



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Northeast
Charter Number 6221**

**440 Main Street
Lyons, Nebraska 68038**

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

TABLE OF CONTENTS

<i>INSTITUTION'S CRA RATING</i>	<i>1</i>
<i>DESCRIPTION OF INSTITUTION</i>	<i>1</i>
<i>DESCRIPTION OF ASSESSMENT AREA.....</i>	<i>1</i>
<i>CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....</i>	<i>2</i>

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

First National Bank Northeast (FNBNE) does a satisfactory job of meeting the credit needs of its assessment area. The bank's primary lending activities are to agricultural, commercial, and consumer borrowers.

- FNBNE's lending level is satisfactory, given the institution's size, financial condition, and the assessment area's credit needs.
- A significant majority of the bank's loans are within the assessment area.
- Lending to borrowers of different income levels, businesses of different sizes, and farms of different sizes is satisfactory.

DESCRIPTION OF INSTITUTION

FNBNE is a \$155 million bank located in Burt County in northeastern Nebraska. The bank is 95% owned by Farm & Home Insurance Agency, Inc., a \$155 million, 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.

FNBNE offers traditional loan and deposit products. As of December 31, 2002, the bank's loan portfolio totaled 57% of total assets. The loan portfolio consisted of 56% agricultural, 23% commercial, 11% consumer, and 10% residential real estate loans. The bank's primary credit products are agricultural, commercial, and consumer loans based on the number and dollar amount of originations.

FNBNE has no legal or financial impediments which prevents it from fulfilling its obligations under the CRA. FNBNE was rated "Satisfactory Record of Meeting Community Credit Needs" at the last CRA examination dated January 4, 1999.

DESCRIPTION OF ASSESSMENT AREA

FNBNE's assessment area (AA) meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. The bank's AA consists of 12 contiguous block numbering areas (BNAs). The bank's AA consists of BNAs 9831 through 9833 in Burt County and BNAs 9836 through 9844 in Dodge County. Ten (83%) of the twelve BNAs are middle-income geographies. The remaining two (17%) BNAs are high-income geographies.

Individuals can refer to the bank's CRA Public File for a map outlining the AA.

The assessment period for this CRA examination ran from January 4, 1999 through December 31, 2002. The bank has added two branch locations during 2003. These branches are located in Hartington and Ceresco, Nebraska. Since both of these branches were added after the end of our assessment period, we did not include the AAs for these two branches in our examination. CRA performance of the two new branches will be reviewed at the next CRA examination.

According to the 1990 U.S. Census, the total population of the AA is 42,368. The 1990 U.S. Census estimated 16% of families in the AA were low-income, 17% moderate-income, 26% middle-income, and 41% upper-income. Eleven 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 \$39,318, and 61% of housing is owner-occupied.

The local economy is stable. Agriculture, local schools, and local government provide the main employment sources in the area. There are 16 other financial institutions with branches in Burt and Dodge Counties. These institutions range in size from approximately \$8 million to \$103 billion in total assets. These institutions provide the primary competition to FNBNE.

Examiners made two community contacts with city officials during the CRA examination. Community contacts revealed that agriculture, consumer, and small business loans are the primary credit needs within the community. FNBNE offers and originates these types of loans.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBNE's average lending level is satisfactory. This is based on the bank's loan-to-deposit (LTD) ratio, size, financial condition, and the AA's credit needs. FNBNE's June 30, 2003 net LTD ratio was 75%. FNBNE's quarterly average LTD ratio for the 18 quarters ending June 30, 2003 was 71%. The bank's average LTD ratio is lower than, but reasonably compares to, the average LTD ratio of eight similarly situated banks in the AA. The eight similarly situated banks had an 18-quarter average LTD ratio of 78%, and a range of 69% - 99%. All banks in FNBNE's AA, with reasonably similar assets sizes, were used as similarly situated banks for comparison. The similarly situated banks range in size from roughly \$39 million to \$343 million in total assets.

Lending in Assessment Area

FNBNE originates a significant majority of its loans within the AA. We selected a sample of 20 agricultural, consumer, and commercial loans originated between January 4, 1999 and December 31, 2002. The sample was reviewed to determine if loans originated to farms,

individuals, and businesses were within the bank's AA.

We found that 17 loans, or 85% of agricultural, consumer, and commercial loans, were made in the AA. Also, \$979,896, or 91% of loan volume, was in the AA.

LENDING WITHIN THE ASSESSMENT AREA				
	# of Loans	% of Total #	\$ of Loans	% of Total \$
Inside AA	17	85%	\$979,896	91%
Outside AA	3	15%	\$95,964	9%
Totals	20	100%	\$1,075,860	100%

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

Lending to borrowers of different income levels, and businesses and farms of different sizes is satisfactory. The following is information on the agricultural business, and consumer loans in each sample.

Agricultural Loans

FNBNE has a satisfactory record of lending to agricultural borrowers of different sizes. We reviewed a sample of 20 agricultural loans totaling \$2,764,943 to determine the bank's lending to farms of different sizes. All of the loans in this sample were located in the AA and were originated between January 1, 2000 and December 31, 2002.

FNBNE originated 80% of agricultural loans by number, and 43% by loan volume, to farm operations with gross annual revenues less than \$500,000. The bank's lending reasonably compares to the 1997 Census of Agricultural Data, which shows 93% of AA farms with gross annual revenues under \$500,000. The bank has a lower percentage of loan penetration by volume. It can be reasonably concluded that smaller farm operations will need smaller loans than larger operations.

The following table shows the breakdown of loans to farms as compared to the AA's demographics.

LOANS TO FARMS OF DIFFERENT SIZES					
Gross Revenue of Farms	# of Loans	% of Total #	\$ of Loans	% of Total \$	% of Farms in AA
\$0 - \$499,999	16	80%	\$1,188,277	43%	93%
\$500,000 or >	4	20%	\$1,576,666	57%	7%
Total	20	100%	\$2,764,943	100%	100%

Commercial Loans

FNBNE has a satisfactory record of lending to commercial borrowers of different sizes. We reviewed a sample of 20 commercial loans totaling \$1,555,955 to determine the bank's lending to businesses of different sizes. All of the loans in this sample were located in the AA and were originated between January 1, 2000 and December 31, 2002.

A significant majority of the loans sampled did not report revenue information. As a result, we relied upon the loan's size as a proxy. We concluded that smaller dollar loan originations would be used by smaller businesses, and larger dollar loan originations would be used by larger businesses.

FNBNE originated 85% of commercial loans by number, and 30% by loan volume, to business operations with originated loan sizes less than \$100,000. The bank has a lower percentage of loan penetration by volume. It can be reasonably concluded that smaller business operations will need smaller loans than larger operations.

The following table shows the breakdown of loans to businesses of different sizes based on loan size.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES BY LOAN SIZE IN BURT & DODGE COUNTY				
Loan Size (000's)	# of Loans	% of Number	\$ of Loans	% of Dollar Volume
\$0 - \$100,000	17	85%	\$465,955	30%
\$100,001 or >	3	15%	\$1,090,000	70%
Total	20	100%	\$1,555,955	100%

Consumer Loans

We reviewed a sample of 20 loans, totaling \$94,505 in loan volume, to determine the bank's lending to individuals. All of the loans in this sample were located in the AA and were originated between January 1, 2000 and December 31, 2002. However, a reliable conclusion could not be drawn due to lack of income data. A significant majority of the loans sampled did not report revenue information.

Geographic Distribution of Loans

All 12 of the bank's BNAs are either high- or middle-income. The bank does not have any low- or moderate-income BNAs. Therefore, specific analysis of geographic distribution is not meaningful.

Community Development Loans

The bank originated six community development loans totaling \$3,591,502 during the evaluation period. The loans were primarily used to construct low- and moderate-income housing.

Responses to Complaints

The Office of the Comptroller of Currency and the bank have not received any complaints regarding the bank's CRA performance since the last CRA examination dated January 4, 1999.

Fair Lending Review

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