



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

June 04, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Johnson
Charter Number 8161**

**125 Main Street
Johnson, Nebraska 68378**

**Comptroller of the Currency
Omaha Field Office
13710 FNB Parkway Suite 110
Omaha, Nebraska 68154**

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.

INSTITUTION’S CRA RATING: This institution is rated Satisfactory.

The First National Bank of Johnson (FNB Johnson) meets the credit needs of its assessment area (AA).

- The bank’s loan-to-deposit (LTD) ratio is lower than similarly situated banks in the AA, but does meet the standards for satisfactory performance.
- A majority of the bank’s loans are within its AA.
- FNB Johnson’s performance in lending to individuals of different income levels and businesses and farms of different sizes within its AA is good.
- The bank did not receive any complaints about its performance in meeting the credit needs of the AA during the evaluation period.

DESCRIPTION OF INSTITUTION

FNB Johnson is a \$60 million institution located in southeast Nebraska. The bank is 100% owned by First National Johnson Bancshares, Inc., a one-bank holding company. FNB Johnson operates a branch and automated teller machine in Auburn, Nebraska in addition to the main bank facility in Johnson, Nebraska. There are no legal or financial factors that impede the bank’s ability to help meet the credit needs of the AA. It received a “Satisfactory” CRA rating at the last examination dated November 21, 2002.

FNB Johnson offers traditional loan and deposit products. According to the bank’s March 31, 2007 Call Report, the bank’s loan portfolio consists of agricultural (54%), commercial (21%), consumer (15%), and residential real estate (9%) loans based on outstanding dollars. The following table shows the breakdown of loans originated and purchased since January 1, 2005, with the bank’s primary products in bold.

Loan Type	% by Dollars of Loans Originated/Purchased during evaluation period	% by Number of Loans Originated/Purchased during evaluation period
Agriculture Loans	60%	25%
Consumer Loans	18%	64%
Commercial Loans	19%	10%
Home Loans	3%	1%
Total	100%	100%

Source: Bank Reports

Please refer to the bank’s *CRA Public File* for more information.

DESCRIPTION OF ASSESSMENT AREA

FNB Johnson has one AA that encompasses all of Johnson and Nemaha counties. Both counties are designated underserved by the Federal Financial Institutions Examination Council (FFIEC). The AA is contiguous and reasonable for the bank. Included in the AA are Nemaha county census tracts 9981 and 9982, and Johnson county census tracts 9975 and 9976. The four census tracts are designated middle-income census tracts. This is a change from the last CRA examination when the AA was comprised of three middle- and one upper-income census tract. The AA does not arbitrarily exclude any low- or moderate-income areas.

According to the 2000 U.S. Census, the total population of the AA is 12,064. The population of Nemaha and Johnson counties has been declining over the past several years. Between 1990 and 2000, the population of the bank's AA declined 4.7% and the number of households declined 1.9%. Concurrent with the declining population has been an increase in the unemployment rate and an increase in the number of persons over 65 years old. Average median family income also declined over the same period by 4.7%. The percentage of low, moderate, middle, and upper income families remained stable between 1990 and 2000.

Businesses and farms are doing reasonably well; however, one of the larger employers in the area, Auburn Consolidated Industries (ACI), Inc. has recently downsized its workforce. ACI is a manufacturer specializing in the design and production of grounds maintenance, light construction, and agricultural equipment.

Examiners conducted two community contacts with local organizations. The contacts represented the communities of Johnson and Auburn. Neither contact had any concerns about financial institutions not meeting the needs of the community. The community contact in Johnson indicated that FNB Johnson did a good job working with and meeting the needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Johnson's average LTD ratio over the past 19 quarters meets the standards set forth in the regulation. The bank's average LTD ratio was 24.7%. This is substantially lower than the 73.9% average of the three similarly situated banks chartered in the AA, with a range from 60.6% to 86.7%. However, management attributes the low LTD ratio to competition and demographic characteristics. FNB Johnson has only operated in the Auburn market for ten years, and faces strong competition from two affiliated banks that are well established in the market. The bank has not sold any residential real estate loans to the secondary market from 2005-2007 that would affect their LTD ratio. However, the bank continues to make small dollar loans that do not result in a significant increase in their LTD ratio, but help to meet credit needs of the community.

The bank bought the Auburn branch from another financial institution in 1997. This purchase included only the acquisition of deposits without acquiring any loans, which negatively impacted the bank's LTD ratio. In the ten years that FNB Johnson has operated in the Auburn location, the bank has generated limited loan volume due to the highly competitive market. Currently, the bank has about \$1,672M in loans at the Auburn location (12% of the bank's entire loan volume).

Lending in Assessment Area

FNB Johnson's lending in the AA meets the standard for satisfactory performance. We reviewed a sample of 20 agricultural, commercial, and consumer loans originated since January 1, 2005 to determine the bank's lending performance within the AA. We found 77% of the number of loans and 84% of the dollar volume of loans were within the bank's AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	18	90%	2	10%	20	\$467,713	91%	\$45,000	9%	\$512,713
Commercial	15	75%	5	25%	20	\$427,060	77%	\$124,595	23%	\$551,655
Consumer	13	65%	7	35%	20	\$79,576	84%	\$15,513	16%	\$95,109
Totals	46	77%	14	23%	60	\$974,349	84%	\$185,108	16%	\$1,159,457

Source: Bank Reports

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNB Johnson's performance for lending to small farms, small businesses, and households with low- or moderate-income levels is good. We reviewed a sample of 20 agricultural, commercial, and consumer loans to determine the bank's borrower distribution of loans. All of the loans in this sample were located in the AA and were originated after January 1, 2005.

The bank originated 100% of agriculture loans to farm operations in the AA with gross revenues of less than \$1 million. The bank compares favorably with demographic comparatives, which indicate 98% of AA farms have gross revenues less than \$1 million.

Borrower Distribution of Loans to Farms in Assessment Area		
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Farms*	98%	2%
% of Bank Loans in AA by #	100%	0%
% of Bank Loans in AA by \$	100%	0%

Source: Bank Reports; Dun and Bradstreet 2007 Information

*Under 1% of farms did not report revenue income

FNB Johnson originated 95% of loans to businesses with gross revenues of less than \$1 million. The bank greatly exceeds the demographic comparative ratio of 47%; however, only half of the businesses included in the demographic comparator in the AA reported gross revenues.

Borrower Distribution of Loans to Businesses in Assessment Area		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	47%	3%
% of Bank Loans in AA by #	95%	5%
% of Bank Loans in AA by \$	53%	47%

Source: Bank Reports; Dun and Bradstreet 2007 Information

**50% of businesses did not report revenue income*

FNB Johnson exceeds the number of consumer loans originated to low- and moderate-income households within the AA. The bank originated 51% of consumer loans to low-income borrowers and 19% of consumer loans to moderate-income borrowers. The bank compares favorably with demographic information, which indicates 24% of households in the AA have low-incomes and 18% of households in the AA have moderate-incomes.

Borrower Distribution of Consumer Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24%	51%	18%	19%	18%	12%	40%	18%

Source: Bank reports; 2000 US Census Information

Geographic Distribution of Loans

An analysis of the geographic distribution of loans was not meaningful as the AA did not have any low- or moderate-income geographies.

Responses to Complaints

The bank has not received any CRA related complaints since the last Performance Evaluation.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.