

PUBLIC DISCLOSURE

June 7, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Nebraska State Bank
Certificate Number: 16516

202 North Fourth Street
Lynch, Nebraska 68746

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 is the basis for 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 loans reviewed were located inside the assessment area.
- The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.
- The distribution of borrowers reflects excellent penetration among farms of different sizes.
- 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

Nebraska State Bank has one office headquartered in Lynch, Nebraska. The bank is privately owned and part of a two-bank chain consisting of Nebraska State Bank, Lynch, Nebraska, and Nebraska State Bank, Bristow, Nebraska. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation dated May 4, 2015, where examiners used Interagency Small Institution Examination Procedures to evaluate the bank's performance.

The bank offers a variety of lending products including agricultural, commercial, and consumer loans. Agricultural lending is the institution's primary business focus at 80.7 percent of the loan portfolio. Commercial and consumer loans represent 10.6 and 4.3 percent of the portfolio, respectively. The bank does not originate residential real estate loans. The bank offers several deposit products including checking, savings, money market deposit accounts, and certificates of deposit.

Assets totaled approximately \$20.5 million as of March 31, 2021, and included loans totaling approximately \$7.5 million. Deposits totaled \$18.0 million as of the same date. The following table details the loan portfolio distribution.

Loan Portfolio Distribution as of 3/31/2021		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	0	0.0
Secured by Farmland	1,981	26.6
Secured by 1-4 Family Residential Properties	309	4.1
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	219	2.9
Total Real Estate Loans	2,509	33.6
Commercial and Industrial Loans	571	7.6
Agricultural Production and Other Loans to Farmers	4,052	54.2
Consumer Loans	322	4.3
Obligations of State and Political Subdivisions in the U.S.	22	0.3
Other Loans	3	0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	7,479	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. Nebraska State Bank designated a single assessment area, which consists of census tract 9758, in Boyd County; tracts 9740, 9742, and 9743 in Holt County; and tract 9752 in Knox County, Nebraska. 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 five middle-income census tracts. The following table provides select demographic characteristics for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	5	0.0	0.0	100.0	0.0	0.0
Population by Geography	12,855	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	6,914	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	4,169	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,457	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,288	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,507	0.0	0.0	100.0	0.0	0.0
Farms by Geography	353	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	3,544	17.0	21.5	25.0	36.5	0.0
Household Distribution by Income Level	5,626	26.8	14.1	21.3	37.8	0.0
Median Family Income Nonmetropolitan Nebraska	\$61,457	Median Housing Value				\$86,767
		Median Gross Rent				\$600
		Families Below Poverty Level				6.1%
<i>Source: 2015 ACS; 2020 D&B Data</i>						

According to 2020 D&B data, the assessment area contains 353 farms. Services account for 29.4 percent of the assessment area’s businesses, followed by agriculture, forestry, and fishing (19 percent); retail trade (10.7 percent); and finance, insurance, and real estate (5.8 percent). In addition, 70.1 percent of all businesses and farms have four or fewer employees and 87.2 percent operate from a single location.

Competition

The assessment area is moderately competitive for financial services. According to the June 30, 2020 FDIC Deposit Market Share data, 15 financial institutions operate 25 offices in the counties that make up the assessment area. Nebraska State Bank ranked 14th amongst these institutions in deposit market share, with 1.7 percent of the deposits.

Community Contact

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

Examiners reviewed a recent community contact in conjunction with this evaluation. The contact indicated that some adverse weather has affected area farmers. Overall, crop prices are favorable, but livestock values are still low. The COVID-19 pandemic has affected area farmers; however, various government payments have greatly aided farmers. Further, the contact indicated that local financial institutions are meeting the area’s financial needs. Agricultural loans were reported as the area’s primary credit need.

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 May 4, 2015, to the current evaluation dated June 7, 2021. Examiners used the Interagency Small Institution Examination Procedures to conduct the evaluation, which includes a Lending Test. Refer to the Appendices for a description of this test.

In early 2020, the COVID-19 pandemic began to spread across the nation, resulting in numerous businesses and individuals experiencing financial difficulties. In an effort to stabilize the economy and offset financial hardships, the government initiated the Paycheck Protection Program (PPP). The PPP is a loan program designed to provide a direct incentive for small businesses to keep their workers on payroll. Thus, the PPP created additional small business lending opportunities for community financial institutions. Since the PPP was introduced, the bank originated 82 PPP loans totaling \$1.2 million, which further support small businesses and small farms in the area.

Activities Reviewed

Examiners reviewed small farm loans to evaluate the bank's performance. This product was selected based on the bank's business strategy and loan portfolio composition. No other loan types, such as small business, home mortgage, or consumer represent a major product line. As a result, examiners did not review any other loan products, as they would not provide material support for conclusions.

Examiners reviewed all small farm loans originated or purchased in 2020 to evaluate the bank's record of lending inside the assessment area (Assessment Area Concentration analysis). This consisted of 41 small farm loans totaling approximately \$3.1 million. Examiners then reviewed all small farm loans located inside the assessment area to evaluate the bank's record of lending to farms of different sizes (Borrower Profile analysis). This consisted of 37 small farm loans totaling approximately \$2.8 million. 2020 D&B Data provided a standard of comparison for the small farm loans reviewed.

Bank management indicated that the loans reviewed were representative of the institution's performance during the entire evaluation period, and bank data confirmed this statement. As a result, examiners did not evaluate any additional years of 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 farms served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Nebraska State Bank demonstrated satisfactory performance under the Lending Test. Reasonable performance under the loan-to-deposit ratio and the assessment area concentration, and excellent performance under the borrower profile criteria support this conclusion.

Loan-to-Deposit Ratio

Nebraska State Bank’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and assessment area credit needs. This ratio, calculated from Reports of Condition and Income data, averaged 53.4 percent over the past 24 calendar quarters. The bank’s net loan-to-deposit ratio ranged from 40.2 percent to 60.9 percent during the evaluation period.

Examiners compared Nebraska State Bank’s average net loan-to-deposit ratio to four similarly situated financial institutions. The comparable institutions were selected based on their asset size, lending focus, and geographic location. The bank’s average net loan-to-deposit ratio is comparable to those institutions’ ratios. The following table provides details.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 03/31/2021 \$ (000s)	Average Net LTD Ratio (%)
Nebraska State Bank , Lynch, NE	20,532	53.4
Nebraska State Bank, Bristow, NE	20,977	64.0
Butte State Bank, Butte, NE	51,568	70.8
Bank of Orchard, Orchard, NE	30,113	35.0
Cedar Security Bank, Fordyce, NE	58,846	82.9
<i>Source: Reports of Income and Condition 6/30/2015 through 3/31/2021</i>		

Assessment Area Concentration

The majority of small farm loans reviewed were located inside the assessment area. 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	37	90.2	4	9.8	41	2,777	89.9	312	10.1	3,089
<i>Source: Bank Data</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.

Borrower Profile

The distribution of borrowers reflects excellent penetration among farms of different sizes. All 37 of the small farm loans reviewed were to farms with gross annual revenues of \$1 million or less. This performance exceeds comparable data, which indicates that 98.9 percent of farms in the assessment area report gross annual revenues of \$1 million or less.

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 geographic distribution of the bank's loans;
- 4) 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; 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.

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

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.