

PUBLIC DISCLOSURE

July 6, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Cedar Security Bank
Certificate Number: 25591

117 Main Street
Fordyce, Nebraska 68736

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 the assessment area credit needs.
- The majority of the small farm, small business, and home mortgage 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 overall distribution of borrowers reflects excellent penetration among farms and businesses of different sizes and individuals at different income levels.
- The institution did not receive any complaints regarding its community reinvestment 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

Cedar Security Bank is headquartered in Fordyce, Nebraska. Cedar Financial Holding Company, Inc., Fordyce, Nebraska a one-bank holding company, owns the institution. The bank received a Satisfactory rating at its previous FDIC Performance Evaluation dated July 27, 2015, where examiners used Interagency Small Institution Examination Procedures to evaluate the bank's performance.

Operations

Cedar Security Bank operates three full-service offices in Fordyce, Hartington, and Wynot Nebraska. The bank offers several credit products, including agricultural, commercial, consumer, and home mortgage loans. Agricultural loans represent the primary lending focus. The bank offers a variety of deposit services as well, including checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include internet and mobile banking and three ATMs. The bank has not been involved in any mergers or acquisitions since the prior evaluation.

Ability and Capacity

Assets totaled approximately \$53.8 million as of March 31, 2021. As of the same date, loans totaled \$28.4 million and deposits totaled \$43.6 million. 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	74	0.3
Secured by Farmland	5,306	18.7
Secured by 1-4 Family Residential Properties	4,070	14.3
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	938	3.3
Total Real Estate Loans	10,388	36.6
Commercial and Industrial Loans	6,733	23.7
Agricultural Production and Other Loans to Farmers	10,115	35.6
Consumer Loans	1,152	4.1
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	14	<0.0
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	28,402	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any impediments affecting 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. Cedar Security Bank designated a single assessment area consisting of all of Cedar County and a portion of Knox County in Nebraska. Neither county is part of a metropolitan statistical area (MSA). The following sections discuss economic and demographic information for the assessment area.

Economic and Demographic Data

According to the 2015 American Community Survey (ACS), the assessment area contains four middle-income census tracts. 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)	4	0.0	0.0	100.0	0.0	0.0
Population by Geography	14,263	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	7,215	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	4,612	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	1,348	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,255	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,229	0.0	0.0	100.0	0.0	0.0
Farms by Geography	434	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	4,061	18.1	16.5	25.0	40.4	0.0
Household Distribution by Income Level	5,960	23.5	16.4	17.9	42.3	0.0
2015 ACS Weighted Median Family Income – Nonmetropolitan Nebraska		\$61,457	Median Housing Value			\$97,729
			Median Gross Rent			\$495
			Families Below Poverty Level			7.5%

Source: 2015 ACS and 2020 D&B Data. Due to rounding, totals may not equal 100.0%
 (*) The NA category consists of geographies that have not been assigned an income classification.

The assessment area is sparsely populated and predominantly rural in nature. Bloomfield and Hartington are the two largest communities with populations of 1,028 and 1,554, respectively.

2020 D&B data indicates that 26.1 percent of assessment area farms and businesses are in the agriculture sector and 25.9 percent are in the service sector. In addition, 71.9 percent of farms and businesses have four or fewer employees, and 88.0 percent operate from a single location.

In early 2020, the COVID-19 pandemic began to spread across the nation, resulting in numerous business closures. However, based on the unemployment data during this time period, the pandemic did not have a significant impact on the assessment area. In 2020, the average unemployment rate for Cedar County was 2.7 percent, while the average unemployment rate for Knox County was 3.0 percent. Since 2020, these rates have declined. As of April 2021, Cedar County’s unemployment rate was 1.7, and Knox County’s unemployment rate was 1.8 percent. Comparatively, the state of Nebraska’s unemployment rate was 2.8 percent for April 2021.

Competition

The assessment area is moderately competitive for financial services. According to the June 30, 2020 FDIC Deposit Market Share data, 12 financial institutions operate 22 offices in the assessment area. Cedar Security Bank ranked ninth among these institutions in deposit market share, with 5.8 percent of the deposits.

Community Contact(s)

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

Examiners completed a community contact with an educational organization serving the assessment area. The contact indicated that the area's economy is reliant on the agricultural sector, which has a promising outlook for the upcoming year with corn and soybean prices strengthening compared to 2020. A significant percentage of the local residents are farmers or work at farm-related businesses or industries. The demand for housing is strong and exceeds the current supply. The contact's general perception towards local financial institutions was positive, and he/she was unaware of any unmet credit needs.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that agricultural loans are the assessment area's primary credit need. Small business and home mortgage lending opportunities and demand also exist throughout the assessment area.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated July 27, 2015, to the current evaluation dated July 6, 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.

Activities Reviewed

Examiners reviewed small farm, small business, and home mortgage loans to evaluate the bank's performance. These products were selected based on the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. Other loan types, such as consumer loans, were not included in the analysis because they represented a smaller portion of the bank's lending activities.

Examiners reviewed all small farm, small business, and home mortgage loans originated or purchased between April 30, 2020 and April 29, 2021, to evaluate the bank's record of lending inside the assessment area (Assessment Area Concentration analysis). This consisted of 87 small farm loans totaling approximately \$9.6 million, 202 small business loans totaling approximately \$5.0 million, and 42 home mortgage loans totaling approximately \$5.0 million. Next, examiners reviewed a sample of small farm and small business loans located inside the assessment area, as well as all home mortgage loans located inside the bank's assessment area, to complete the Borrower Profile analysis. This analysis consisted of 45 small farm loans totaling approximately \$5.7 million, 55 small business loans totaling approximately \$1.1 million, and 34 home mortgage loans totaling approximately \$4.2 million. Examiners did not conduct a Geographic Distribution

analysis since the assessment area does not contain any low- or moderate-income census tracts. 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. The bank’s record of originating small farm and small business loans was compared against 2020 D&B data, while its record of originating home mortgage loans was compared against 2015 ACS data.

Small farm loans contributed the greatest weight when drawing conclusions since agricultural loans represent the largest percentage of the loan portfolio. 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, businesses, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Cedar Security Bank demonstrated satisfactory performance under the Lending Test. Reasonable performance under the Loan-to-Deposit Ratio and Assessment Area Concentration criterion, coupled with excellent performance under Borrower Profile criterion, supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and assessment area credit needs. The bank’s loan-to-deposit ratio, calculated from Call Report data, averaged 81.9 percent over the past 23 quarters from September 30, 2015 to March 31, 2021. Examiners compared the bank’s average net loan-to-deposit ratio to five similarly situated institutions to help evaluate its 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 3/31/2021 \$(000s)	Average Net LTD Ratio (%)
Cedar Security Bank, Fordyce, NE	53,846	81.9
Chambers State Bank, Chambers, NE	71,957	102.3
Bank of Hartington, Hartington, NE	118,240	82.2
Bank of Dixon County, Ponca, NE	113,340	75.3
First State Bank, Randolph, NE	71,674	101.2
Butte State Bank, Butte, NE	51,568	71.2
<i>Source: Reports of Condition and Income 9/30/2015 through 3/31/2021.</i>		

Assessment Area Concentration

The majority of the small farm, small business, and home mortgage loans reviewed, by number and dollar volume, 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)				
	Inside		Outside			Inside		Outside		Total
	#	%	#	%		#	\$	%	\$	%
Small Farm	81	93.1	6	6.9	87	8,818	92.0	768	8.0	9,586
Small Business	188	93.1	14	6.9	202	4,526	90.2	494	9.8	5,020
Home Mortgage	34	81.0	8	19.0	42	4,197	84.1	795	15.9	4,992

Source: Bank Data. Due to rounding, totals may not equal 100.0%

Geographic Distribution

The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.

Borrower Profile

Overall, the distribution of borrowers reflects excellent penetration among farms and business of different sizes and individuals at different income levels. Excellent performance was noted for both small farm and small business lending and reasonable performance was noted for home mortgage lending.

Small Farm Lending

The distribution of borrowers reflects excellent penetration among farms of different sizes. All the sampled small farm loans within the assessment area were to farmers with gross annual revenues of \$1 million or less. This high percentage reflects excellent performance. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	99.3	45	100.0	5,680	100.0
>\$1,000,000	0.7	0	0.0	0	0.0
Revenue Not Available	0.0	0	0.0	0	0.0
Total	100.0	45	100.0	5,680	100.0

Source: 2020 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%

Small Business Lending

The distribution of borrowers reflects excellent penetration among businesses of different sizes. The percentage by number of small business loans to businesses with gross annual revenues of \$1 million or less noticeably exceeds the comparable D&B data, reflecting excellent performance. The following table provides details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	77.5	50	90.9	656	61.6
>\$1,000,000	5.5	5	9.1	409	38.4
Revenue Not Available	16.9	0	0.0	0	0.0
Total	100.0	55	100.0	1,065	100.0
<i>Source: 2020 D&B Data, Bank Data. Due to rounding, totals may not equal 100.0%</i>					

Home Mortgage Loans

The distribution of borrowers reflects reasonable penetration among individuals of different income levels. The bank did not originate any loans to low-income borrowers in the assessment area within the prior year. However, the bank’s performance is reasonable after considering the affordability of homes in the assessment area. A low-income family in the assessment area, with an income of \$30,729 or less would not typically qualify for a mortgage under conventional underwriting standards, considering the median housing value of \$97,729. Therefore, the opportunity for lending to low-income families is limited. Further supporting the bank’s reasonable performance is its level of lending to moderate-income borrowers. Sampled loans reveal lending levels to moderate-income borrowers similar to the demographic composition of the assessment area. The following table provides details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	18.1	0	0.0	0	0.0
Moderate	16.5	5	14.7	315	7.5
Middle	25.0	13	38.2	1,430	34.1
Upper	40.4	16	47.1	2,453	58.4
Not Available	0.0	0	0.0	0	0.0
Total	100.0	34	100.0	4,197	100.0
<i>Source: 2015 ACS; Bank Data. Due to rounding, totals may not equal 100.0%</i>					

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

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

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.