

PUBLIC DISCLOSURE

May 11, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Clarks
Certificate Number: 16953

301 North Green Street
Clarks, Nebraska 68628

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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 RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory performance under the Lending Test supports the rating. The following points summarize the bank's Community Reinvestment Act (CRA) performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small farm and small business loans reviewed were originated or purchased inside the assessment area.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.
- The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.
- The institution did not receive any complaints regarding its CRA performance since the previous evaluation. As a result, examiners did not evaluate the bank's record of responding to CRA-related complaints.

DESCRIPTION OF INSTITUTION

Background

Bank of Clarks is a community financial institution operating in central Nebraska. Clark Bancshares, Inc., a one-bank holding company, owns the institution. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated August 25, 2014, based on Interagency Small Institution Examination Procedures.

Operations

The bank's main office is in Clarks, Nebraska. In addition, the bank operates a branch in Silver Creek, Nebraska. Both offices are located in Merrick County, Nebraska, in middle-income census tract 9666. The institution has not opened or closed any offices or been involved in any mergers or acquisitions since the prior evaluation.

The bank offers a variety of lending products, including agricultural, commercial, construction and land development, and consumer loans. Bank of Clarks does not offer home mortgage loans. Agricultural lending is the institution's primary business focus followed by commercial lending. In addition, the bank offers several deposit products including checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include online banking and two automated teller machines (ATMs).

Ability and Capacity

Assets totaled approximately \$39.4 million as of December 31, 2019, and included total loans of approximately \$32.2 million. The loan portfolio is illustrated in the following table.

Loan Portfolio Distribution as of 12/31/19		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	258	0.8
Secured by Farmland	9,870	30.6
Secured by 1-4 Family Residential Properties	1,827	5.7
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	2,355	7.3
Total Real Estate Loans	14,310	44.4
Commercial and Industrial Loans	2,174	6.8
Agricultural Production and Other Loans to Farmers	10,484	32.5
Consumer Loans	5,056	15.7
Obligations of State and Political Subdivisions in the U.S.	183	0.6
Other Loans	3	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	(0)	(0.0)
Total Loans	32,210	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that affect the bank’s ability to meet the assessment area’s credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. Bank of Clarks designated a single assessment area which includes all of Merrick, Nance, and Polk counties in Nebraska, and one census tract, tract 9652.98, in Platte County, Nebraska. Bank of Clarks’ designated assessment area includes the Platte County census tract that is closest to the Silver Creek branch location, and does not include the farthest north geographies and the geographies representing the city of Columbus. Nance, Polk, and Platte counties are located in nonmetropolitan Nebraska. Merrick County is located in the Grand Island, Nebraska Metropolitan Statistical Area (MSA). The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

According to the 2015 American Community Survey (ACS), the assessment area contains six middle-income census tracts and one upper-income census tract. Specifically, census tract 9652.98 in Platte County is an upper-income geography. The following table illustrates select demographic characteristics of the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	7	0.0	0.0	85.7	14.3	0.0
Population by Geography	19,941	0.0	0.0	83.7	16.3	0.0
Housing Units by Geography	9,617	0.0	0.0	86.0	14.0	0.0
Owner-Occupied Units by Geography	6,397	0.0	0.0	82.7	17.3	0.0
Occupied Rental Units by Geography	1,883	0.0	0.0	93.6	6.4	0.0
Vacant Units by Geography	1,337	0.0	0.0	91.2	8.8	0.0
Businesses by Geography	1,516	0.0	0.0	85.5	14.5	0.0
Farms by Geography	434	0.0	0.0	86.9	13.1	0.0
Family Distribution by Income Level	5,730	15.6	16.6	25.2	42.5	0.0
Household Distribution by Income Level	8,280	21.6	15.7	18.1	44.6	0.0
Median Family Income - Grand Island, Nebraska MSA		\$57,552	Median Housing Value			\$99,187
Median Family Income – Nonmetropolitan Nebraska		\$61,457	Median Gross Rent			\$590
			Families Below Poverty Level			5.4%

Source: 2015 ACS Census and 2019 D&B Data. () The NA category consists of geographies that have not been assigned an income classification. Due to rounding, totals may not equal 100.0*

The assessment area is sparsely populated and predominantly rural in nature. Central City, Fullerton, Stromsburg, and Genoa are the four largest communities with populations of 2,934, 1,307, 1,171, and 1,003 respectively. Clarks and Silver Creek have populations of 369 and 362 respectively. The assessment area's remaining communities all have populations under 1,000.

Competition

The bank's assessment area is moderately competitive for financial services. According to the June 30, 2019 FDIC Deposit Market Share data, ten financial institutions operate 17 offices in the assessment area. Bank of Clarks ranked 3rd among these institutions, with a 11.8 percent deposit market share.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners reviewed a recently conducted community contact with a local service-related industry representative. The contact stated that the farmers have immediate agricultural credit needs due to the low commodity prices. The contact stated that the local economy is strong with the exception of agriculture. The contact also stated that financial institutions and farmers are unsure what the future holds with commodity prices and the trade wars. The contact was not aware of any discriminatory practices by any area financial institutions.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners concluded that agricultural loans are the assessment area's primary credit need.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated August 25, 2014, to the current evaluation dated May 11, 2020. Examiners used the Interagency Small Institution Examination Procedures to conduct the evaluation, which includes a Lending Test. Refer to the Appendices later in the evaluation for a description of the criteria used to evaluate the bank's performance under the Lending Test.

Activities Reviewed

Examiners reviewed small farm and small business loans to evaluate the bank's performance. They selected these products based on the bank's business strategy and bank records regarding the

number and dollar volume of loans originated during the evaluation period. No other loan types, such as consumer loans, represent a major product line, and the bank does not offer home mortgage loans. As a result, examiners did not review any other loan products, as they would provide no material support for conclusions for the rating.

Examiners reviewed all small farm and small business loans originated or purchased in 2019 to evaluate the bank's record of lending inside the assessment area (Assessment Area Concentration analysis). This consisted of 145 small farm loans totaling approximately \$16.1 million, and 35 small business loans totaling approximately \$2.0 million. Examiners then reviewed a sample of small farm loans located inside the assessment area to evaluate the bank's record of lending to farms of all sizes (Borrower Profile analysis). This consisted of 50 small farm loans totaling approximately \$6.2 million. Due to the limited number of small business loans located inside the assessment area, examiners reviewed all small business loans inside the assessment area to conduct the small business Borrower Profile analysis. This consisted of 20 small business loans totaling approximately \$840,000. Bank management indicated that the loans reviewed were representative of the institution's performance during the entire evaluation period, and bank data confirms this statement. As a result, examiners did not evaluate any additional years of data.

Examiners placed greater weight on small farm loans when drawing conclusions since agricultural lending comprised the majority of loans originated in 2019. The standard of comparison for small farm and small business loans was 2019 D&B data. When conducting the Assessment Area Concentration analysis, examiners placed equal weight on the number and dollar volume of loans. When conducting the Borrower Profile analysis, examiners placed greater weight on the number of loans than the dollar volume of loans. This is because the number of loans is a better indicator of the number of farms and businesses served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Bank of Clarks demonstrated reasonable performance under the Lending Test. Reasonable Loan-to-Deposit Ratio and Assessment Area Concentration performance primarily supports this conclusion.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The ratio, calculated from the Call Report, averaged 95.0 percent over the past 22 quarters from September 30, 2014, to December 31, 2019. The bank's net loan-to-deposit ratio as of December 31, 2019, was 93.6 percent.

Examiners compared Bank of Clarks' average net loan-to-deposit ratio to four similarly-situated institutions to evaluate the bank's performance. The similarly-situated institutions were selected based on their asset size, geographic location, and lending focus. As shown in the following table, the bank's average net loan-to-deposit ratio compares reasonably to the similarly-situated institutions' ratios.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/2019 (\$000s)	Average Net Loan-to- Deposit Ratio (%)
Bank of Clarks, Clarks, Nebraska	39,383	95.0
Cedar Rapids State Bank, Cedar Rapids, Nebraska	49,412	93.6
Genoa Community Bank, Genoa, Nebraska	63,995	91.1
First State Bank, Hordville, Nebraska	40,051	115.3
State Bank of Scotia, Scotia, Nebraska	46,674	103.4
<i>Source: Reports of Condition and Income 9/30/2014 through 12/31/2019</i>		

Assessment Area Concentration

A majority of the small farm and small business loans reviewed were located inside the assessment area, reflecting reasonable performance. Although a majority of small business loans, by number of loans, are inside the assessment area, by dollar volume a majority of small business loans were outside the assessment area. This is due to one large loan for \$500,000 originated outside of the bank's assessment area, skewing the percentages. The following table provides details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	126	86.9	19	13.1	145	14,728	91.6	1,348	8.4	16,076
Small Business	20	57.1	15	42.9	35	840	41.8	1,168	58.2	2,008
<i>Source: 1/1/2019 - 12/31/2019 Bank Data Due to rounding, totals may not equal 100.0</i>										

Borrower Profile

The distribution of borrowers reflects overall reasonable penetration among farms and businesses of different sizes. The bank's reasonable small farm lending performance primarily supports this conclusion as it received more weight in the evaluation. Examiners focused on the percentage of small farm and small business loans with gross annual revenues of \$1 million or less.

Small Farm

The distribution of borrowers reflects reasonable penetration among farms of different sizes. The bank's record of lending to farms with gross annual revenues of less than or equal to \$1,000,000 is similar to D&B data. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.4	49	98.0	5,662	91.9
>1,000,000	1.2	1	2.0	500	8.1
Revenue Not Available	0.5	0	0.0	0	0.0
Total	100.0	50	100.0	6,162	100.0
<i>Source: 2019 D&B Data; 1/1/2019 - 12/31/2019 Bank Data. Due to rounding, totals may not equal 100.0</i>					

Small Business

The distribution of borrowers reflects excellent penetration among businesses of different sizes. The bank's record of lending to businesses with gross annual revenues of less than or equal to \$1,000,000 significantly exceeds D&B data, reflecting excellent performance. All small business loans were to businesses with gross annual revenues less than or equal to \$1,000,000. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	79.0	20	100.0	840	100.0
>1,000,000	5.1	0	0.0	0	0.0
Revenue Not Available	15.8	0	0.0	0	0.0
Total	100.0	20	100.0	840	100.0
<i>Source: 2019 D&B Data; 1/1/2019 - 12/31/2019 Bank Data. Due to rounding, totals may not equal 100.0</i>					

Geographic Distribution

The assessment area does not contain any low- or moderate-income census tracts, and a review would not result in meaningful conclusions. Therefore, examiners did not evaluate the geographic distribution of loans.

Response to Complaints

The bank did not receive any complaints regarding its CRA performance since the previous evaluation. Therefore, examiners did not evaluate the bank's record of responding to CRA-related complaints.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices inconsistent with helping meet community credit needs; therefore, this consideration did not affect the institution's CRA rating.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
- 4) The geographic distribution of the bank's loans; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in

information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.