

PUBLIC DISCLOSURE

April 28, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Commercial Bank
15419**

**403 Bailey Street, Post Office Box 367
Stratton, Nebraska 69043**

Federal Deposit Insurance Corporation

**2345 Grand Avenue, Suite 1500
Kansas City, Missouri 64108**

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 **Commercial Bank, Stratton, Nebraska**, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **April 28, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The bank has maintained a net eight quarter average loan-to-deposit ratio of 64 percent. The bank's ratio is reasonable considering area loan demand, credit products offered, and in comparison to other similarly-situated lenders. A sample of agricultural loans originated in the six months prior to this evaluation revealed a substantial majority of the bank's loans are located within its assessment area. The sample also revealed excellent performance in lending to farms of different sizes. The bank has not received any CRA complaints since the previous evaluation.

DESCRIPTION OF INSTITUTION

The Commercial Bank operates one office in Stratton, Nebraska. This office is open Monday through Friday from 9:00 a.m. to 4:00 p.m. The bank had total assets of \$13,107,000 as of December 31, 1997. The bank's December 31, 1997, Report of Condition indicates the bank's loan portfolio is primarily invested in agricultural loans. The bank also offers consumer loans, commercial loans, residential real estate loans, Nebraska energy loans, Farm Service Agency guaranteed farm loans, and Small Business Administration guaranteed loans. The following table includes a breakdown of the bank's loan portfolio as of the December 31, 1997, Report of Condition.

| LOAN PORTFOLIO MIX (12/31/97) | | |
|--------------------------------------|---------------------------------|--|
| Loan Type | Dollar Volume (000s) | Percentage of Total Portfolio |
| Agricultural | \$6,042 | 74% |
| Commercial | 1,011 | 12% |
| Consumer | 774 | 9% |
| 1-4 Family Residential Real Estate | 346 | 4% |
| All other | 35 | 1% |
| TOTAL | \$8,208 | 100% |

The bank is capable of funding local credit needs consistent with its size, financial condition, location, and local economic conditions. The bank is also capable of participating loans to other financial institutions to accommodate larger borrowers whose request may exceed the bank's legal lending limit. Management did not identify any legal impediments that would inhibit the bank's willingness and ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

A bank must delineate one or more assessment areas within which the FDIC evaluates the bank's record of helping to meet the credit needs of its assessment area. The assessment area must consist of whole geographies; such as, Metropolitan Statistical Areas (MSAs), Census Tracts, Block Numbering Areas (BNAs), or counties, and may not reflect illegal discrimination or arbitrarily exclude low- or moderate-income geographies.

The bank's assessment area includes all of Dundy (BNA 9623) and Hitchcock (BNA 9627) Counties. The bank is located in Hitchcock County. The assessment area is rural and the economy is largely dependent upon agriculture. Management indicated the area farmers had a fair year in 1997, and the economy is stable.

The entire assessment area is designated as middle-income. A middle-income BNA is defined as an area which has a median family income between 80-120 percent of the 1990 Nebraska non-metropolitan median family income of \$27,623. According to 1990 Census data, the population of the assessment area is 6,332. According to a local individual, additional housing units are needed in the assessment area. Limited homes are currently for sale or rent, which limits the possibility of new families moving to the area. Major employers in the area include League Builders Supply, Farmers COOP, the local school system, Dundy County Hospital, and nursing homes in Benkelman and Trenton.

The bank has several competitor banks in the assessment area, including three main offices and one branch office located in the assessment area. Numerous financial institutions are also located in counties surrounding the assessment area. Management also indicated that competition from Farm Credit Services has steadily increased. Reportedly, Farm Credit Services is able to offer favorable loan terms to the bank's agricultural customers, and the bank has lost business due to this.

The following table includes demographic data obtained from the 1990 census for the assessment area.

| 1990 Demographic Data | | | | | | |
|------------------------------|------------|--------------------|----------------------|---------------------------|----------------------|---------------------|
| Geography | Population | Number of Families | Median Family Income | Housing: % Owner Occupied | Median Housing Value | Housing: Median Age |
| BNA 9623 | 2,582 | 702 | \$26,020 | 56.90% | \$23,900 | 49 years |
| BNA 9627 | 3,750 | 1,003 | \$23,861 | 59.20% | \$23,200 | 54 years |

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio Analysis

The bank has maintained a 64 percent net average loan-to-deposit ratio over the last eight quarters, which is reasonable when compared to other similarly-situated lenders, area demographics, and loan demand. The December 31, 1997, Report of Condition indicates the bank had a net loan-to-deposit ratio of 69 percent.

The following table includes subject bank and other similarly-situated lenders' total assets and loan-to-deposit ratios as of December 31, 1997, and the eight quarter net average loan-to-deposit ratios. The other similarly-situated lenders were selected based on proximity to the subject bank, total assets, and loan mix. The other similarly-situated lenders are listed in alphabetic order by location to avoid the appearance of ranking.

| Loan-to-Deposit Ratio Comparison | | | |
|---|------------------------|-----------------------|----------------------|
| Financial Institution | Assets 12/31/97 | 12/31/97 Net Ratio | 8 Quarter Average |
| <i>Commercial Bank, Stratton, NE</i> | <i>\$13,107</i> | <i>69%</i> | <i>64%</i> |
| State Bank, Benkelman, NE | \$32,009 | 75% | 74% |
| The Culbertson Bank, Culbertson, NE | \$13,863 | 58% | 57% |
| First State Bank, Enders, NE | \$29,277 | 88% | 89% |
| State Bank of Trenton, Trenton, NE | \$15,049 | 75% | 79% |
| Wauneta Falls Bank, Wauneta, NE | \$26,844 | 87% | 89% |

The banks in Stratton and Culbertson are stand-alone banks with no affiliate relationships; the Benkelman, Enders, Trenton, and Wauneta banks have affiliate relationships with other banks. The different relationships account for some of the difference in loan-to-deposit ratios due to increased lending opportunities and resources.

Agricultural Loan Sample

Agricultural loans originated in the six months prior to the date of this evaluation were sampled to determine the bank's performance in lending inside the assessment area and lending among farms of different revenue sizes. Agricultural loans were selected because they represent 74 percent of the bank's loan portfolio. The universe included 102 agricultural loans totaling \$2,863,883. The sample, based on a 90 percent confidence level with a +/- 15 percent precision, included 31 loans totaling \$1,287,647.

Loans in the Assessment Area

The agricultural loan sample revealed a substantial majority, 94 percent of the number and 99 percent of the dollar volume, of the bank's loans are located inside the assessment area. The following table displays the bank's agricultural lending in the assessment area.

| Loans Extended To Farms Inside The Assessment Area (AA) | | | |
|--|-------------------------------|---|---------------------------------------|
| Number of Loans in AA/Number Sampled | Percent of Loans in AA | Dollar Amount of Loans in AA/Total Sampled (000's) | Percent of Dollar Amount in AA |
| 29/31 | 94% | \$1,280/\$1,288 | 99% |

Loans to Small Farms

The bank's lending to farms of different revenue sizes reflects strong performance. According to bank management, a small farm for the assessment area would include farms with gross revenue less than \$250,000. The loan sample revealed that 86 percent of the number and 46 percent of the dollar volume of loans were extended to farms with gross revenues under \$250,000. The bank's lending to different-sized farms favorably compares to the 1992 Agricultural Census Data. The 1992 Agricultural Census Data indicated that 88 percent of the farms in the assessment area had less than \$250,000 in gross revenue, and this group accounted for 35 percent of the total sales in the assessment area. The tables on the following page include a breakdown of the loan sample among the different revenue categories and a breakdown of the 1992 Agricultural Census data.

Agricultural Loan Sample

| Bank's Record of Lending to Farms of Different Sizes in the Assessment Area | | | | |
|--|-----------------|-------------------|---------------|--------------------|
| Revenue | Number of Loans | % of Total Number | Dollar Volume | % of Total Dollars |
| \$0 to \$50,000 | 7 | 24% | \$50,510 | 4% |
| \$50,000 to \$99,999 | 8 | 28% | \$231,938 | 18% |
| \$100,000 to \$249,999 | 10 | 34% | \$303,200 | 24% |
| \$250,000 to \$499,999 | 4 | 14% | \$685,000 | 54% |
| \$500,000+ | 0 | 0% | 0 | 0% |
| Totals | 29 | 100% | \$1,280,647 | 100% |

1992 Agricultural Census Data - Dundy and Hitchcock Counties

| Gross Revenues (000s) | Number of Farms | Percentage of Farms | Percentage of Total Revenue in AA |
|------------------------|-----------------|---------------------|-----------------------------------|
| \$0 to \$50,000 | 326 | 47% | 5% |
| \$50,000 to \$99,999 | 140 | 20% | 10% |
| \$100,000 to \$249,999 | 142 | 21% | 20% |
| \$250,000 to \$499,999 | 48 | 7% | 15% |
| \$500,000+ | 31 | 5% | 50% |
| Totals | 687 | 100% | 100% |

Geographic Distribution of Loans

The entire assessment area is designated as middle-income; therefore, the geographic distribution of loans was not reviewed.

CRA Complaints

The bank has not received any CRA-related complaints since the previous evaluation.

Compliance with Anti-Discriminatory Regulations

Examiners noted no substantive violations of the anti-discriminatory regulations during the evaluation. The bank has adequate policies and procedures to prevent the occurrence of substantive violations of the anti-discriminatory regulations.