

PUBLIC DISCLOSURE

February 17, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First State Bank
Certificate Number 8603**

**348 Broadway
Imperial, Nebraska 69033**

Federal Deposit Insurance Corporation

**2345 Grand Boulevard, Suite 1200
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, Imperial, Nebraska**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **February 17, 2004**. 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 Satisfactory.

The bank's CRA performance, as supported by the following findings, depicts a satisfactory record of meeting the credit needs of its designated assessment area¹. The bank's primary business focus is agricultural lending; therefore, the bank's evaluation is based on the bank's agricultural lending.

- The bank's average net loan-to-deposit ratio of 80 percent since the previous evaluation reflects an adequate willingness to extend credit. The bank's September 30, 2003, net loan-to-deposit ratio was 69 percent, and the bank desires to make loans in its assessment area.

¹ *The Community Reinvestment Act requires financial institutions to identify one or more "assessment areas" within which the appropriate regulatory agency will evaluate the bank's CRA performance. Typically, an institution's assessment area will include the towns, counties, or other political subdivisions in which its offices are located and a substantial portion of its loans are made. Assessment areas must consist of one or more "census tracts," which are statistical subdivisions of a county. (Prior to the 2000 Census, rural geographies were referred to as block numbering areas and urban geographies were referred to as census tracts. Beginning with the 2000 Census, all geographies are now referred to as census tracts.) The assessment area may not reflect illegal discrimination or arbitrarily exclude low- or moderate-income geographies.*

In order to determine the income category for each geography located in the bank's assessment area, examiners compared the 2000 Census Bureau State of Nebraska non-metropolitan median family income of \$42,600 to the median family income for each CT.

| | |
|------------------------|--|
| <i>Low-income</i> | <i>Income of less than 50 percent of the area median family income (MFI)</i> |
| <i>Moderate-income</i> | <i>Income of at least 50 percent and less than 80 percent of the area MFI</i> |
| <i>Middle-income</i> | <i>Income of at least 80 percent and less than 120 percent of the area MFI</i> |
| <i>Upper-income</i> | <i>Income of at least 120 percent or more of the area MFI</i> |

- The bank’s lending in the assessment area is adequate, and a majority of the number of loans reviewed was located in the assessment area. Approximately 71 percent of the number of agricultural loans reviewed was located in the assessment area.
- The review of agricultural loans in the assessment area indicates an adequate penetration among farms of different sizes. The agricultural review found that 32 percent of the number of loans was extended to farms with less than \$250,000 in gross revenue, and the bank is lending to all sizes of farms.
- The bank’s geographic distribution of loans in the assessment area is reasonable. The assessment area includes only middle-income CTs, and most of the bank’s loans are located in or around Imperial, Nebraska.
- The bank has not received any CRA-related complaints since the previous evaluation.
- The bank has provided services in the community that are commendable, such as participation in the Cornerstone Edge Program and the local high school “In Charge” of credit program.

DESCRIPTION OF INSTITUTION

First State Bank operates from one office located in Imperial, Nebraska. The bank's main office was moved from Enders, Nebraska, to Imperial, Nebraska since the previous evaluation. The Enders office was also subsequently closed. Midwest Banco Corporation, a two-bank holding company, continues to own the bank. The bank's primary business focus is on agricultural lending, and the bank primarily serves Chase, Perkins, and Dundy Counties. According to the September 30, 2003, Report of Condition, the bank had total assets of \$28,299,000, and total loans of \$17,960,000. The bank offers credit and deposit services that are consistent with its size and geographic location. The following table presents the composition of the bank's loan portfolio as of September 30, 2003.

| Loan Portfolio Distribution | | |
|--|-----------------------------|-------------------------------|
| Loan Category | Dollar Amount (000s) | Percent of Total Loans |
| Construction and Land Development | \$363 | 2% |
| Secured by Farmland | \$2,471 | 14% |
| 1-4 Family Residential | \$1,299 | 7% |
| Multi-Family (5 or more) Residential | \$0 | 0% |
| Commercial | \$178 | 1% |
| Total Real Estate Loans | \$4,311 | 24% |
| Agricultural | \$11,232 | 63% |
| Commercial and Industrial | \$1,465 | 8% |
| Consumer | \$952 | 5% |
| Obligations of States and Political Subdivisions | \$0 | 0% |
| Other | \$0 | 0% |
| Lease Financing Receivables | \$0 | 0% |
| Gross Loans | \$17,960 | 100% |
| Less: Unearned Income | 0 | 0 |
| Total Loans | \$17,960 | 100% |

Source: Report of Condition

The bank's loan portfolio is representative of the financial institution's focus on agricultural lending, with 77 percent of the loan portfolio invested in agricultural production and agricultural real estate loans. In addition, the bank offers various types of consumer loans, home loans, and commercial loans.

Management did not identify any legal impediments that would inhibit the bank's willingness and ability to meet community credit needs. The bank periodically sells loans that are in excess of the bank's legal lending limit, and the bank also purchases loans to help increase its loan volume. In addition, there are no economic factors that inhibit the bank from granting credit within the assessment area. The bank received an "Outstanding" rating at the June 24, 1998, CRA Performance Evaluation.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes all of Chase County (CT 9619), all of Perkins County (CT 9593), and all of Dundy County (CT 9623). The bank is located in Chase County. All CTs in the assessment area are middle-income according to the 2000 Census. The assessment area is located in southwest Nebraska, and according to 2000 Census data, the population of the assessment area is 9,560. Management and the community contact indicated the population has remained relatively stable to slightly declining in Imperial.

According to bank management and a community contact, the area's economy is largely dependent upon agriculture and related services. The recent drought has hurt area farmers, and water allocation is also a significant issue. The contact also indicated that cattle prices have recently dropped. The community contact indicated the depressed agricultural economy has trickled down to the business economy.

Management indicated that major employers in the area include the local COOPs, local schools, local governments, Midwest Equipment, and the hospital. Management and the community contact stated that unemployment is not a problem in the area; however, the community contact indicated underemployment is an issue with very low wages in the area. Management and the community contact indicated there are plenty of homes for sale; however, the community contact indicated affordable rental housing is needed in the community.

Banking competition in the assessment area is intense with many other financial institutions in the bank's assessment area and surrounding counties. Imperial has two other banks, a credit union, and Farm Credit Services. Management stated that all types of credit are needed in the area, and the bank strives to meet those needs. According to the community contact and management, there have been limited community development activities in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-To-Deposit Ratio Analysis

The bank's net loan-to-deposit ratio is adequate given the institution's size, financial condition, competition, and assessment area credit needs. The bank has maintained an average net loan-to-deposit ratio of 80 percent over the last twenty-two calendar quarters. The September 30, 2003, Report of Condition indicated the bank's net loan-to-deposit ratio was 69 percent. This ratio has ranged from a low of 66 percent in June of 2003, to a high of 94 percent in June of 1998. The bank's loan volume has declined since the previous evaluation; however, it remains at an acceptable level. The competition in the area is intense with two other banks, a credit union, and farm credit services all located in Imperial, which has a population of 1,982 as of the 2000 Census.

As noted in the chart below, the bank's average and current net loan-to-deposit ratios are similar to several other financial institutions in the area, and the bank's loan volume remains at an acceptable level. The following table includes the September 30, 2003, total assets and net loan-to-deposit ratios and a twenty-two quarter average net loan-to-deposit ratio for subject bank and other similarly situated lenders. The banks are listed in alphabetical order by location.

| Loan-to-Deposit Ratio Comparison | | | |
|--|------------------------|-------------------|-------------------|
| Financial Institution | Assets (000s) | Net Ratio | Ave. Ratio |
| <i>First State Bank, Imperial, NE</i> | <i>\$28,299</i> | <i>69%</i> | <i>80%</i> |
| State Bank, Benkelman, NE | \$41,167 | 100% | 89% |
| The Culbertson Bank, Culbertson, NE | \$16,203 | 53% | 59% |
| Commercial Bank, Elsie, NE | \$11,993 | 98% | 88% |
| Farmers and Merchants Bank, Imperial, NE | \$46,760 | 69% | 64% |

Lending Evaluation

The evaluation of the bank's lending performance is based on originations of agricultural loans. Agricultural loans were selected for review because they are the bank's primary lending focus, and no other loan category represents at least 10 percent of the bank's loan portfolio. In addition, no other loan category had a sufficient number of originations to get an adequate sample. The time period reviewed included originations² from the previous six months because the bank's business focus has not changed since the previous examination. Examiners reviewed all loans originated during the previous six months, which included 31 loans originated to 15 different borrowers, totaling \$3,318,264.

Lending Inside the Assessment Area

The bank's lending in the assessment area is adequate. As seen on the chart below, a majority of the number of agricultural loans was located in the assessment area. The agricultural loan review revealed that 71 percent of the number and 31 percent of the dollar volume of loans were located in the assessment area. While the dollar volume appears low in the assessment area, most loans out of the assessment area were in counties contiguous to the bank's assessment area. The bank is committed to lending in its assessment area and the immediate surrounding area. The chart below depicts the bank's lending in the assessment area.

| Lending Inside the Assessment Area | | | | |
|------------------------------------|-------------------------------|-------------|----------------------------------|--------------------|
| Loan Type | Number Inside Assessment Area | % of Number | Dollar Amount In Assessment Area | % of Dollar Amount |
| Agricultural | 22 | 71% | \$1,017,177 | 31% |

² *Originations include all loans originated and remaining on the bank's computer system. Some loans that were originated during this time-frame may not be included in the universe of loans due to routine purging of paid off loans from the bank's computer system.*

Lending To Farms of Different Sizes

The agricultural loans in the assessment area indicate an adequate penetration among farms of different sizes. According to the 1997 Agricultural Census information, the average sales per farm in the bank's assessment area were \$215,399. As the table below reveals, 32 percent of the number of loans the bank originated was extended to farms with less than \$250,000 in gross revenue.³ The 1997 Agricultural Census information revealed that farms with less than \$250,000 in gross revenue accounted for 76 percent of the farms in the assessment area. Although it is not an exact comparison, the bank's percentage of loans (by number) to farms with less than \$250,000 in gross revenues is less than the percentage (by number) of farms in the same revenue category. While the bank's lending by number is less than what the Census reveals, the bank has lending representation among all sizes of farms, and one borrower with revenue greater than \$500,000 accounted for nine loans.

The following table includes a breakdown of the loans originated in the assessment area among the different revenue categories. The table also includes the percentage of farms in each revenue range in the assessment area according to 1997 Agricultural Census data.

| Bank's Record of Lending to Farms of Different Sizes in the AA | | | | | |
|---|----------------------------|--|--------------------------------------|-----------------------------------|---|
| Revenue (000s) | Number of Loans | (Rounded) % of Total Number | 1997 Ag Census % of Farms | Dollar Volume of Loans | (Rounded) % of Total Dollar Volume |
| \$0-\$49 | 3 | 14% | 42% | \$135,553 | 13% |
| \$50-\$99 | 1 | 4% | 13% | \$20,037 | 2% |
| \$100-\$249 | 3 | 14% | 21% | \$29,622 | 3% |
| \$250-\$499 | 4 | 18% | 14% | \$84,695 | 8% |
| \$500+ | 11 | 50% | 10% | \$747,270 | 74% |
| Total | 22 | 100% | 100% | \$1,017,177 | 100% |

³ *The revenue size of the farms in the sample was determined by reviewing 2001/2002 tax returns and 2003/2004 cash flows. If this information was not available, management estimated the revenue of the borrowers.*

Geographic Distribution of Loans

The bank's geographic distribution of loans in the assessment area is reasonable. The assessment area includes only middle-income CTs. A majority of the bank's loans in the assessment area were located in or around Imperial.

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.

Investments and Services

The bank has provided banking educational services to students and farmers to enhance the knowledge of individuals in the bank's assessment area, and the bank is commended for participating in these programs. The programs included:

- "In Charge" of Credit - Employees of the bank spoke to the senior class at Chase County High School about the importance of using credit wisely.
- Cornerstone EDGE (Enhancing, Developing, and Growing Entrepreneurs) – a member of management presented "Managing Your Money: Developing and Using Cash Flow Projections" to farmers to help with preparing cash flows.