

PUBLIC DISCLOSURE

February 20, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Sutton State Bank
FDIC Certificate Number: 12489**

**105 S. Saunders
Sutton, Nebraska 68979**

**Federal Deposit Insurance Corporation
2345 Grand Boulevard, Suite 1200
Kansas City, MO 64108**

NOTE: This document is an evaluation of this 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. 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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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 helping to meet the credit needs of its designated assessment area.

- The bank's average net loan-to-deposit ratio of 90 percent since the previous evaluation reflects a more than reasonable willingness to extend credit given the assessment area credit needs and competition within the assessment area.
- The bank has a satisfactory performance of lending within its assessment area.
- An analysis of agricultural and commercial loans in the assessment area revealed an adequate distribution of loans among farms and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank has not received any CRA-related complaints since the previous evaluation dated April 21, 2003.

SCOPE OF EVALUATION

This evaluation includes a review of the bank’s CRA performance since the previous evaluation dated April 21, 2003, when the bank was rated “Satisfactory. Conclusions with respect to the following three performance criteria under the lending test, *Lending inside the Assessment Area, Lending to Businesses and Farms of Different Sizes*, and *Geographic Distribution of Loans*, are based on review of the institution’s agricultural and commercial loan portfolios. Residential real estate and consumer loans were not reviewed as they as they represented only 7 percent and 3 percent of the loan portfolio, respectively. In addition, management of the bank stated that agricultural and commercial lending is the bank’s primary lending focus. The time period reviewed for all loans (agricultural and commercial) was from August 1, 2007, to January 30, 2008, and included all loans originated during that period, including paid loans. The agricultural loan sample included 30 loans totaling \$3,185,096 out of a total universe of 90 loans totaling \$7,870,980. The commercial loan sample included 25 loans totaling \$2,242,020 out of a total universe of 52 loans totaling \$3,501,013.

DESCRIPTION OF INSTITUTION

Sutton State Bank operates from one office in Sutton, Nebraska, which is located in a rural portion of Central Nebraska. As noted above, the bank was rated “Satisfactory” at the prior CRA Performance Evaluation on April 21, 2003.

As of September 30, 2007, the bank had total assets of \$26,159,000; net loans of \$20,841,000; and total deposits of \$20,422,000. Currently, agricultural loans are the majority product as detailed in the table below. As of September 30, 2007, 65 percent (\$13,755,000) of the bank's loans are for agricultural purposes.

Loan Portfolio Distribution		
Loan Category	Dollar Amount (000s)	Percent of Total Loans
Agricultural Farm Loans	\$13,755	65%
1-4 Family Residential	\$1,478	7%
Consumer Loans	\$719	3%
Commercial and Industrial Loans	\$4,534	21%
Multi-family loans	\$676	3%
Other	\$9	1%
Total Loans and Leases	\$21,171	100%

Source: 9/30/07 Report of Condition

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) requires financial institutions to identify one or more "assessment area(s)" within which the appropriate regulatory agency will evaluate the bank's CRA performance. Typically, an institution's assessment area will include the towns, cities, 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 (CTs)", which are statistical subdivisions of a county.

The income level of the CT is based on median family income information from the 2000 Census. Therefore, 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 \$41,596 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>

Assessment Area Discussion:

The bank's assessment area consists of all of Clay County (CTs 9921 and 9922), and portions of Fillmore County (CT 9917), and Hamilton County (CTs 9891, and 9892). The bank's office is located in CT 9921 in Clay County. All of the CTs in the assessment area are middle-income. CTs 9921 and 9922 in Clay County are identified as distressed¹ non-metropolitan middle-income geographies due to population loss and their remote and rural locations. CT 9917 is identified as an underserved² non-metropolitan middle-income geography.

According to 2000 Census data, the assessment area has 4,573 families, of which 15 percent are low-income, 19 percent are moderate-income, 28 percent are middle-income and 38 percent are upper-income. 2000 Census data also showed that 6 percent of families in the assessment area

¹ "Distressed non-metropolitan middle-income" geographies are those located in counties that meet one or more triggers that generally reflect the "distress criteria" used by the Community Development Financial Institutions (CDFI) Fund. The distress triggers are: (1) an unemployment rate of at least 1.5 times the national average; (2) a poverty rate of 20 percent or more; (3) a population loss of 10 percent or more between the previous and most recent decennial census, or a net migration loss of 5 percent or more over the five-year period preceding the most recent census. The agencies will utilize annual information where possible.

² "Underserved nonmetropolitan middle-income geographies" must meet criteria for population size, density, and dispersion that indicate that an area's population is sufficiently small, thin, and distant from a population center such that the geography is likely to have difficulty in financing the fixed costs of essential community needs. The agencies will use as the basis for these designations the "urban influence codes" numbered 7, 10, 11, and 12 that are maintained by the Economic Research Service of the United States Department of Agriculture.

live below the poverty level³ while the number of families below the poverty level for the State of Nebraska is 7 percent.

Population:

The 2000 Census data indicates that the population in the bank's assessment area is 15,860. Management indicated that the population in the assessment area is stable. The population in Sutton is 1,447. The 2000 Census data shows 17 percent of the population in the assessment area to be above age 65, which is above the average for the non-metropolitan areas of the State of Nebraska, which is 14 percent. The Department of Housing and Urban Development's estimated median family income for the non-metropolitan areas of the State of Nebraska for 2007 is \$50,400.

Economic Conditions:

Management indicated that the assessment area's overall agricultural economy is stable with crop and cattle prices considered good. Management stated that input costs are high and that with the high prices paid for crops, government price guarantees are no longer available and that profits may be affected. Major employers in the assessment area include the local school system, Sutton CO-OP Grain Company, local governments, local nursing home, George Brothers, Inc., and Van Kirk Brothers Contracting. Management also indicated that local residents in Sutton commute to Hastings and York for employment. Management also stated the primary credit need is for agricultural and commercial loans.

The 2002 Agricultural Census indicates that 32 percent of the farmers in the assessment area did not report any interest expense (i.e. non-borrowing farmers). Many of the local operators appear to be "hobby farmers". According to the 2002 Agricultural Census, 18 percent of the farmers in the assessment area indicated that farming is not their principal occupation. In addition, 15 percent of all farmers in the assessment area reported gross farm revenues of less than \$10,000 per year. These small farms typically have limited or no borrowing needs.

Housing:

Housing data from the 2000 Census shows that the assessment area has 6,749 housing units, with 21 percent of the units being rental-occupied and 10 percent vacant. The median age of homes in the assessment area is 51 years, the median housing value is \$60,955, and the median gross rent is \$370. The housing data indicates that the assessment area's housing is slightly more affordable and slightly older than the median for the State of Nebraska. Management indicated there was an adequate supply of homes on the market.

³ Poverty level is an established dollar threshold rather than a percentage based calculation of the median family income. Specifically, for a family of four, the 2007 poverty level threshold was \$20,650; therefore, a family earning less than \$20,650 was below the poverty level. This figure is determined on a national level and is not adjusted regionally.

Other Financial Institutions:

There are several other financial institutions located in the assessment area, including four banks headquartered in the following communities: Harvard State Bank, Harvard, Nebraska, First State Bank, Hordville, Nebraska, Geneva State Bank, Geneva, Nebraska, and The Bank of Marquette, Marquette, Nebraska. In addition, there are nine branches of other banks located in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-To-Deposit Ratio Analysis

Examiners reviewed the bank's average quarterly net loan-to-deposit (LTD) ratio in order to evaluate the bank's performance for this criterion. A bank's net LTD ratio is calculated by dividing the institution's net loans and leases by its total deposits. The bank's net LTD ratio is then averaged for all quarter-ends since the last evaluation. Each institution's ratio is evaluated and analyzed using performance context, including the bank's capacity to lend, demographic and economic factors present in the assessment area, and the lending opportunities available in the bank's assessment area. Detailed below is an analysis of this performance criterion for the bank.

The bank's average net loan-to-deposit ratio reflects a more than reasonable willingness to provide credit given the bank's size, financial condition, community credit needs, and area competition. Similarly situated lenders were selected based on total assets and proximity to subject bank's assessment area. The bank has maintained an average 18 quarter net loan-to-deposit ratio of 90 percent. The bank's ratio is the third highest out of five similarly situated lenders. Similarly situated lenders are those institutions with a similar mix of loan products and close proximity to subject bank. The bank's net loan-to-deposit ratio as of September 30, 2007, was 102 percent. The ratio has ranged from a low of 79 percent on December 31, 2004, to a high of 102 percent on September 30, 2007.

Bank	City, State*	Total Assets (000s)	Avg. net LTD Ratio 18 Qtrs.	Net LTD Ratio 09/30/07
Sutton State Bank	Sutton, NE	\$26,159	90%	102%
First National Bank in Exeter	Exeter, NE	\$24,677	78%	87%
Harvard State Bank	Harvard, NE	\$35,850	116%	129%
First State Bank	Hordville, NE.	\$24,342	66%	74%
Bank of Marquette	Marquette, NE.	\$24,778	64%	72%
Farmers and Merchants Bank	Milligan, NE	\$38,661	126%	138%

* Banks are listed in alphabetical order by city.

Lending Inside the Assessment Area

Examiners reviewed the bank's assessment area lending concentration in order to evaluate its performance under this CRA criterion. Examiners typically sample loans and complete a comparative analysis that details loans extended inside and outside of the bank's assessment area. Detailed below is an analysis of this performance criterion.

A majority of the number of agricultural and commercial loans are inside the bank's assessment area. The following table reflects the bank's lending within the assessment area:

Lending inside the Assessment Area								
Loan Type	Dollar amount (000s)		Percent of Dollar Amount		Number of loans		Percent of number of loans	
	In	Out	In	Out	In	Out	In	Out
Agricultural	\$1,366	\$1,818	43%	57%	21	9	70%	30%
Commercial	\$644	\$1,597	29%	71%	18	7	72%	28%
Total	\$2,009	\$3,415	37%	63%	39	16	71%	29%

One loan officer at Sutton State Bank previously worked for a bank in Brown County and brought several large agricultural and commercial borrowers from that area to Sutton State Bank. This accounts for the high percentage of the dollar amount of loans outside the assessment area, and these loans somewhat distort the overall findings. However, examiners put more emphasis on the number of loans versus the dollar volume of loans for this criterion. The above table indicates a reasonable effort in lending within the assessment area with 71 percent of the number of agricultural and commercial loans made in the assessment area.

Lending To Farms of Different Sizes

For this criterion, examiners determine the distribution of loans that the bank originated inside its assessment area by farm size using gross annual revenues.

The sample of agricultural loans made in the assessment area shows an adequate distribution among small farms. The agricultural loan sample revealed that 95 percent of the number (20 of 21) of loans the bank originated inside the assessment area was extended to farms with less than \$500,000 in gross revenue. The 2002 agricultural census showed that 89 percent of the farms within the assessment area had incomes less than \$500,000. The table on the following page reflects the bank's lending to farms of different sizes.

LENDING TO FARMS of DIFFERENT SIZES				
GROSS REVENUE	NUMBER	PERCENT	DOLLAR AMOUNT (000)	PERCENT
Less than \$50,000	9	43%	\$455	33%
\$50,000 to \$99,999	4	19%	\$455	33%
\$100,00 to \$249,999	4	19%	\$317	23%
\$250,000 to \$499,999	3	14%	\$89	7%
\$500,000 and over	1	5%	\$50	4%
Totals	21	100%	\$1,366	100%

According to the 2002 Agricultural Census information, the average sales per farm in the assessment area were \$277,553.

The bank has a good record of lending to smaller farm operations. As the table above shows, 62 percent of the bank's loans were to farms with gross revenue of under \$100,000. This is especially noteworthy since, as previously discussed, a large percentage of the very small farms do not borrow money. The 2002 Agricultural Census indicates that 32 percent of the farmers in the assessment area did not report any interest expense (i.e. non-borrowing farmers). Another factor to consider is that many of the local operators appear to be "hobby farmers". According to the 2002 Agricultural Census, 18 percent of the farmers in the assessment area indicated that farming is not their principal occupation. In addition, 15 percent of all farmers in the assessment area reported gross farm revenues of less than \$10,000 per year. These small farms typically have limited or no borrowing needs. The bank's lending to different size farms in the assessment area is reasonable when considering the hobby farmers and farms that have no borrowing needs.

Lending to Businesses of Different Sizes

The sample of business loans made in the assessment area shows an adequate distribution among small businesses. The commercial loan sample revealed that 94 percent of the number (17 of 18) of loans the bank originated inside the assessment area was extended to businesses with less than \$500,000 in gross revenue. According to 2005 business demographic information, 91 percent of the reporting businesses in the assessment area reporting economic data had gross revenues under \$500,000. The following table reflects the bank's lending to businesses of different sizes. The bank's record of lending to businesses of different sizes is reasonable.

LENDING TO BUSINESSES OF DIFFERENT SIZES				
GROSS REVENUE	NUMBER	PERCENT	DOLLAR AMOUNT (000)	PERCENT
Less than \$50,000	6	33%	\$211	33%
\$50,000 to \$99,999	7	39%	\$106	17%
\$100,00 to \$249,999	2	11%	\$128	20%
\$250,000 to \$499,999	2	11%	\$184	28%
\$500,000 to \$999,999	1	6%	\$15	2%
Totals	18	100%	\$644	100%

Geographic Distribution of Loans

Examiners analyze the bank's performance under this criterion to determine if the bank is lending throughout its assessment area including the low- and moderate-income areas or geographies within the assessment area. The composition of the bank's assessment area by CT income level is important to this evaluation process because it is compared to where the bank originated its sampled loans by CT. Detailed below is an analysis of this performance criterion for the bank.

The bank's geographic distribution of loans within the assessment area is reasonable. Examiner review of the loan distribution showed that the majority of the number of loans was in the census tract near the bank's only office. Examiners did not give this performance criterion much consideration in the overall rating since all of the census tracts in the assessment area are middle-income. Overall, the bank's geographic distribution of loans is reasonable.

CRA Related Complaints

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

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.