

PUBLIC DISCLOSURE

March 17, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers State Bank
FDIC Certificate Number: 18739**

**509 6th Avenue
Fairmont, Nebraska 68354**

**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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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 **Farmers State Bank, Fairmont, Nebraska**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **March 17, 2008**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

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 area.

- The bank's average net loan-to-deposit ratio of 74 percent over the past 19 quarters reflects a reasonable willingness to extend credit given the assessment area credit needs and competition within the assessment area.
- A substantial majority of the number of loans extended by the bank are in the bank's assessment area.
- An analysis of agricultural loans in the assessment area revealed an adequate distribution of loans among farms of different sizes.
- An analysis of commercial loans in the assessment area revealed an adequate distribution of loans among businesses of different sizes.
- The bank has not received any CRA-related complaints since the previous evaluation

SCOPE OF EVALUATION

This evaluation includes a review of the bank’s CRA performance since the previous CRA evaluation dated April 14, 2003. Conclusions with respect to the following three performance criteria under the lending test, *Lending inside the Assessment Area, Lending to Farms of Different Sizes, and Lending to Businesses of Different Size*, are based on a review of the institution’s small farm loans and small business loans. Residential real estate loans were not reviewed as they represented only 6 percent of the loan portfolio. The bank’s lending focus is on agricultural loans. The time period reviewed for small farm loans and small business loans was from March 10, 2006 to March 10, 2008. Information on paid off loans was unavailable. The small farm loan sample included 26 loans totaling \$1,211,214 out of a total universe of 61 loans totaling \$2,829,537.00. The small business loan sample included 13 loans totaling \$357,422 out of a total universe of 21 loans totaling \$592,463.00. Management and a community contact stated that agricultural credit is the primary type of credit need in the local area; therefore, more emphasis was placed on the small farm loans at this evaluation.

DESCRIPTION OF INSTITUTION

Farmers State Bank, Fairmont, Nebraska, has one full service location in Fairmont, Nebraska. The bank is owned by Fairmont State Company, a one bank holding company. The bank’s financial condition allows it to serve the needs of the local area. No legal impediments exist which would inhibit the bank’s willingness and ability to meet community credit needs. The bank was rated “Satisfactory” at the prior CRA evaluation dated April 14, 2003.

The bank is located in central Nebraska. As of December 31, 2007, the bank had total assets of \$7,230,000, net loans of \$4,496,000 and total deposits of \$6,267,000. According to management, the bank’s primary business focus is agricultural lending. As of December 31, 2007, 68 percent of the loan portfolio was invested in agricultural loans and 20 percent were invested in commercial purposes. The table below provides detail on the composition of the bank’s loan portfolio.

Loan Portfolio Distribution		
Loan Category	Dollar Amount (000s)	Percent of Total Loans
Secured by Farmland	\$1,703	38%
1-4 Family Residential	\$284	6%
Secured by Non-farm nonresidential properties	\$570	13%
Agricultural Production Loans	\$1,370	30%
Commercial and Industrial Loans	\$320	7%
Other Consumer Loans	\$297	6%
Other Loans	\$7	0%
Total Loans and Leases	\$4,551	100%

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 (AA) includes all of Fillmore County in Nebraska. The assessment area consists of 2 middle-income CTs. Both CTs in Fillmore County are designated underserved non-metropolitan¹ census tracts due to their remote rural location. The bank's office is located in CT 9916 in Fillmore County. According to 2000 Census data, the AA has 1,806 families, of which 15 percent are low-income, 18 percent are moderate-income, 30 percent are middle-income, and 37 percent are upper-income. 2000 Census data also showed that 5 percent of families live below the poverty level².

¹ "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.

² 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 is considered to be below the poverty level. This figure is determined on a national level and is not adjusted regionally.

Population:

According to 2000 census data, the population in the AA was 6,634. Management and a community contact indicated that the population in the Fairmont, Nebraska, area is declining and increasingly elderly. According to management and the community contact there are several homes available for sale and all are considered affordable. There is an availability of low income rental properties with a 24 unit complex in Fairmont and a four unit complex, both of which have rents based on income. Management indicated that there are usually vacancies in the units. The 2000 Census data shows 21 percent of the population in the AA to be above age 65, which is higher than that of the State of Nebraska's average of 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 2008 is \$51,800.

Economic Conditions:

Management and the community contact felt that the AA's overall agricultural economy is good with higher crop prices and stable cattle prices. Both management and the community contact indicated that input prices were high and could impact farmers in 2008. Management and the community contact indicated that the business economy in the local area was deteriorating. Main Street has lost numerous businesses and no new ones are coming in. Both management and the community contact stated that local businesses were hurt by the new Wal-Mart in York, Nebraska, 15 miles distant. Major employers in the AA include: the ethanol plant in Fairmont, IPSCO Steel, Geneva; MetalTech, Geneva; and the nursing home in Fairmont. Credit needs in the area are for agricultural related loans.

The 2002 Agricultural Census indicates that 35 percent of the farmers in the AA 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, 14 percent of the farmers in the AA indicated that farming is not their principal occupation. In addition, 13 percent of all farmers in the AA 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 AA has 2,239 housing units, with 20 percent of the units being rental-occupied and 12 percent vacant. The median age of homes in the AA is 54 years, the median housing value is \$55,545, and the median gross rent is \$364. The housing data indicates that the AA's housing is much older and lower priced than the median for the State of Nebraska.

Other Financial Institutions:

There are numerous other financial institutions operating in the AA. Management indicated its major competitors are Farm Credit Services; Geneva State Bank, Geneva, Nebraska; North Loup

Valley Bank, North Loup, Nebraska; Midwest Bank, York, Nebraska; and Cornerstone Bank, York, Nebraska. These institutions are all much larger than Farmers State Bank and are able to offer a wider array of products and rates than Farmers State Bank.

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.

The bank’s average net loan-to-deposit ratio reflects a reasonable willingness to provide credit given the bank’s size, financial condition, community credit needs, and area competition. The bank has maintained a 19 quarter average net loan-to-deposit ratio of 74 percent. The bank’s ratio is the lowest when compared to four similarly situated lenders; however, it is important to note that the bank is much smaller than the similarly situated banks and may not be able to handle the financing needs of larger borrowers. Similarly situated lenders were selected based on similar size, product offerings, and proximity to subject bank’s AA. The bank’s net loan-to-deposit ratio as of December 31, 2007, was 72 percent. The ratio has ranged from a low of 61 percent on June 30, 2003, to a high of 88 percent on September 30, 2004.

Bank	City, State*	Total Assets 12/31/07 (000s)	Avg. net LTD Ratio 19 Quarters	Net LTD Ratio 12/31/07
Citizens State Bank	Carleton, Nebraska	\$12,046	93%	91%
State Bank of Chester	Chester, Nebraska	\$21,674	79%	80%
Frontier Bank	Davenport, Nebraska	\$22,184	85%	100%
First National Bank in Exeter	Exeter, Nebraska	\$26,087	78%	83%
Farmers State Bank	Fairmont, Nebraska	\$7,230	74%	72%

* 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. The following page contains the analysis of this performance criterion.

A substantial majority of the number of loans sampled were located in the bank's AA. The agricultural loan sample revealed that 92 percent of the number and 98 percent of the dollar volume of loans sampled were in the AA. The commercial loan sample revealed that 92 percent of the number and 79 percent of the dollar volume of loans sampled were in the assessment area.

Loan Type	Number of Loans		% of Number of Loans		Dollar amount (000s)		% of Dollar Amount	
	In	Out	In	Out	In	Out	In	Out
Small Farm Loans	24	2	92%	8%	\$1,189	\$22	98%	2%
Small Business Loans	12	1	92%	8%	\$282	\$75	79%	21%
Total	36	3	92%	8%	\$1,471	\$97	94%	6%

As the above table shows, a substantial majority of the number and a substantial majority of the dollar amount of loans sampled are within the bank's 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 AA shows an adequate distribution among small farms. The agricultural loan sample revealed that 71 percent of the number (17 of 24) of loans the bank originated inside the AA was extended to farms with less than \$500,000 in gross revenue. The 2002 Agricultural Census data revealed that 88 percent of the number of farms in the AA reported gross farm revenues of less than \$500,000. The 2002 Agricultural Census information also revealed that the average sales per farm in the AA were \$256,503. The following table includes a breakdown of the bank's lending to farms of different sizes and the 2002 Agricultural Census data.

Lending to Farms of Different Sizes					
Revenues (000s)	Number of Loans	% of Number of Loans	Dollar Amount of Loans (000s)	% of Dollar Amount of Loans	2002 AG Census Data on % of Farms
\$0-49	7	29%	\$119	10%	31%
\$50-99	4	16%	\$293	25%	14%
\$100-249	3	13%	\$47	4%	26%
\$250-499	3	13%	\$260	22%	17%
\$500+	7	29%	\$470	39%	12%
Total	24	100%	\$1,189	100%	100%

The bank's lending to smaller operations (those with revenues of less than \$100,000) is especially good when considering the following data. As previously mentioned, the 2002 Agricultural Census indicates that 35 percent of the farmers in the AA 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, 14 percent of the farmers in the AA indicated that farming is not their principal occupation. In addition, 13 percent of all farmers in the AA reported gross farm revenues of less than \$10,000 per year. These small farms typically have limited or no borrowing needs. When considering the hobby farmers and farms that have no borrowing needs, the bank’s lending to small farms appears very reasonable.

Lending To Businesses of Different Sizes

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

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

The bank’s lending to businesses of different sizes is satisfactory. Analysis of the bank’s small business loans that were originated in the bank’s AA revealed that 92 percent of the number of loans were made businesses with revenues under \$500,000. 2007 D&B data for the assessment area indicated that 90 percent of the businesses in the AA had gross revenues less than \$500,000. The following table includes a breakdown of the loans in the AA by revenue size and compares it to the percentage of the number of businesses in the AA.

Lending to Businesses of Different Sizes					
Revenues (000s)	Number of Loans	% of Number of Loans	Dollar Amount of Loans (000s)	% of Dollar Amount of Loans	2007 D&B Data on % of Businesses
\$0-49	7	59%	\$57	20%	22%
\$50-99	3	25%	\$32	11%	30%
\$100-249	1	8%	\$8	3%	27%
\$250-499	0	0%	\$0	0%	11%
\$500-999	0	0%	\$0	0%	6%
\$1000+	1	8%	\$185	66%	4%
Total	12	100%	\$282	100%	100%

The bank’s lending to smaller businesses (those with revenues of less than \$100,000) is strong when looking at the data. Eighty-four percent of the bank’s loans were to businesses with revenues of less that \$100,000 while the D&B data shows that only 52% of the area businesses are of that revenue size. Overall, lending to businesses of different sizes is reasonable.

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 is reasonable. Examiners did not give this criterion much consideration in the overall rating since the entire AA consists of middle-income CTs. Overall, the bank's geographic distribution of loans is reasonable.

CRA 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.