

PUBLIC DISCLOSURE

February 16, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First State Bank
13868**

**655 Chestnut Street
Hickman, Nebraska 68372**

Federal Deposit Insurance Corporation

**2345 Grand Boulevard
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 **First State Bank, Hickman, Nebraska**, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **February 16, 1999**. 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.

First State Bank has an excellent record of meeting the needs of its entire community. The average net loan-to-deposit ratio is very strong given the institution's size, financial condition, and the assessment area's apparent credit needs. Statistical real estate and agricultural loan samples revealed excellent levels of lending inside the bank's assessment area and excellent lending levels to persons and farms of different incomes. The bank has a satisfactory record of lending throughout the bank's assessment area.

DESCRIPTION OF INSTITUTION

First State Bank is located in southeastern Lancaster County, with its main office in Hickman, Nebraska. The institution is owned by Hickman Corporation, a one-bank holding company. Lincoln, Nebraska, is within fifteen miles of Hickman. The bank's total assets as of the December 31, 1998, Report of Condition were \$39,708,000. There are no financial, legal, or economic impediments to the institution's ability to meet the credit needs of its local community. The institution's product offerings are considered capable of meeting the needs of the community. The bank's loan portfolio as of December 31, 1998, is depicted in the following chart.

COMPOSITION OF LOAN PORTFOLIO		
Loan Type	Dollar Amount (In 000's)	Percent of Total Loans
Residential Real Estate	\$7,602	27.6%
Agricultural	\$7,591	27.5%
Commercial	\$6,584	23.9%
Consumer	\$2,492	9.1%
Other	\$3,267	11.9%

The bank's main office is located in CT 104, which is a middle-income area, while the bank's branch office at 4915 Old Cheney Road is located in CT 37.05, which is an upper-income area. Information from the December 31, 1998, Report of Condition and Income revealed that First State Bank possesses 1.52 percent of the total deposits and 1.41 percent of the total assets in Lancaster County.

DESCRIPTION OF ASSESSMENT AREA

The bank has designated its assessment area as Lancaster County, which represents the Lincoln, Nebraska, Metropolitan Statistical Area (MSA). The county is located in southeast Nebraska, and has a population of 213,641. Lincoln is located in the center of Lancaster County and has a population of 191,972. The county's population is largely urban as 89.9 percent of the residents live in Lincoln. Excluding Lincoln, the largest community in Lancaster County is Waverly, which has a population of 1,869. The population of Hickman is 1,081. Lincoln is located approximately 50 miles southwest of Omaha and is the Nebraska State Capital. Further, Lincoln has a large student population as it is the home of The University of Nebraska-Lincoln, Nebraska Wesleyan University, and several other small colleges.

Lancaster County is divided into 52 Census Tracts (CTs). Of the 52 census tracts within the assessment area, four encompass a university, penitentiary, industrial area, and airport. These tracts contain no households or a limited number of households and are not assigned an income index based on median family income. These tracts were excluded from all analysis. There are 3 low-income¹, 12 moderate-income², 24 middle-income³, and 9 upper-income⁴ tracts in the assessment area. The Lincoln MSA's 1990 median family income was \$36,467.

Lancaster County's economy is healthy, stable, and diverse. According to the Nebraska Department of Labor, the county's 1997 unemployment rate was a low 2.2 percent. Major employers in the area include: The University of Nebraska (9,612 employees), Lincoln Public Schools (4,554), Bryan Memorial Hospital (2,105), Lincoln City Government (1,920), and Goodyear Tire and Rubber (1,719). Also, Lancaster County's financial industry is very competitive, with approximately 20 commercial banks and savings institutions located throughout the county. These 20 financial institutions have 92 offices located in Lancaster County. Sixteen of the twenty commercial banks and savings institutions are based in Lincoln.

Lancaster County's population has increased noticeably since 1990. According to the U.S. Department of Commerce, Bureau of the Census, Lancaster County's population has increased from 213,641 in 1990 to an estimated 233,310 in 1997. These numbers represent a 9.2 percent increase in population. Comparatively, the State of Nebraska's population increased an estimated 5 percent over the same time period. In addition, Lancaster County's per capita personal income has increased faster than the State average. The U.S. Department of Commerce, Bureau of

¹A low-income area is defined as an area in which the median family income is less than 50 percent of the MSA's median family income.

²A moderate-income area is defined as an area in which the median family income is between 50 and 79 percent of the MSA's median family income.

³A middle-income area is defined as an area in which the median family income is between 80 percent and 119 percent of the MSA's median family income.

⁴An upper-income area is defined as an area in which the median family income is greater and 119 percent of the MSA's median family income.

Economic Analysis, reported that Lancaster County's per capita personal income increased 27.1 percent from 1990 to 1995. Comparatively, the State of Nebraska's per capita personal income rose 21.8 percent. Lancaster County's 1995 per capita income (\$22,446) is higher than the State of Nebraska's per capita income (\$21,385). The following table provides additional income and labor data on Lancaster County.

DEMOGRAPHIC DATA - 1990 CENSUS							
Geography	Households	Households that are Families	Median Family Income	Labor Force (as a % of total persons 16 or older)	Median Housing Value*	Minority Population	Aged 65+ (as a % of total population)
Lancaster County	82,836	64.4%	\$36,467	72.8%	\$61,845	5.8%	10.9%
Nebraska	602,858	69.4%	\$31,634	68.3%	\$50,042	7.4%	14.1%

Source: U.S. Bureau of the Census

* Median Housing Value is based on owner-occupied units

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

I. LOAN-TO-DEPOSIT ANALYSIS

First State Bank's average net loan-to-deposit ratio since the previous evaluation was analyzed. The average ratio was determined by adding the quarterly loan-to-deposit ratios and dividing by the number of quarters as reflected on the Reports of Condition beginning September 30, 1996. The bank's ten-quarter average loan-to-deposit ratio is 78.90 percent which is considered very strong. Loan-to-deposit ratio levels ranged from a low of 73.98 percent on September 30, 1996, to a high of 84.64 percent on September 30, 1998. The bank's loan-to-deposit ratio as of December 31, 1998, was 78.25 percent.

The following chart depicts the bank's ten-quarter average loan-to-deposit ratio compared to similarly situated lenders. Similarly situated lenders were chosen based on factors such as asset size, similar or overlapping assessment areas, or similar loan portfolio compositions. These institutions are listed in alphabetical order to eliminate the appearance of ranking.

SIMILARLY SITUATED LENDERS		
Bank Name	Total Assets (December 31, 1998) (000's)	10 Quarter Loan-to- Deposit Ratio
<i>First State Bank Hickman, Nebraska</i>	<i>\$39,708</i>	<i>78.90%</i>
Farmers State Bank of Nebraska Bennet, Nebraska	\$44,107	77.74%
The Martell State Bank Martell, Nebraska	\$44,711	81.30%
Farmers Bank Lincoln, Nebraska	\$12,744	78.65%
Lancaster County Bank Lincoln, Nebraska	\$30,254	88.65%

First State Bank also sells residential real estate loans on the secondary market. These loan sales are not included in the above loan-to-deposit ratio and enhance the bank's lending performance. From January 1, 1997, to December 31, 1998, the bank booked and sold 27 loans totaling \$2,416,000 to the secondary market.

SAMPLING PROCEDURES

Examiners reviewed an agricultural loan sample and the 1997 and 1998 Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) to assess the following factors:

- percentage of loans inside/outside the assessment area
- geographic distribution of the loan sample
- record of lending to borrowers of different incomes and to farms of all sizes

Agricultural Loan Sample

The agricultural loan sample was taken from a universe of all agricultural-related loans originated between August 12, 1998, and February 12, 1999. Agricultural-related credits are defined as loans for operating expenses, livestock, machinery and equipment purchases, and land acquisitions. First State Bank originated 51 agricultural related credits totaling \$1,214,803 between August 12, 1998, and February 12, 1998. A random sample of 26 agricultural loans was chosen from the universe of 51 loans.

Residential Real Estate Sample

The bank's 1997 and 1998 HMDA LAR was used as the residential real estate sample. The bank's 1997 and 1998 LAR included 153 residential real estate loan originations totaling \$9,372,000.

II. LENDING TO BORROWERS IN THE ASSESSMENT AREA

Examiners reviewed the agricultural and residential real estate samples to determine the percentage of loans within the bank's assessment area. The review revealed that the vast majority of the bank's agricultural and residential real estate loan originations are within its assessment area. Specifically, 25 of the 26 agricultural loans (96 percent) were within the bank's assessment area. In addition, 140 of the 152 residential real estate loans (92 percent) were within the bank's assessment area. These results suggest that the bank is extending the vast majority of its loans within the assessment area. The following table shows the percentage of loans inside and outside the assessment area.

LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA

Loan Sample	Inside Assessment Area				Outside Assessment Area			
	Number	Percent	Dollar	Percent	Number	Percent	Dollar	Percent
HMDA loans	140	92.1	\$8,307,000	90.2	12	7.9	\$900,000	9.8
Agricultural	25	96.2	\$580,276	99.0	1	3.8	\$6,000	1.0

III. LENDING TO BORROWERS OF ALL INCOMES AND FARMS OF ALL SIZES

Residential Real Estate Loans

Examiners further analyzed the residential real estate loan sample to determine whether management is lending to borrowers of different income levels. The analysis was based on the 140 residential real estate loans extended in the assessment area. Examiners utilized the Department of Housing and Urban Development's estimated 1997 and 1998 median family income to determine the applicable income categories. The estimated 1997 and 1998 median family incomes were \$49,100 and \$51,900, respectively.

The following table details the income distribution for the 140 residential real estate loans within the bank's assessment area.

INCOME DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS SAMPLED				
Borrower Income Level	Number of Loans	Percent by Number	Dollar Amount of Loans	Percent by Dollar
Low (<50%)	10	7.1%	\$281,000	3.4%
Moderate (50 to <80%)	32	22.9%	\$1,137,000	13.7%
Middle (80 to 120%)	45	32.1%	\$2,379,000	28.6%
Upper (>120%)	53	37.9%	\$4,510,000	54.3%
TOTAL	140	100%	\$8,307,000	100%

The above chart illustrates that 7 percent of the residential real estate loans were to low-income families and 23 percent were to moderate-income families. According to the 1990 Census, approximately 17 percent of the families inside the assessment area are low-income families and 19 percent are moderate-income families. Approximately 6 percent of these families are below the poverty level. The bank's level of lending is very strong considering the bank and the branch facility is at least five miles from a low- or moderate-income census tract. In addition, there are approximately 20 commercial banks and savings institutions located throughout Lancaster County. These 20 financial institutions have 92 offices located throughout the county.

Agricultural Loans

Examiners also analyzed the agricultural loan sample to determine whether management is lending to farms of all sizes. The analysis was based on the 25 agricultural loans extended in the assessment area. To determine farm sizes, examiners categorized each agricultural borrower according to their gross annual farm revenues. The borrowers' annual gross farm revenues were obtained from the bank's credit files. However, bank management provided estimates whenever the credit file did not contain the borrowers' gross farm revenues. The following table depicts the results of the analysis.

GROSS REVENUE DISTRIBUTION OF AGRICULTURAL LOANS SAMPLED						
Gross Farm Revenue	Sample		Sample		1997 Agricultural Census	
	Number of Loans	Percentage by Number	Dollar Amount of Loans	Percentage by Dollar	Percentage of Farms by Number	Percentage of Farms by Sales
under \$100,000	15	60.0%	\$209,776	36.2%	82.6%	23.6%
\$100,000 - \$249,000	8	32.0%	\$305,500	52.6%	11.5%	32.8%
\$250,000 - \$500,000	1	4.0%	\$35,000	6.0%	4.7%	27.8%
over \$500,000	1	4.0%	\$30,000	5.2%	1.2%	15.7%
TOTAL	25	100%	\$580,276	100%	100%	100%

Overall, 60 percent of all agricultural loans sampled were to farmers with gross farm revenues of less than \$100,000 per year. Furthermore, 92 percent of all agricultural loans sampled were to farmers with gross farm revenues of less than \$250,000 per year. These percentages are very strong when compared to the demographic composition of the bank's assessment area. The 1997 Agricultural Census indicates that approximately 83 percent of the number of farms in bank's assessment area reported gross annual revenues of less than \$100,000, and 94 percent of the farms in bank's assessment area reported gross annual revenues of less than \$250,000.

According to the 1997 Agricultural Census, the number of farms within the bank's assessment area increased from 1,359 in 1992 to 1,457 in 1997, or 7.2 percent. Furthermore, farms with gross annual revenues less than \$100,000 increased by 5 percent, going from 1,145 in 1992 to 1,204 in 1997.

IV. GEOGRAPHIC DISTRIBUTION

Examiners further analyzed the agricultural and residential real estate loan samples. The analysis

was based on the 140 residential real estate and 25 agricultural loans within the assessment area. The analysis revealed that the bank’s loans are reasonably distributed throughout the assessment area. The following chart illustrates the bank’s lending distribution based on geography type.

GEOGRAPHIC DISTRIBUTION OF REAL ESTATE & AGRICULTURAL LOANS SAMPLED								
Geography Type	Agricultural Loans				Residential Real Estate Loans			
	Number of Loans	Percent by Number	Dollar Volume (000)	Percent by Dollar	Number of Loans	Percent by Number	Dollar Volume (000)	Percent by Dollar
Low	1	.7	\$281,000	3.4	0	0	0	0
Moderate	8	5.8	\$1,137,000	13.7	0	0	0	0
Middle	114	81.4	\$2,379,000	28.6	25	100	\$580,276	100
Upper	17	12.1	\$4,510,000	54.3	0	0	0	0
TOTAL	140	100%	\$8,307,000	100%	25	100%	\$580,276	100%

The above chart illustrates that the vast majority of the bank’s loan originations are in middle-income areas. Specifically, 81 percent of the real estate loans and 100 percent of the agricultural loans were in middle-income geographies. The bank’s assessment area consist of 48 Census Tracts. Six percent of the geographies are low-income; twenty-five percent are moderate-income; fifty percent are middle-income; and nineteen percent are upper-income.

The are several factors which explain why the bank’s loans are concentrated in middle-income geographies. Firstly, neither the bank’s main office or branch facility are located within 5 miles of a low- or moderate-income geography. Since agricultural loan demand is low in urban areas, the bank has minimal opportunity to make agricultural loans in the low- and moderate-income areas. Moreover, there are numerous other competing financial institutions located in Lincoln, specifically in the low- and moderate- income tracts. Therefore, it is difficult for the bank to penetrate these markets.

V. RESPONSE TO COMPLAINTS

The bank has not received any CRA related or fair housing complaints since the last evaluation.