



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

July 20, 2009

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

The First National Bank of Gordon  
Charter Number: 8521

134 N. Main Street  
Gordon, NE 69343

Office of the Comptroller of the Currency

Denver Field Office  
1225 17th Street Suite 450  
Denver, CO. 80202

**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 Outstanding.**

FNB of Gordon has demonstrated outstanding performance in meeting the credit needs of the communities it serves.

- The bank demonstrates excellent performance in lending to low- and moderate-income geographies.
- The bank actively supports small businesses including very small businesses (annual revenues of less than \$250 thousand).
- The bank community development investments and services enhanced the overall CRA performance and helped meet the needs of the bank's assessment area.
- The bank originates the majority of its loans in the assessment area.
- The average LTD ratio is reasonable given the ratios of similarly situated banks.
- There have been no written complaints regarding the bank's performance in meeting its community's credit needs.

## **SCOPE OF EXAMINATION**

We performed a full scope review of the bank's assessment area (AA). The bank's AA includes Sheridan and Cherry counties in Nebraska, and Shannon, Jackson, and Bennett counties in South Dakota. Our review focused on the bank's primary lending product, which are agricultural production loans. We sampled 40 agricultural production loans. One-half of our loan sample was originated in Nebraska and one-half was originated in South Dakota between January 2004 and June 30, 2009.

We also reviewed community development loans, investments, and services which FNB of Gordon provided from January 2004 to June 2009. We also contacted a community representative in the AA as part of this examination.

## **DESCRIPTION OF INSTITUTION**

FNB of Gordon is a \$143.6 million bank located in Gordon, Nebraska. Gordon is located in Sheridan County 14 miles south of the South Dakota state line. The bank does not operate any branches. One cash-dispensing ATM is located at the convenience store in Gordon, NE. FNB of Gordon is part of a one-bank holding company, Isham Management Company, with consolidated total assets of \$143.6 million as of December 31, 2008. There are no financial or legal impediments that affect the bank's ability to meet the credit needs of the assessment area.

The bank's net loans to total assets are 45 percent as of December 31, 2008. The primary loan products are agricultural loans, comprising 41 percent of the dollar volume of loans, and loans secured by farmland, comprising 26 percent of the dollar volume. Other loan products include commercial and industrial loans representing 12 percent of the bank's loan portfolio, consumer loans at seven percent, loans secured by commercial real estate at nine percent, loans secured by residential real estate at one percent, and other loans at four percent as of December 31, 2008.

FNB of Gordon received an "Outstanding" rating at the last CRA examination, dated November 12, 2003. Please refer to the bank's public file for additional information. The bank has not changed its business strategy since the last examination.

## **DESCRIPTION OF SHERIDAN AND CHERRY COUNTIES, NE, AND SHANNON, JACKSON, AND BENNETT COUNTIES, SD**

The bank has designated as its assessment area (AA) all of Sheridan and Cherry Counties in Nebraska, and Shannon, Jackson, and Bennett Counties in South Dakota. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Within the Nebraska portion of the AA there is one moderate-income geography (20 percent), three middle-income geographies (60 percent) and one upper income tract (20 percent). In addition, three of these tracts are designated distressed or underserved. Cities within this portion of the AA include Gordon, Valentine, Hay Springs, and Rushville. The 2008 Department of Housing and Urban Development (HUD) non-MSA updated median family income for Nebraska is \$51,800. The percentage of families by income level for this portion of the AA is as follows: low-income 23 percent; moderate-income 23 percent; middle-income 24 percent; and upper-income 30 percent. The area economic climate is stable. The major economic driver for the city of Gordon and surrounding area is agriculture. Cattle prices remain stable and commodity prices are good. The largest local employers include Gordon Memorial Hospital, City of Gordon, Modern Farm Equipment, and FNB of Gordon.

The South Dakota portion of the AA has a large population of low- and moderate-income families as well as low- and moderate-income census tracts. Thirty-eight percent of households in this area are below the poverty level. This is largely attributed to the Pine Ridge Indian Reservation (Ogalala Sioux Tribe) which is located within Shannon and Bennett Counties in their entirety, and the south half of Jackson County. Within the South Dakota portion of the AA there are five low-income tracts (25 percent), six moderate-income tracts (30 percent), six middle-income geographies (30 percent), and three tracts (15 percent) with no income designation. The 2008 HUD non-MSA updated median family income for the South Dakota portion of the AA is \$51,600 with area unemployment at 1.13 percent. However, this is not indicative of the Pine Ridge Reservation where unemployment is reported to be as high as 90 percent. The percentage of families by income level for this portion of the AA is as follows: low-income 43 percent; moderate-income 20 percent; middle-income 18 percent; and upper-income 19 percent.

The economic conditions on the Reservation continue to be poor. The Reservation has been designated as an Empowerment Zone by the Federal Government, due primarily to the high unemployment rate. This makes available Government grants for the purpose of stimulating economic development through small businesses. The hospital is one of the largest employers in the area. A packing plant opened in 2004. The plant employs Native Americans living on the Reservation.

FNB of Gordon faces a moderate level of competition from branches of larger regional banks and local community banks located in nearby towns. The bank holds the primary deposits of the Ogalala Sioux Tribe and is the primary provider of financial services to the Pine Ridge community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit (LTD) Ratio**

**The average LTD ratio is reasonable given the ratios of similarly situated banks.**

FNB of Gordon's average LTD ratio calculated since the previous CRA examination is 57 percent. This compares reasonably to similarly situated banks with LTD ratios ranging between 58 percent and 68 percent. Similarly situated banks are banks of similar asset size and product mix.

### **Lending in Assessment Area**

**The bank originates the majority of its loans in the assessment area.**

We reviewed 40 agricultural production loans to determine the location and pattern of loans originated in the AA. Total agricultural production loans represent 41 percent of the gross loan portfolio. Of the loans sampled, 79 percent by dollar volume and 90 percent by number were originated within the bank's AA.

### **Lending to Borrowers' Businesses of Different Sizes**

**The bank demonstrates very good performance in lending to small farms.**

Our sample included 20 agricultural production loans from South Dakota and 20 from Nebraska. South Dakota demographics indicate that 99 percent of all farms are small farms (< \$1 million in annual revenues). Nebraska demographics indicate that 98 percent of all farms are small farms. Within our sample, 100 percent of loans in both states were originated to farms with annual revenues of less than \$1 million.

In addition, the bank routinely lends to very small farms (<\$250 thousand annual revenues). Within South Dakota, 90 percent by number and 84 percent by dollar volume were originated to very small farms. Within Nebraska, 85 percent by number and 79 percent by dollar volume were originated to very small farms.

## **Geographic Distribution of Loans**

**The bank demonstrates excellent performance in lending to low- and moderate-income geographies.**

Of the sample of agricultural production borrowers from South Dakota, 45 percent of the loans by number and 49 percent by dollar volume were originated in a low-income geography. This compares favorably with demographic data that indicates only 25 percent of all farms in the South Dakota region of the AA are located in low-income geographies. Also, 10 percent by number and 15 percent by dollar volume were originated to borrowers located in moderate-income geographies. Area demographics indicate that 45 percent of all farms in the South Dakota region of the AA are located in moderate-income geographies.

Of the 20 loans in our sample of borrowers from Nebraska, 25 percent by number and 42 percent by dollar volume were originated to borrowers located in the moderate-income geographies. Area demographics indicate that 24 percent of all farms in the Nebraska region of the AA are located in moderate-income geographies.

## **Additional Support**

Also acknowledged under the lending test as part of assessing the bank's performance are loans made to the Oglala Sioux Tribe to create jobs and loans that meet the definition of community development made to other businesses on the reservation. Since the previous CRA exam through June 30, 2009, the bank has funded \$11.7 million in loans for this purpose. This effort positively impacts the bank's overall performance.

## **Qualified Investments and CD Services (Optional)**

### **Community Development Investments**

The bank has 17 investments totaling \$445 thousand that meet the criteria for community development investments. Eight of the bonds totaling \$130 thousand are to the city of Gordon for updating and repairing the sewer system. Seven bonds totaling \$100 thousand are to the public airport authority for adding a runway. Two bonds totaling \$215 thousand are to Gordon Memorial Hospital, the local hospital that provides services to the surrounding community. While these investments are not specifically targeted at LMI individuals, they benefit LMI individuals by providing employment and a stronger infrastructure.

### **Community Development Services**

Three bank officers serve as board members of organizations that support economic development. Twelve employees conduct programs at the local elementary schools to inform children about currency and savings. One officer provides assistance reviewing loan applications for the Lakota Fund on the Pine Ridge Reservation.

### **Responses to Complaints**

The bank has not received any CRA-related complaints since the previous CRA examination in November 2003.

### **Fair Lending or Other Illegal Credit Practices Review**

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