



Public Disclosure

August 3, 1998

Community Reinvestment Act Performance Evaluation

**Community First National Bank
Charter Number: 23415
224 Box Butte Avenue
Alliance, Nebraska 69301**

**Supervisory Agency: Office of the Comptroller of the Currency
Midwestern District
2345 Grand Boulevard, Suite 700
Kansas City, Missouri 64108**

NOTE: 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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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Community First National Bank (CFNB)**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **August 3, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Block Numbering Area (BNA) - The Bureau of the Census, in conjunction with state agencies, has established BNAs as statistical subdivisions of counties in which census tracts have not been established.

Community Development Purpose is defined as affordable housing (including multifamily rental housing) for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing businesses or farms that meet size and revenue standards defined by the CRA regulation; and, activities that vitalize or stabilize low- and moderate-income geographies. Community development loans specifically exclude loans which have been reported under the Home Mortgage Disclosure Act or as small loans to businesses or farms, except for multi-family rental housing loans, which can be reported under both categories.

Community Development Loan - A loan which must have as its *primary* purpose community development.

Community Development Service - A service that must have community development as its *primary* purpose and be related to the provisions of financial services.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA 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 its disposition (e.g., approved, denied, withdrawn).

Income Levels -

Low-Income = Income levels that are less than 50 percent of the Median Family Income.

Moderate-Income = Income levels that are at least 50 percent and less than 80 percent of the Median Family Income.

Middle-Income = Income levels that are at least 80 percent and less than 120 percent of the Median Family Income.

Upper-Income = Income levels that are 120 percent or more of the Median Family Income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts and BNAs. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

CRA Rating

Institution’s CRA Rating: This institution is rated “**Satisfactory.**”

The major factors that support this rating include:

- ▶ CFNB demonstrates a good record of serving the credit needs of low- and moderate-income borrowers, small businesses, and small farms consistent with safe and sound banking practices.
- ▶ CFNB’s lending volume is high within the context of market conditions and competition.
- ▶ CFNB’s retail services are reasonably accessible through its branch/ATM locations and telephone/computer banking services.
- ▶ CFNB has a satisfactory level of community development services, particularly from the expertise that its employees shared with organizations that provided housing and social service needs or with educational and financial seminars provided to small businesses and small farms.

The following table indicates the performance level of **Community First National Bank**, with respect to the lending, investment, and service tests:

Community First National Bank Performance Tests			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory			X
Needs to improve			
Substantial noncompliance		X	

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The bank’s previous CRA evaluation dated September 11, 1995, rated the bank “Satisfactory” overall.

Description of Institution

Community First National Bank (CFNB) is wholly owned by Community First Bankshares, Inc. (CFBI), of Fargo, North Dakota (\$5.7 billion in assets) and comprises five percent of CFBI assets. CFNB has eleven branches throughout northwest Nebraska with its largest branch in Alliance. Other locations include Bridgeport, Chadron, Cody, Gordon, Hemingford, Hyannis, Merriman, Mullen, Thedford, and Valentine. Because the branches are outside an MSA, the bank does not report its home lending activity for HMDA purposes. Additionally, in Scottsbluff, the bank has a loan production office and deposit taking ATM. The bank has nine other automated teller machines (ATMs) found throughout its assessment area.

No financial or legal obstacles affect CFNB's ability to help meet its community's credit needs. The loan-to-deposit ratio of 89 percent is higher than national peer banks. The bank had total assets of \$353 million and net income of \$2.2 million as of June 30, 1998. The following table portrays the principal loan mix of the bank's loan portfolio:

Loans Outstanding as of June 30, 1998		
Type of Loans	Amount (\$000s)	Percentage
Real Estate	\$67,656	29%
Commercial	59,950	26%
Consumer	47,907	20%
Agricultural	54,833	23%
Other	4,578	2%
Total	\$234,924	100%

Source: Bank Records

Banking competition in the assessment area is moderate. Two statewide bank holding company banks, local credit unions, a statewide savings and loan company branch, and small community banks provide banking competition in the area.

Description of Assessment Area

CFNB has defined one assessment area consisting of twenty-four contiguous BNAs. These areas are found in nine rural counties in northwest Nebraska as follows:

Assessment Area Subdivisions and Associated BNAs					
County (Population*)	BNAs	County (Population*)	BNAs	County (Population*)	BNAs
Box Butte (13,130)	3	Cherry (6,307)	2	Dawes (9,027)	2
Grant (769)	1	Hooker (793)	1	Morrill (5,423)	1
Scotts Bluff (36,025)	11	Sheridan (6,750)	2	Thomas (851)	1

* Source: 1990 Census Data

The assessment area meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas (LMI). LMI is used throughout this document to describe low- and moderate-income individuals and/or BNAs. The following table reflects the demographics of the assessment area.

ASSESSMENT AREA DEMOGRAPHICS			
Designation	# of BNAs	% of Total BNAs	% of Families in BNAs
Low	0	0%	0%
Moderate	4	17%	12%
Middle	18	75%	78%
Upper	2	8%	10%
TOTAL	24	100%	100%

Source: 1990 U.S. Census data

The population of this area was 79,069 as of the 1990 census. The assessment area's 1990 census median family income was \$27,623; the updated 1998 HUD estimated median family income is \$39,300. While the table above shows the area to be predominantly middle-income, assessment area BNA geographies are not highly defined according to family income. The following table indicates 41 percent of assessment area families are low- to moderate-income. Only 17 percent of all low- and moderate-income families live in the moderate-income BNAs. The majority (78 percent) of all families live in middle-income BNAs.

PERCENTAGE OF FAMILIES BY INCOME LEVEL OF BNA					
BNA Category	Low-Income Families # / %	Moderate-Income Families # / %	Middle-Income Families # / %	Upper-Income Families # / %	Total Families # / %
Moderate-Income	771 (18%)	758 (17%)	538 (11%)	564 (7%)	2,631 (12%)
Middle-Income	3,497 (79%)	3,449 (77%)	3,940 (81%)	5,963 (77%)	16,847 (78%)
Upper-Income	135 (3%)	284 (6%)	413 (8%)	1,246 (16%)	2,079 (10%)
Total Families in Category (% of Total Families)	4,403 (20%)	4,491 (21%)	4,891 (23%)	7,773 (36%)	21,557 (100%)

Source: 1990 U.S. Census data

Principal industries and major employers in the area include railroad, manufacturing, agriculture, and the public schools systems. Community contacts described the local economy as sound but having a higher risk profile because it lacks diversification. The area is highly reliant on agriculture and a few major employers.

Average housing costs as of 1995 ranged from around \$20,000 in the less populated counties to \$55,000 in Box Butte and Scotts Bluff counties, according to the Nebraska Department of Revenue. Although increasing, home prices remain affordable. However, community contacts in Scotts Bluff and Box Butte counties indicated a lack of available housing stock exists. A strong economy and low unemployment (three percent statewide in 1997 per the Nebraska Department of Labor) have created a strong demand for housing. Nevertheless, there is reluctance to build new homes because of the cyclical nature of the agricultural industry and the reliance on a limited number of employers for jobs.

Assessment Area Credit Needs

In our evaluation of the bank's CRA performance, we identified the credit and community development needs. We obtained information from three previous contacts made by the OCC and the FDIC with community organizations familiar with the economic conditions and credit needs within the assessment area. We also performed four additional community contacts during our examination to further our understanding of the area. The primary credit and community development needs of the assessment area include:

- Affordable home ownership programs.
- Loans to small businesses.
- Loans to agricultural operations.

Conclusions with Respect to Performance Tests

LENDING TEST

In assessing lending performance, we focused on CFNB's lending activity; assessment area concentration; geographic distribution of loans; borrower profile; responsiveness to credit needs of economically disadvantaged geographies, low-income persons, or small businesses and small farms; community development lending; and product flexibility. We assessed loan performance from January 1, 1996, through June 30, 1998, except in our analysis of real estate loan distribution by borrower. In this analysis, we analyzed information through July 31, 1998, to work with information the bank provided. (Unless otherwise indicated, YTD 1998 means as of June 30, 1998.) For all loan types, we verified the bank provided information by reviewing five to ten percent of files originated for accuracy. We verified information from 1996 through YTD 1998 except in the case of small business and small farm information for 1996 because the supporting data was prepared by an outside vendor and not available for review.

Conclusions

The bank's lending performance within its assessment area is rated as "High Satisfactory." This rating is based on the following:

- ▶ CFNB demonstrates a good record of serving the credit needs of low- and moderate-income borrowers, small businesses, and small farms consistent with safe and sound banking practices.
- ▶ CFNB's lending volume is high within the context of market conditions and competition.
- ▶ The distribution of loans by borrower reflects good penetration among customers of different income levels and business/farm size.
- ▶ The distribution of loans reflects an adequate penetration throughout the assessment area.
- ▶ CFNB's lending activity reflects good responsiveness to the credit needs of its assessment area.

Lending Activity

Lending levels reflect good responsiveness to credit needs in the bank's assessment area. The bank's loan-to-deposit ratio is very high. As of June 30, 1998, the loan-to-deposit ratio was 89 percent. This is significantly higher than peer at 74 percent. CFNB originated 7,277 loans totaling \$171 million for the period 1997 through June 30, 1998. CFNB originated most of its loans in the assessment area. As noted in the following table, 74 percent of the total number and 60 percent of the total dollar volume of loans are within the assessment area.

Community First National Bank Volume of Loan Originations in 1997 and YTD 1998						
Product	Total Originations		Within Assessment Area			
	#	\$(000s)	#	%	\$(000s)	%
Home Purchase/Refinance Loans	352	\$ 16,486	322	92%	\$ 14,861	90%
Home Improvement Loans	39	\$ 261	32	82%	\$ 195	75%
Multifamily Loans	4	\$ 1,215	2	50%	\$ 308	25%
Total Home Mortgage Loans	395	\$ 17,962	356	90%	\$ 15,364	86%
Total Small Business Loans	898	\$ 70,889	713	79%	\$ 28,269	40%
Total Small Farm Loans	609	\$ 33,597	501	82%	\$ 25,010	74%
Total Consumer Loans	5,374	\$ 47,460	3,778	70%	\$ 33,304	70%
Total Community Development	1	\$ 850	1	100%	\$ 850	100%
Grand Total	7,277	\$170,758	5,349	74%	\$102,797	60%

Source: Bank prepared Consumer, Small Business and Home Lending Data Collection Registers

Home mortgage loans comprise 11 percent of the dollar volume of total loans the bank originated. Of these loans, 92 percent of the number made are for home purchase and refinance. More than 90 percent of home purchase/refinance loans and 86 percent of total home mortgage loans are within the assessment area.

Based on dollar volume, small business and small farm loans account for the largest segment of lending at 61 percent of total loans originated during 1997 and YTD 1998. Within the assessment area, CFNB originated 1,214 small business and small farm loans totaling more than \$53 million. Small business loans comprise about 60 percent of the total, while small farm loans represent about 40 percent.

Consumer loans account for 74 percent of the number of loans originated but amount to only 28 percent of loans by dollar volume. Motor vehicle loans comprise the largest portion of the number of consumer loans at 63 percent. Many of these loans were generated out of the Scottsbluff loan production office.

Distribution by Borrower Income within the Assessment Area

The distribution of loans by borrower reflects good penetration among customers of different income levels and business/farm size. The following tables show the distribution of residential and consumer loans among different income levels of families based on 1998 HUD estimated median family income. And they show the distribution of small business and small farm loans by loan size.

Residential Loans

CFNB's distribution of residential loans to low- and moderate-income families is good. In 1996 through YTD 1998, the bank's lending to low-income families was lower than the demographic distribution of low-income families. However, we found that the bank performed very favorably compared to the institutions within this assessment area that reported HMDA-related loan information. In 1997, the top ten reporting institutions originated 877 real estate loans with 58 (or 6.6 percent) of these to low-income families and 147 (or 16.8 percent) of these to moderate-income families. All forty-seven reporting institutions reported 970 loans with 6.4 percent and 16.9 percent of lending to low- and moderate-income borrowers, respectively. The bank originated 7.2 percent of its real estate loans to low-income families and 18.0 percent of its loans to moderate-income borrowers. We consider this the primary indicator of real estate lending performance because it shows that the bank is reaching low- and moderate-income individuals. With only four moderate-income BNAs in the bank's assessment area, the BNA distribution analysis is not as helpful in determining the bank's real estate lending performance. The following table shows the distribution of the bank's real estate lending to families with low- to upper-incomes for 1996 through July 31, 1998.

TOTAL RESIDENTIAL LOAN ORIGINATIONS - Borrowers' Profile								
Demographics			July 98 YTD		1997		1996	
Distribution of Families	# of Families	% TOTAL	# LOANS	% TOTAL	# LOANS	% TOTAL	# LOANS	% TOTAL
Low	4,403	20.4%	5	5.0%	14	7.2%	17	8.5%
Moderate	4,491	20.8%	15	15.2%	35	18.0%	37	18.4%
Middle	4,891	22.7%	35	35.4%	70	36.1%	61	30.3%
Upper	7,773	36.1%	44	44.4%	74	38.2%	85	42.3%
NA	0	0.0%	0	0.0%	1	0.5%	1	0.5%
Total	21,558	100.0%	99	100.0%	194	100.0%	201	100.0%

Source: Bank Records. We performed our borrower distribution analysis using reports generated by the real estate department. These reports did not include several mobile home loans and twelve loans originated in Chadron.

Small Business and Small Farm Loans

The percentage of small loans to small businesses and small farms is excellent. Other banks that reported small business and small farm loans in 1997 originated a high percentage of loans (90 percent) less than \$100,000 in size. The bank exceeded this level at 91 percent. The following tables provide a breakdown of lending by loan size.

DISTRIBUTION OF SMALL BUSINESS LOAN ORIGINATIONS in 1997 and YTD 1998 by Loan Size						
BNAs	<\$100,000		\$100,001-\$250,000		\$250,001-\$1,000,000	
	#	\$(000s)	#	\$(000s)	#	\$(000s)
Moderate	73	\$ 974	0	\$ 0	2	\$1,000
Middle	450	\$10,277	25	\$3,626	15	\$7,732
Upper	141	\$ 2,960	5	\$ 900	2	\$ 800
Total	664	\$14,211	30	\$4,526	19	\$9,532

Source: Bank Records

DISTRIBUTION OF SMALL FARM LOAN ORIGINATIONS in 1997 and YTD 1998 by Loan Size						
BNAs	<\$100,000		\$100,001-\$250,000		\$250,001-\$500,000	
	#	\$(000s)	#	\$(000s)	#	\$(000s)
Moderate	11	\$ 433	4	\$ 617	2	\$ 676
Middle	392	\$11,240	45	\$7,229	8	\$3,229
Upper	36	\$ 956	3	\$ 630	0	\$ 0
Total	439	\$12,629	52	\$8,476	10	\$3,905

Source: Bank Records

Additionally, our sample of 149 small business/farm loans showed a substantial majority of borrowers, who reported their income, have revenues less than \$1 million. Of the ninety-seven loans that qualified as small business/small farm loans, in which income was reported, 88 percent have gross revenues less than \$1 million. A large percentage of borrowers (25 percent) did not report their income for loan analysis. However, a review of the balance sheet and lending capacity suggests that the majority of these were also small in size.

Consumer Loans

We reviewed a sample of CFNB’s consumer loans to determine the distribution of lending by borrower income. We reviewed 235 loans totaling \$2.5 million. They comprise six percent of total consumer loan originations for 1997 and YTD 1998. Based on this review, CFNB’s consumer loan distribution to low- and moderate-income families is excellent. The percentage of bank originations in low- and moderate-income areas greatly exceeded the percentage distribution of families in these areas. The following table shows the distribution of the bank’s consumer loans to families of low- to upper-incomes.

TOTAL CONSUMER LOAN ORIGINATIONS - Borrowers' Profile					
FAMILY INCOME		June 30, 1998 - YTD		1997	
Distribution of Families	# %	# Sampled Loans %Total Sample	\$ (000s) %Total	# Sampled Loans %Total Sample	\$ (000s) %TOTAL
Low	4,403 20.4%	22 23.2%	\$86 6.8%	32 22.9%	\$196 16.2%
Moderate	4,491 20.8%	29 30.5%	\$316 25.1%	28 20.0%	\$208 17.2%
Middle	4,891 22.7%	19 20.0%	\$462 36.7%	39 27.9%	\$416 34.4%
Upper	7,773 36.1%	19 20.0%	\$362 28.7%	36 25.7%	\$356 29.5%
NA	0 0.0%	6 6.3%	\$34 2.7%	5 3.5%	\$33 2.7%
Total	21,558 100.0%	95 100.0%	\$1,260 100.0%	140 100.0%	\$1,209 100.0%

Source: Information based on samples of loans and U.S. Census data.

Geographic Distribution of Loans within the Assessment Area

The overall geographic distribution of loans reflects adequate penetration throughout the assessment area. The following tables show the distribution of loans between moderate-, middle- and upper-income BNAs by product type. We placed less emphasis on the geographic distribution of loans than the borrower distribution because borrower distribution more clearly depicts the fact that mortgage related loans are being made to low- and moderate-income borrowers. While census data shows none of the bank's BNAs are low-income and only 17 percent are moderate-income, updated HUD median family income figures indicate low- and moderate-income families comprise 41 percent of assessment area families. The majority of all families (78 percent) and low- and moderate-income families (also 78 percent of all LMI families) live in middle-income BNAs.

Residential Loans

CFNB's geographic distribution of residential loans is reasonable. In 1997, CFNB originated a substantially lower percentage of its assessment area residential loans in moderate-income BNAs than the percentage of moderate-income BNAs compared with total BNAs. The bank also originated a lower percentage (8.3 percent) of its loans in moderate-income BNAs in 1997 when compared to banks in the assessment area that reported HMDA loans, which originated 13.9 percent of loans in moderate-income BNAs. This is partially mitigated by the fact that the bank does not have a full service branch in Scottsbluff, where two of the four moderate-income BNAs are located. The loan production office in that area generated consumer loans and did not generate residential real estate loans. The following table shows the distribution of the bank's real estate loans by different income level BNAs.

GEOGRAPHIC DISTRIBUTION - RESIDENTIAL LOANS WITHIN THE ASSESSMENT AREA						
BNAs		Housing	June 30, 1998 - YTD		1997	
Type	# %	% Owner Occupied	# LOANS %TOTAL	\$ (000s) %TOTAL	# LOANS %TOTAL	\$ (000s) %TOTAL
Moderate	4 17%	44.5%	2 1.7%	\$90 1.6%	14 5.9%	\$818 8.3%
Middle	18 75%	57.8%	82 68.3%	\$3,045 54.7%	179 74.9%	\$6,588 66.5%
Upper	2 8%	67.0%	35 29.2%	\$2,351 42.2%	44 18.4%	\$2,390 24.1%
N/A	0 0%	0.0%	1 0.8%	\$82 1.5%	2 0.8%	\$110 1.1%
Total	24 100%	N/A	120 100.0%	\$5,568 100.0%	239 100.0%	\$9,906 100.0%

Source: Bank Records

*Small Business and Small Farm Loans*Small Business Loans

The geographic distribution of small loans to businesses is very good. The bank originated a large percentage of loans in moderate-income BNAs for 1997 and YTD 1998, at 12.4 percent and seven percent, respectively. This represents a significant improvement over the bank's 1996 performance when it generated only two percent of its loans in moderate-income BNAs. This improvement is especially notable given that the bank had branches in only two of the four moderate-income BNAs in the assessment area. Also, the bank's performance exceeds all small business and small farm reporters for 1997, which reported only 6.6 percent of lending in moderate-income BNAs. The following table shows the distribution of the bank's small business loans by different income level BNAs.

GEOGRAPHIC DISTRIBUTION - SMALL BUSINESS LOAN ORIGINATIONS IN THE ASSESSMENT AREA							
BNAs %	# & % of Small Bus from Census	June 1998 - YTD		1997		1996	
		# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000s) %Total	# Loans %Total	\$ (000s) %Total
Moderate 17%	267 10%	26 12.4%	\$350 5.3%	49 7.0%	\$1,624 7.5%	19 2.0%	\$1,267 5.2%
Middle 75%	2,246 83%	150 71.4%	\$5,455 82.5%	340 75.8%	\$16,180 74.7%	709 93.0%	\$22,426 92.6%
Upper 8%	200 7%	34 11.2%	\$807 12.2%	114 17.2%	\$3,853 17.8%	38 5.0%	\$527 11.8%
Total	2,713 100%	210 100.0%	\$6,612 100.0%	454 100.0%	\$21,657 100.0%	1,618 100.0%	\$24,220 100.0%

Source: 1990 census data and bank records. We did not verify 1996 bank data because of a lack of supporting information.

Small Farm Loans

The bank's penetration of small farm loans into moderate-income BNAs declined significantly from 1996 to YTD 1998. In 1996, the bank originated 110 loans in moderate-income BNAs. However, in 1997 and 1998, the bank originated ten and seven small farm loans, respectively, in moderate-income BNAs.

The bank attributes the large drop in small farm loans to a lack of reporting of loan refinances in 1997 and 1998. Management believes that the 1997 and 1998 information reflects only new borrower loans and does not include refinances as it should. Management cites the stability of outstandings as a reflection of the bank's ongoing lending efforts into all BNAs without major declines in originations. Outstanding agricultural loans totaled \$48 million, \$51 million, and \$55 million for 1996, 1997, and YTD 1998, respectively, based on the bank's quarterly Report of Condition and Income. The following table shows the distribution of the bank's small farm loans by different income level BNAs.

TOTAL SMALL FARM LOAN ORIGINATIONS - Geodistribution							
BNAs %	# &% of Small Farms	June 1998 - YTD		1997		1996	
		# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000s) %Total	# Loans %Total	\$ (000s) %Total
Mod. 17%	22 10%	7 4.3%	\$362 3.8%	10 3.0%	\$1,364 8.8%	110 13.0%	\$3,984 10.8%
Middle 75%	184 82%	148 90.8%	\$8,638 91.5%	297 87.9%	\$13,060 83.9%	725 85.0%	\$32,162 87.6%
Upper 8%	18 8%	8 4.9%	\$444 4.7%	31 9.1%	\$1,142 7.3%	17 2.0%	\$580 1.6%
Total	224 100%	163 100.0%	\$9,444 100.0%	338 100.0%	\$15,566 100.0%	852 100.0%	\$36,726 100.0%

Source: 1990 Census and bank records. We did not verify 1996 data because of a lack of supporting information.

Consumer Loans

Overall distribution of consumer loans is satisfactory. The bank's distribution of originations between BNAs by income level are consistent with the assessment area's BNA composition. In 1997, the bank made 17.3 percent in number and 19.6 percent in dollar volume of its loans in its moderate-income BNAs, which comprise 17 percent of the assessment area. For YTD 1998, the number of loans in moderate-income BNAs declined to 14.9 percent, but the dollar volume continues to reflect BNA composition at 17.7 percent. The following table shows the distribution of the bank's consumer loans by different income level BNAs.

TOTAL CONSUMER LOAN ORIGINATIONS - Geodistribution					
BNAs		June-98 YTD		1997	
Type	# %	# LOANS %TOTAL	\$ (000s) %TOTAL	# LOANS %TOTAL	\$ (000s) %TOTAL
Moderate	4 17%	197 14.9%	1,903 17.7%	460 17.3%	4,621 19.6%
Middle	18 75%	1,019 77.2%	7,802 72.4%	1,986 74.7%	17,016 72.1%
Upper	2 8%	101 7.7%	1,038 9.6%	211 7.9%	1,940 8.2%
N/A	0 0%	3 0.2%	30 0.3%	3 0.1%	25 0.1%
Total	24 100%	1,320 100.0%	10,773 100.0%	2,657 100.0%	23,602 100.0%

Source: Bank provided data and U.S. Census data.

Community Development Lending

Based on bank prepared information, CFNB originated one community development loan totaling \$850,000 in July 1997. This loan financed the construction of nine duplexes, providing eighteen low-income housing units in Valentine, Nebraska. The bank also approved a permanent loan for \$400,000 when the project is completed. This lending targets affordable housing, and community contacts identified affordable housing programs as one of the most important credit needs in the community.

Product Innovation and Flexibility

CFNB offers some flexible and innovative mortgage products. The bank offers two credit products with innovative underwriting guidelines to serve the home mortgage credit needs of its assessment area. These non-conforming portfolio products are named the “Basic Mortgage Housing Program” and “Basic Mortgage Purchase/Rehabilitation Program.” These products provide up to 95 percent financing without private mortgage insurance. The bank created these products in response to an identified need for home loans that do not require private mortgage insurance (PMI). The bank found it difficult for customers to obtain PMI because of the rural and unique nature of their properties. The bank offsets the lack of insurance through pricing and maintains these loans in their portfolio. The “Basic Housing Program” offers an additional unsecured installment loan of up to \$3,000 to cover down payment and closing costs. While the maximum loan qualifiable under this product is \$50,000, the bank has no minimum loan size and allows financing for homes with sales prices lower than the conventional market minimum size limit. The bank made a total of fifteen of these loans to LMI families totaling \$471,000 in 1996 and 1997, but did not make any to LMI families in 1998.

In addition to these two mortgage products, the bank provides Veteran’s Administration (VA) and Federal Housing Administration (FHA) loans. The bank originated thirty-nine VA loans and ninety-one FHA loans from 1996 through YTD 1998. Of these loans, the bank originated seven (or 18 percent of VA loans) and twenty-nine (or 32 percent of FHA loans) to LMI families. The bank made many of these products under the Nebraska Investment Finance Authority (NIFA) program. This program provides loans at a reduced cost. From 1996 through YTD 1998, the bank originated fifty-one VA and FHA loans, with twenty-five to LMI families, through this program.

The bank offers Small Business Administration loans, but it does not track the number or dollar amount of originations for this loan type.

INVESTMENT TEST

To assess CFNB's performance under the Investment Test, we reviewed its investment and grant activity, responsiveness to credit and community development needs, and its initiatives with community development. Qualifying investments can include, but are not limited to, investments, grants, or depositor shares that have community development as their primary purpose as defined in the CRA regulation.

The bank's performance under the Investment Test is rated "Substantial noncompliance." Qualified investment activity over the evaluation period was unsatisfactory. Opportunities exist in the form of grants and donations to charitable organizations that have a community development purpose. CFNB made qualifying grants totaling \$4,259. Of this, \$2,459 helped support fifteen groups that provide food, clothing, temporary housing, child care, medical services, and other basic social services to low- and moderate-income families. The bank provided \$1,300 to a community foundation in Valentine for an undetermined low- and moderate-income project. The funds are in a deposit account until the foundation determines their use. Finally, the bank provided \$500 to assist with start-up costs for the local Consumer Credit Counseling agency. Because of the small dollar amount of the grants and the lack of use of the foundation funds, we found the impact of the bank's investments minimal.

In addition, the bank provided \$425 for educational purposes to schools and organizations serving low- and moderate-income residents living on the Indian Reservations adjacent to the bank's assessment area.

SERVICE TEST

In assessing CFNB's performance under the Service Test, we focused on the accessibility of its delivery systems, changes in branch locations, reasonableness of its business hours and services in meeting the needs of its assessment areas, and level of community development services.

Conclusions

The bank's performance under the Service Test is rated "Low Satisfactory."

- ▶ CFNB's delivery systems are reasonably accessible to essentially all portions of the assessment area.
- ▶ Bank products are the same at all branches, but hours of service vary based on location.
- ▶ The bank has not opened or closed any branches since our last examination.
- ▶ The bank provides a satisfactory level of community development services.

Retail Banking Services

The bank’s delivery systems are reasonably accessible to the entire population within the assessment area. CFNB has eleven branches and a loan production office located in the twenty-four BNAs that comprise the bank’s assessment area. One branch is located in a moderate-income BNA. The remaining ten are in middle-income BNAs. Although the majority of branches are in middle-income BNAs, these branches serve a high percentage of low- and moderate-income families given that 78 percent of these families live in the middle-income BNAs.

The bank operates ten proprietary Automated Teller Machines (ATMs). Three are adjacent to the bank’s branches, with one at the main bank location. The following table shows the distribution of CFNB’s branches and ATMs in the assessment area.

SERVICE TEST: Branch and ATM Distribution - CFNB’s Assessment Area					
Service Type	#	Deposits \$ (millions)	Moderate # - %	Middle # - %	Upper # - %
Full Service Branches	11	\$264	1 - 9%	10 - 91%	0 - 0%
ATM - Full Service	5		0 - 0%	5 - 100%	0 - 0%
ATM - non deposit taking	5		1 - 20%	4 - 80%	0 - 0%

Source: Bank Records

To maintain its community bank orientation, CFNB’s holding company treats the branches like separate banks. Each has a president with decision-making authority who oversees individual branch operations. Although the bank offers the same products at each branch, the service hours vary and are considered reasonable. Lobby hours are generally from 9 a.m. to 4 p.m. Monday through Friday. Five branches have extended drive-up hours, with service on Saturday at four of the branches. Some offices have extended hours at least one night a week. Smaller branches have reduced lobby hours and do not have drive-up service. Other delivery systems include a 24-hour toll-free telephone banking service and a bank-by-mail service.

Additionally, the bank provides a few services to better serve low- and moderate-income individuals. At all locations, CFNB offers free government check cashing for non-bank customers. According to the bank, the Gordon branch receives a significant volume of activity related to this service. The Alliance branch has two Spanish speaking customer service employees to better serve the needs of the Hispanic community in its area. Additionally, at the Chadron branch the bank waives service charges on nonprofit business customers who serve the needs of the low- and moderate-income families in the area.

Community Development Services

CFNB provides satisfactory community development services within the assessment area. The bank has employees who have provided financial expertise to small businesses and small farms. Bank employees provided credit counseling and banking education to low- and moderate-income individuals. In addition, bank employees serve on several housing and community development boards.

Small businesses and small farm owners benefitted from the bank's expertise through seminars and individual counseling. The bank provided two financial management seminars in Valentine and in Hemingford in Spring 1997 and February 1998, respectively. In Alliance, bank representatives provided financial counseling to two nonprofit organizations. While serving the United Way as its president, the Alliance bank president assisted nonprofit groups in completing applications for United Way funding.

Bank representatives provided financial counseling and banking expertise to low- and moderate-income individuals. The bank employees provided educational material and personnel to teach a Spring 1998 class on finances through the community college extension office in Chadron for low- and moderate-income women. CFNB provided and explained checking account and banking packets to learning impaired and disadvantaged students at Chadron High School. In addition, as Chairman of the Finance Committee for Chadron Community Hospital, the Chadron president participated in the evaluation of Medicare and Medicaid patients' ability to pay fees that exceeded their coverage and, subsequently, waived fees as needed.

In addition, the bank employees provided financial counseling to low- and moderate-income individuals through the Saint Francis Indian Mission in October 1997. Bank employees also provided a bank tour and educational materials to students of Ogalala College. Both the Saint Francis Indian Mission and the Ogalala College are located in an area outside, but immediately adjacent to, the bank's assessment area.

Bank representatives participate in several housing and community development boards throughout the community. These organizations are assessing community housing and service needs. Most of these groups are in the early stages of identifying the community's needs and how they will fill them. The Alliance Housing Task Force Committee, on which two bank employees served during the assessment period, not only identified the housing needs but has also taken action to address these needs. As a result of the committee's work, the community recently broke ground on an assisted living project.

Fair Lending Review

We conducted a fair lending examination in conjunction with this CRA evaluation. Using gender as the prohibited basis, we performed comparative file analyses on consumer auto loan applications. We compared thirty-seven approved male applicants to fifteen denied female applicants. We found no violations of the substantive provisions of the anti-discrimination laws and regulations. The holding company's compliance program requires fair lending training for appropriate bank personnel, and the company's audit department performs technical reviews for Regulation B compliance.

APPENDIX

Scope of Examination

Time Period Reviewed		
Lending Date: January 1, 1996 - June 30, 1998 (except where otherwise noted) Other Performance Criteria: January 1, 1996 - August 3, 1998		
Financial Institution Community First National Bank	Products Reviewed Loans: Consumer, Home Improvement, Residential Mortgage, Small Business, and Community Development Other: Qualified Investments, Product Delivery Systems, and Community Development Services.	
Affiliate None	Products Reviewed None	
List of Assessment Areas and Type of Examination		
Assessment Areas	Type of Exam	Deposits Attributed to Area Branches as of June 1997
24 BNAs in Rural Nebraska	On-site	Dollars (in millions) \$264