



SMALL BANK

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

PUBLIC DISCLOSURE

May 07, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Cambridge
Charter Number 6506**

**707 Patterson
Cambridge, Nebraska 69022**

**Comptroller of the Currency
Omaha South 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 Cambridge (FNB) adequately meets the credit needs of the community. The bank's primary lending activities are to agricultural and consumer borrowers.

- The sampling process, discussed further in the Performance Evaluation, showed a substantial majority of the loans originated are within the bank's assessment area (AA).
- The bank has a more than reasonable record of lending to small agricultural borrowers. In addition, the bank's overall record of lending to households of different income levels throughout the AA is satisfactory.
- A comparison of the two primary loan types reveals that FNB's geographic distribution of loans throughout the AA is more than reasonable.
- FNB's community development activities enhanced its overall Community Reinvestment Act (CRA) performance and helped to meet the needs of the AA, especially low-or moderate-income (LMI) individuals.

Examiners reviewed a sample of loans originated from January 1, 2002 to April 28, 2004. Loans originated in 2002 were compared to 1990 U.S. Census data. Loans originated in 2003 and 2004 were compared to 2000 U.S. Census data.

DESCRIPTION OF INSTITUTION

FNB is a \$40 million institution located in Cambridge, Nebraska. The bank is 99% owned by FNB Financial Services, a \$41 million one-bank holding company located in Cambridge, Nebraska. FNB does not have any branches, but does operate a Loan Production Office (LPO) in Arapahoe, Nebraska. In addition, the bank owns two automated teller machines, which are located at the Gas & Shop in Cambridge, Nebraska and at the LPO in Arapahoe, Nebraska.

The bank offers traditional loan and deposit products. As of December 31, 2003, the bank's loan portfolio totaled 65% of total assets. The bank's primary credit products are agricultural and consumer loans based on the number and dollar amount of originations. The table below shows the percentage of loan categories by dollar amount of originated and by the number of loans originated.

| Loan Type | % by Dollars of Loans Originated/Purchased During Evaluation Period | % by Number of Loans Originated/Purchased During Evaluation Period |
|--------------------|--|---|
| Agricultural Loans | 65% | 43% |
| Commercial Loans | 4% | 5% |
| Consumer Loans | 16% | 40% |
| Residential Loans | 15% | 10% |
| Other Loans | 0% | 2% |
| Total | 100% | 100% |

Source: Trial balance provided by the bank

There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. FNB received a "Satisfactory" rating at the prior CRA examination, dated October 26, 1998.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA includes all of Frontier, Furnas, Gosper, and Red Willow Counties. The AA includes seven contiguous Block Numbering Area's (BNA). According to the 1990 Census Data, six (86%) were considered middle-income tracts and one BNA was located in a moderate-income tract. The 2000 Census Data shows all BNAs in the AA are now considered middle-income tracts. This AA meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income areas. Individuals can refer to the CRA Public File for a map outlining the bank's AA.

According to the 1990 U.S. Census, the total population of the AA is 22,287. The 1990 and 2000 census estimated 19% of families in the AA were low-income, 21% were moderate-income, 26% were middle-income, and 34% were upper-income. Fourteen percent of the AA households are below the poverty level. The 2002 weighted average updated median family income is \$45,800 for non-metropolitan statistical areas in Nebraska. The median housing value in the AA is \$31,237 and 59% of housing is owner-occupied.

According to the 2000 U.S. Census, the total population of the AA decreased to 22,014. Eleven percent of the AA households are below the poverty level. The 2003 weighted average updated median family income is \$48,300 for non-metropolitan statistical areas in Nebraska. The median housing value increased to \$54,693 and 61% of housing is owner-occupied.

The local economy has been negatively affected by the drought. This has affected small farms and businesses in the AA. Agriculture, health services, communications, power companies, and local schools provide the main sources of employment. There are nine other financial institutions with branches within the AA that provide the primary competition for FNB. These institutions range in size from approximately \$13 million to \$191 million in total assets.

Examiners made one community contact during the CRA examination. The new contact indicated that agricultural, small business, and residential real estate lending are the primary community credit needs. FNB offers and originates these types of loans.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's average loan-to-deposit (LTD) ratio is reasonable, given its size, financial condition, and AA credit needs. The LTD ratio averaged 73% over the past twenty-one quarters (since the prior CRA examination) and was 71% as of December 31, 2003. The average for the nine similarly situated banks within the AA is 76%, with a range from 64% to 92%.

Lending in Assessment Area

FNB originates a substantial majority of its loans within the AA. We reviewed a sample of originated loans from the primary product types to determine the lending within the AA. The sample was selected from loans originated from January 1, 2002 through April 28, 2004. The following table summarizes the findings from the sample.

| Lending in Assessment Area | | | | | | | | | | |
|-----------------------------------|-----------------|----|---------|----|-------|------------------|----|---------|---|-------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Totals | 16 | 80 | 4 | 20 | 100 | 1,112,085 | 92 | 98,570 | 8 | 100 |

Source: Data reported from bank's loan trial balance.

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

A comparison of the two primary loan types reveals that FNB's loan distribution by income meets the standards for a satisfactory rating. FNB has reasonable loan penetration among households of different income levels, and more than reasonable penetration among farms of different sizes. The following explains the results for each loan sample taken.

Farm Loans

The bank has a more than reasonable record of lending to small agricultural borrowers. A majority of the loans originated and dollar amount originated were to small farming operations that had gross annual revenues less than \$1 million. This reasonably compares to the 2003 Business Geodemographic Data as shown in the tables below. The following table summarizes the number and dollar volume of the agricultural loan sample.

| Borrower Distribution of 2002 Loans to Farms in Assessment Area | | | |
|--|--------------|--------------|----------------------------------|
| Farm Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Farms Not Reporting Revenue Data |
| % of AA Farms | 97% | 2% | 1% |
| % of Bank Loans in AA by # | 95% | 0% | 5% |
| % of Bank Loans in AA by \$ | 97% | 2% | 1% |

Source: 2002 Loan Sample; 2003 Business Geodemographic Data

| Borrower Distribution of 2003 and 2004 Loans to Farms in Assessment Area | | | |
|---|--------------|--------------|----------------------------------|
| Farm Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Farms Not Reporting Revenue Data |
| % of AA Farms | 97% | 2% | 1% |
| % of Bank Loans in AA by # | 95% | 0% | 5% |
| % of Bank Loans in AA by \$ | 99% | 0% | 1% |

Source: 2003 & 2004 Loan Sample; 2003 Business Geodemographic Data

Consumer Loans

We consider the bank's overall record of lending to households of different income levels throughout the AA as satisfactory.

The following table displays the bank’s lending practices based on our sample of 2002 consumer borrowers. The table reveals that 45% of the number of FNB’s 2002 consumer borrowers are in low-moderate income households. This compares reasonably to the 1990 U.S. Census data that reveals 42% of reporting consumers were in low-moderate households.

| Borrower Distribution of 2002 Consumer Loans in AA | | | | | | | | |
|---|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans |
| Consumer Loans | 25 | 25 | 17 | 20 | 22 | 30 | 36 | 5 |

Source: 2002 loan sample; 1990 U.S. Census

The following table displays the bank’s lending practices based on our sample of 2003 and 2004 consumer borrowers. The table reveals that 30% of the number of FNB’s 2003 and 2004 consumer borrowers are in low-moderate income households. This adequately compares to the 2000 U.S. Census data that reveals 41% of reporting consumers were in low-moderate households.

| Borrower Distribution of 2003 and 2004 Consumer Loans in AA | | | | | | | | |
|--|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans |
| Consumer Loans | 23 | 10 | 18 | 20 | 22 | 10 | 36 | 25 |

Source: 2003 & 2004 Loan sample; 2000 U.S. Census

Geographic Distribution of Loans

A comparison of the two primary loan types reveals that FNB’s geographic distribution of loans throughout the AA is more than reasonable. A geographic analysis was only performed for the 2002 sample because the 1990 Census Data identified one BNA located in a moderate-income tract. The 2000 Census Data shows all BNAs in the AA are now considered middle-income tracts so a geographic analysis would not have been meaningful for the 2003 and 2004 loan sample.

The following table displays the geographic distribution of the bank’s lending practices based on the sample of farm loans. The table reveals that 20% of the number of FNB’s farm loans are located in LMI tracts. This more than reasonably compares to 2003 Business data that shows 12% of farms in the AA were located in LMI tracts.

| Geographic Distribution of 2002 Loans to Farms in Assessment Area | | | | | | | | |
|---|---------------|----------------------|---------------|----------------------|---------------|----------------------|---------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Farms | % of Number of Loans | % of AA Farms | % of Number of Loans | % of AA Farms | % of Number of Loans | % of AA Farms | % of Number of Loans |
| Farm Loans | N/A | N/A | 12 | 20 | 88 | 80 | N/A | N/A |

Source: 2002 loan sample; 2003 Business Data

The following table displays the geographic distribution of the bank’s lending practices based on the sample of consumer loans. The table reveals that 25% of the number of FNB’s consumer loans were located in LMI tracts. This more than reasonably compares to 2003 Business data that shows 7% of households in the AA were located in LMI tracts.

| Geographic Distribution of 2002 Consumer Loans in Assessment Area | | | | | | | | |
|---|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans | % of AA Households | % Number of Loans |
| Consumer Loans | N/A | N/A | 7 | 25 | 93 | 75 | N/A | N/A |

Source: 2002 loan sample; 1990 U.S. Census

Community Development Loans

The bank originated one community development loan during the evaluation period. The \$130,000 community development loan was used to finance the construction of affordable housing for LMI individuals and families. The housing benefits LMI individuals by using income restriction guidelines. The project resulted in 16 new apartment units.

Community Development Investments

Qualified investments include a \$128,895 investment in a project to provide 16 units of affordable housing for LMI persons. The housing benefits LMI individuals by using income restriction guidelines

Responses to Complaints

The bank did not receive any consumer complaints regarding its CRA performance during the assessment period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.