



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**April 07, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank Northeast  
Charter Number 6221

440 Main Street  
Lyons, NE 68038-0009

Office of the Comptroller of the Currency

Omaha Field Office  
13710 FNB Parkway, Suite 110  
Omaha, NE 68154-5298

**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.**

- First National Bank Northeast (FNBNE) adequately meets the credit needs of the community, as demonstrated by its quarterly average loan-to-deposit ratio (LTD) of 80.54% during the evaluation period.
- A majority of loans by both number (80%) and dollar volume (88%) are originated within the bank's assessment areas (AAs).
- The bank's distribution of loans reflected satisfactory penetration among farms and businesses of different sizes.
- The geographic distribution of loans within the AAs is reasonable.

**SCOPE OF EXAMINATION**

We reviewed agricultural, commercial, residential real estate, and consumer loans originated from January 1, 2005 to February 29, 2008 to identify FNBNE's primary loan products. Based on the table below, we identified agricultural and commercial loans as the bank's primary products. We randomly selected 20 loans from each of these primary products to determine loans in the AAs. We randomly selected 20 loans from each of the AAs for each primary product to assess borrower distribution. For one AA we sampled only agricultural loans due to an insufficient amount of commercial loans originated in the AA to provide us with an adequate sample. We analyzed geographic distribution for one AA using the loans sampled for borrower distribution. When making conclusions on overall performance, we gave equal weight to agricultural and commercial lending.

<b>LOAN PORTFOLIO ORIGINATIONS</b>				
	<b>Originated Loans by Number</b>		<b>Originated Loans by Dollar</b>	
	Number	Percentage	\$(000)	Percentage
Agricultural Loans	758	36.06%	90,222,712	67.93%
Consumer Loans	813	38.68%	5,819,199	4.38%
Residential RE Loans	160	7.61%	6,325,495	4.76%
Commercial Loans	371	17.65%	30,464,192	22.93%

*Source: Bank Reports*

**DESCRIPTION OF INSTITUTION**

FNBNE is a \$183 million bank located in Burt County in northeastern Nebraska. The bank is 95% owned by Farm & Home Insurance Agency, Inc., a one-bank holding company located in Lyons, Nebraska. FNBNE's main office is located in Lyons, Nebraska. The bank also operates seven full service branches in Uehling, Tekamah, Hooper, Oakland, Fremont, Hartington, and Ceresco, Nebraska. The bank does not have any deposit-taking automated teller machines. The bank's corporate structure has

not changed since the last Community Reinvestment Act (CRA) examination. There are no legal or financial impediments limiting the bank's ability to help meet community credit needs. FNBNE was rated "Satisfactory" at its last CRA examination dated September 24, 2003. As of December 31, 2007, FNBNE's \$124 million loan portfolio comprised 65.36% of average total assets.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The bank's AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. Due to the locations of FNBNE's seven branches, management has designated three AAs.

The first AA is all of Saunders County in Nebraska which includes five middle-income census tracts. The AA is in the Omaha MSA and is served by the Ceresco branch. According to the 2000 U.S. Census, the AA's population is 19,830. The 2000 weighted average median family income was \$49,905 and the 2007 weighted average updated median family income is \$64,800 for the Omaha MSA. Family income in the AA includes 19% low-income, 22% moderate-income, 30 % middle income, and 29% upper-income. Business demographics consist of 82.57% non-farm and 17.43% farm. The local economy is stable, and unemployment remains low at 1.25% compared to 2.8% for the state of Nebraska, and 5.1% for the nation (*U.S Dept. of Labor February 2008*).

The second AA is all of Burt and Dodge Counties in Nebraska which includes ten middle-income census tracts, one moderate-income tract, and two upper-income census tracts. The AA is served by the main bank in Lyons and the Uehling, Tekamah, Hooper, Oakland, and Fremont branches. According to the 2000 U.S. Census, the AA's population is 43,951. The 2000 weighted average median family income was \$43,855, and the 2007 weighted average updated median family income is \$50,400 for non-metropolitan statistical areas in Nebraska. Family income in the AA includes 15% low-income, 19% moderate-income, 25% middle-income, and 41% upper-income. Business demographics consist of 86.33% non-farm and 13.67% farm. The local economy is stable, and unemployment remains low at 1.68%.

The third AA is all of Cedar County in Nebraska which includes two middle-income census tracts. The AA is served by the Hartington branch. According to the 2000 U.S. Census, the AA's population is 9,615. The 2000 weighted average median family income was \$39,189. Family income in the AA includes 16% low-income, 22% moderate-income, 31% middle-income, and 31% upper-income. Business demographics consist of 75% non-farm and 25% farm. The local economy is stable, and unemployment remains low at 1.3%.

We conducted two community contacts during the examination with a local community development organization and a city official. The community contacts revealed that agricultural and small business loans remain the primary credit need within the community. FNBNE offers and originates these types of loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNBNE's LTD ratio is reasonable and meets the performance criteria, given its size, financial condition, and AA credit needs. FNBNE's LTD ratio follows the agricultural cycle from quarter to quarter but overall is steadily increasing. The quarterly LTD ratio average over the last 20 quarters from April 1, 2003 to December 31, 2007 is 80.54%. This is comparable to five similarly situated institutions in the bank's AA's. The five institutions had a combined average LTD ratio of 86.44% during the evaluation period, and ranged from 79.90% to 98.97%.

### Lending in Assessment Area

FNBNE originates a majority of its loans within the AA's and meets the performance criteria. The following table details the findings of our sample.

<b>LENDING IN THE ASSESSMENT AREA</b>									
<b>Loan Type</b>	<b>Number of Loans (40 total)</b>				<b>Dollars of Loans (\$742,000 total)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Inside</b>		<b>Outside</b>		
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>%</b>
Agricultural	17	85	3	15	1,252,484	78	345,000	22	
Commercial	18	90	2	10	543,148	85	97,470	15	
<b>Totals</b>	<b>35</b>	<b>88%</b>	<b>5</b>	<b>12%</b>	<b>\$1,795,633</b>	<b>80%</b>	<b>\$442,470</b>	<b>20%</b>	

Source: Bank Reports

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

The bank has a satisfactory record of lending to farms and businesses of different sizes, and meets the demographics of each AA.

#### Saunders County AA

FNBNE's distribution of loans to farms of different sizes in Saunders County was satisfactory. As shown in the following table, a majority of the loans were originated to farms with gross annual revenues of less than \$1 million, and 70% of those were originated to small farms with gross annual revenues of less than \$250,000. FNBNE meets income standards for agricultural lending when comparing to AA demographics.

<b>LOANS TO FARMS IN SAUNDERS COUNTY ASSESSMENT AREA</b>				
Farm Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	77%	0%	23%	100%
% of Bank Loans in AA by #	75%	0%	25%	100%
% of Bank Loans in AA by \$	99%	0%	1%	100%

Source: Sample of loans from January 1, 2005 to February 28, 2008, 2007 Business Geodemographic Data.

FNBNE’s distribution of loans to businesses of different sizes in Saunders County was exceptional. As shown in the below table, a majority of the loans were originated to businesses with gross annual revenues of less than \$1 million, and 90% of those were originated to very small businesses with gross annual revenues of less than \$250,000. FNBNE exceeds income standards for commercial lending when comparing to AA demographics.

<b>LOANS TO BUSINESSES IN SAUNDERS COUNTY ASSESSMENT AREA</b>				
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	99%	0%	1%	100%
% of Bank Loans in AA by #	75%	0%	25%	100%
% of Bank Loans in AA by \$	99%	0%	1%	100%

Source: Sample of loans from January 1, 2005 to February 28, 2008, 2007 Business Geodemographic Data.

Dodge and Burt Counties AA

FNBNE’s distribution of loans to farms of different sizes in Dodge and Burt Counties was satisfactory. As shown in the below table, a majority of the loans were originated to farms with gross annual revenues of less than \$1 million, and 55% of those were originated to very small farms with gross annual revenues of less than \$250,000. FNBNE meets income standards for agricultural lending when comparing to AA demographics. In concluding performance was satisfactory, we took into consideration the percentage of farms in the sample that did not have revenue information available.

<b>LOANS TO FARMS IN DODGE &amp; BURT COUNTIES ASSESSMENT AREA</b>				
Farm Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98%	0%	2%	100%
% of Bank Loans in AA by #	70%	0%	30%	100%
% of Bank Loans in AA by \$	76%	0%	24%	100%

Source: Sample of loans from January 1, 2005 to February 28, 2008, 2007 Business Geodemographic Data.

FNBNE’s distribution of loans to businesses of different sizes in Saunders County was satisfactory. As shown in the below table, a majority of the loans were originated to businesses with gross annual revenues of less than \$1 million, and 75% of those were originated to very small businesses with gross annual revenues of less than \$250,000.

FNBNE meets income standards for commercial lending when compared to AA demographics. In concluding performance was satisfactory, we took into consideration demographic data that showed a large percentage of businesses in the AA did not have revenue information available. When including the unknown businesses, a maximum of 96% of AA businesses have gross annual revenues under \$1 million. This is similar to FNBNE’s 85% in the same income category.

<b>LOANS TO BUSINESSES IN DODGE &amp; BURT COUNTIES ASSESSMENT AREA</b>				
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	55%	4%	41%	100%
% of Bank Loans in AA by #	85%	5%	10%	100%
% of Bank Loans in AA by \$	88%	11%	1%	100%

*Source: Sample of loans from January 1, 2005 to February 28, 2008, 2007 Business Geodemographic Data.*

Cedar County AA

FNBNE’s distribution of loans to farms of different sizes in Cedar County was satisfactory. As shown in the below table, a majority of the loans were originated to farms with gross annual revenues of less than \$1 million, and 40% of those were originated to very small farms with gross annual revenues of less than \$250,000. FNBNE meets income standards for agricultural lending when comparing to AA demographics. In concluding performance was satisfactory, we took into consideration the size of the loans made to borrowers. All loans in the sample made to farms with verifiable revenue greater than \$1 million were to the same borrower and totaled less than \$63,000. Therefore, the percentage by dollar amount is more reflective of the bank’s lending practices to farms of different sizes.

<b>LOANS TO FARMS IN CEDAR COUNTY ASSESSMENT AREA</b>				
Farm Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	70%	15%	15%	100%
% of Bank Loans in AA by \$	95%	1%	5%	100%

*Source: Sample of loans from January 1, 2005 to February 28, 2008, 2007 Business Geodemographic Data.*

**Geographic Distribution of Loans**

An analysis of the geographic distribution of loans was meaningful for the Dodge and Burt Counties AA due to the AA containing one moderate-income census tract, ten middle-income census tracts, and two upper-income census tracts. FNBNE’s record of lending to agricultural and commercial borrowers in different income tracts is reasonable. Due to an overwhelming majority of the AA consisting of middle-income census tracts for both commercial and agricultural borrowers, FNBNE meets the standards of distribution of credit within the AA. It is not reasonable for the bank to

serve the moderate-income and upper-income census tracts due to the low number of borrowers in the AA. The following table shows the breakdown of loans as compared to the AA demographics.

GEOGRAPHIC DISTRIBUTION OF LOANS IN DODGE & BURT COUNTIES AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% #	% of AA	% of #	% of AA	% of #	% of AA	% of #	% of AA
Loan Type								
Agricultural	0%	0%	0%	0.52%	100%	95.47%	0%	4.01%
Commercial	0%	0%	0%	0.00%	100%	85.46%	0%	14.54%

Source: Loan Sample; 2007 Business Geodemographic Data.

### Responses to Complaints

FNBNE has not received any Community Reinvestment Act 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.