-based banking are available. In addition, overdraft checking accounts are provided. The bank also offers ATM and debit cards, both of which allow access to deposit accounts at retail locations.

Community Development Services

A bank officer serves on the board of the Sarpy County Economic Development Corporation, which attempts to attract new businesses to the area. The organization does not limit itself to small businesses, however, and its geographic coverage extends beyond the bank's assessment area. Bank officers also provide farmers with ongoing technical assistance in analyzing their financial condition and planning. This service is offered only to farmers who

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borrow from the bank. Annually, a bank official speaks to local high school students about managing their finances.

APPENDIX A

SCOPE OF EXAMINATION Gretna State Bank		
TIME PERIOD REVIEWED		12/18/95 - 03/24/97
FINANCIAL INSTITUTION		
NAME		PRODUCTS REVIEWED
Gretna State Bank Gretna, Nebraska		Residential Mortgage Loans Small Business Loans Small Farm Loans
AFFILIATES	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Archer, Inc., Central City, NE Osceola Insurance, Inc., Central City, NE First National Bank of Osceola, Osceola, NE Pinnacle Bancorp, Inc., Central City, NE The First Security Bank of Craig, Craig, CO The First Security Bank, Fort Lupton, CO Bank of Colorado - Western Slope, Grand Junction, CO Bank of Colorado - Front Range, Windsor, CO First National Bank, Abilene, KS The Farmers State Bank and Trust Company, Aurora, NE Crete State Bank, Crete, NE Farmers State Bank and Trust Company, Lexington, NE Havelock Bank, Lincoln, NE First United Bank, Neligh, NE State Bank, Palmer, NE Pinnacle Bank, Papillion, NE Schuyler State Bank and Trust Company, Schuyler, NE The First National Bank, Shelby, NE Western Bank of Cody, Cody, WY	Bank holding company Subsidiary BHC Subsidiary of same BHC as bank Affiliated BHC Subsidiary affiliate BHC Subsidiary affiliate BHC Subsidiary affiliate BHC Subsidiary affiliate BHC Subsidiary affiliate BHC Subsidiary affiliate BHC Subsidiary affiliate BHC Subsidiary affiliate BHC	Affiliate products were not reviewed nor taken into account in evaluating Gretna State Bank's performance.

First Security Bank, Newcastle, WY Citizens Bank and Trust Company, Torrington, WY	Subsidiary affiliate BHC Subsidiary affiliate BHC		
First National Bank, Worland, WY Central Grain, Inc., Central City, NE Farmers National Bank of Central City, Central City, NE Dinsdale Brothers, Inc., Central City, NE First Security Bank, Mitchell, NE The First National Bank of Wisner, Wisner, NE Guaranty Corporation, Denver, CO Guaranty Bank and Trust Company, Denver, CO Pinnacle Bancorp, Iowa, Sioux City, IA Morningside Bank and Trust, Sioux City, IA	Subsidiary affiliate BHC Affiliated BHC Subsidiary affiliate BHC Affiliated BHC Subsidiary affiliate BHC Subsidiary affiliate BHC Affiliated BHC Subsidiary affiliate BHC Affiliated BHC Subsidiary affiliate BHC		
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
MSA 5920, Omaha, NE-IA, census tracts: 75.01 75.03 106.09 106.10 107.00		Not Applicable	

APPENDIX B

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, ascertaining and helping to meet the credit needs of its entire delineated 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 ascertaining and helping to meet the credit needs of its entire delineated community, 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 ascertaining and helping to meet the credit needs of its entire delineated community, 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 ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.