

PUBLIC DISCLOSURE

February 10, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Commercial State Bank
17171**

**Post Office Box 95
Elsie, Nebraska 69134**

Federal Deposit Insurance Corporation

**2345 Grand Boulevard, Suite 1500
Kansas City, MO 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 State Bank, Elsie, Nebraska**, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **February 10, 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**.

The bank's CRA performance displays an outstanding record of helping to meet the credit needs of its assessment area. The bank's rating is supported by the following:

- The bank's net loan-to-deposit ratio since the previous evaluation reflects an excellent level of response to community credit needs. The volume of loans has increased over \$1,900,000 since the previous evaluation.
- A substantial majority of the agricultural loans sampled are in the bank's assessment area.
- A review of agricultural loan originations inside the assessment area reveals an excellent penetration of loans to all sizes of farms, including small farms.

DESCRIPTION OF INSTITUTION

Commercial State Bank operates from a main office in Elsie, Nebraska. The area surrounding the bank is primarily rural and located in southwest Nebraska. The bank had total assets of \$9,971,000 as of September 30, 1998, and the loan portfolio is primarily invested in agricultural loans. The bank also offers consumer loans, commercial loans, residential real estate loans, Farm Service Agency guaranteed farm loans, and subsidized Nebraska Energy loans. The following table includes a breakdown of the bank's loan portfolio as of the September 30, 1998, Report of Condition.

LOAN PORTFOLIO MIX (09/30/98)		
Loan Type	Dollar Volume	% of Total Portfolio
Agricultural	\$6,493,000	83%
Commercial	\$584,000	7%
Consumer	\$605,000	8%
Residential Real Estate	\$153,000	2%
Other	\$12,000	--
TOTAL	\$7,847,000	100%

The bank is owned by Elsie, Inc., a one-bank holding company. The bank is able to fund 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 that may exceed the bank's legal lending limit. The bank also purchases local municipal bonds when available to invest funds that benefit the assessment area. Management did not identify any legal impediments that would inhibit the bank's willingness and ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA¹

The bank's assessment area includes all of Perkins County (BNA 9593), BNA 9590 in Keith County, and BNA 9606 in Lincoln County. The bank is located in east central Perkins County. The assessment area consists of two middle-income BNAs (9593 and 9590) and one upper-income BNA (9606). A middle-income BNA is defined as an area in which the median family income is between 80 and 120 percent and an upper-income BNA is above 120 percent of the 1990 Nebraska nonmetropolitan median family income of \$27,623. The median family income of the assessment area in 1990 was \$28,384

The economy of the assessment area is largely dependent upon agriculture. Irrigated and dry-land row crop production are the primary economic activities of the area, and current low grain prices are a concern for area farmers. Low livestock prices, particularly in the hog market, is also a concern. Low prices in the agricultural sector have a negative impact on the local businesses due to farming families having less spendable income.

Management and a local individual indicated that the population in the local area is declining due to an aging population and limited job availability. According to the 1990 Census, the population of the entire assessment area is 8,816. The population of Elsie, Nebraska is approximately 150. The median housing value is relatively low and most homes were built prior to 1940.

¹A bank must delineate one or more assessment areas within which the FDIC evaluates the bank's record of helping to meet the credit needs. The assessment area must consist of whole geographies, that is, Census Tracts or Block Numbering Areas (BNAs), and may not reflect illegal discrimination or arbitrarily exclude low- or moderate-income geographies.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's average loan-to-deposit ratio since the previous evaluation reflects an excellent level of response to the area's credit needs considering the size of the bank, loan demand, and in comparison to other similarly situated lenders². The bank has maintained an average loan-to-deposit ratio of 86 percent since the previous evaluation.

The following table includes the September 30, 1998, total assets and loan-to-deposit ratios and a ten quarter average loan-to-deposit ratio for subject bank and other similarly situated lenders. The comparable banks are listed in alphabetical order.

Loan-to-Deposit Ratio Comparison			
Financial Institution	Assets (000's) 09/30/98	09/30/98 Net Ratio	10 Quarter Average
<i>Commercial State Bank, Elsie, NE</i>	<i>\$9,971</i>	<i>88%</i>	<i>86%</i>
The Hershey State Bank, Hershey, NE	\$32,845	91%	90%
Bank of Paxton, Paxton, NE	\$15,412	80%	75%
Farmers State Bank, Wallace, NE	\$18,631	95%	87%

LENDING EVALUATION

The evaluation of the bank's lending performance is based upon a sample of agricultural loans originated in the previous six months from the date of this evaluation. Agricultural loans were selected for review because they represent 83 percent of the bank's loan portfolio. The sample consisted of 32 loans totaling \$648,967 from a universe of 108 loans totaling \$2,415,661. The sample was based on a 90 percent confidence interval with a +/- 15 percent precision.

LENDING INSIDE THE ASSESSMENT AREA

The bank's lending in the assessment area is excellent, as agricultural loans originated in the assessment area totaled 88 percent by number and 92 percent by dollar volume, respectively. The following table displays the bank's agricultural lending in the assessment area.

² Similarly situated lenders were selected based on total assets, proximity to subject bank's assessment area, and loan mix.

Loans Extended To Farms Inside The Assessment Area (AA)					
# of Loans in AA	# Sampled	% of Loans in AA	Dollar Amount of Loans in AA	Total Dollar Amount Sampled	% of Dollar Amount in AA
28	32	88%	\$599,790	\$648,967	92%

LENDING TO FARMS OF DIFFERENT SIZES

The sample of agricultural loans in the assessment area indicates an excellent penetration among farms of different sizes. The bank is lending to all sizes of farms, including small farms. Management stated that mid-sized farms are declining due to profitability and many smaller farms are relying on off-farm income to continue the operation. The average dollar volume of sales in the assessment area according to the 1997 Agricultural Census was \$191,061.

The loan sample revealed that approximately 82 percent of the number and 69 percent of the dollar volume of loans originated were extended to farms with gross revenues under \$250,000. The bank's lending compares favorably to the 1997 Agricultural Census data that indicates 85 percent of the farms in the assessment area have gross revenues under \$250,000. This group also accounted for 26 percent of the total sales volume in the assessment area according to 1997 data.

The following table includes a breakdown of the loans originated in the assessment area among the different revenue categories and a breakdown of the 1997 Agricultural Census data.

Bank's Record of Lending to Farms of Different Sizes in the Assessment Area (AA) Compared to 1997 Agricultural Census Data for the AA						
Revenue (000's)	Number of Loans	% of Total Number	% of Farms in AA ³	Dollar Volume of Loans	% of Total Dollars	% of Sales Volume in AA ⁴
\$0-49	13	47%	53%	\$144,865	25%	4%
\$50 to \$99	4	14%	13%	\$97,787	16%	5%
\$100 to \$249	6	21%	19%	\$169,683	28%	17%
\$250 to \$499	2	7%	9%	\$35,000	6%	16%
\$500+	3	11%	6%	\$152,454	25%	58%
Totals	28	100%	100%	\$599,789	100%	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

All of the BNAs in the bank's assessment area are middle- or upper-income; therefore, the geographic distribution of the bank's loans was not reviewed.

CRA COMPLAINTS

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

ANTI-DISCRIMINATION LAWS AND REGULATIONS

Examiners did not discover any substantive violations of the anti-discriminatory regulations during the evaluation.

³Represents the percentage of the number for each revenue range of farms in the AA according to 1997 Agricultural Census Data

⁴Represents the percentage of revenue for each revenue range of farms in the AA according to 1997 Agricultural Census Data