



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 16, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Cambridge
Charter Number 6506

707 Patterson
Cambridge, Nebraska 69022

Office of the Comptroller of the Currency

Omaha 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 Outstanding.

First National Bank of Cambridge (FNB) does an excellent job of meeting the credit needs of the assessment area (AA).

- FNB’s average loan-to-deposit (LTD) ratio is reasonable compared to similarly situated banks in the AA.
- A majority of the bank’s loans are within the AA.
- FNB’s performance in lending to farms of different sizes is satisfactory.
- While community development (CD) lending and activities are optional for a small bank, FNB’s volume of CD activities and responsiveness to community needs are exceptional and strengthen its overall Community Reinvestment Act (CRA) performance. CD loans and qualified investments totaled \$2,363,574 or approximately 48% of Tier 1 Capital as of September 30, 2009.

SCOPE OF EXAMINATION

A full scope review of the bank’s CRA activities in the AA was completed. This CRA examination covers loans originated from January 1, 2007 through November 2, 2009. Loans sampled consisted of the bank’s primary product, which is agricultural loans. The sample consisted of 20 agricultural loans. The table below breaks down the loan portfolio by number of loans and dollars originated:

Loan Type	% by Dollars of Loans Originated/Purchased During Evaluation Period	% by Number of Loans Originated/Purchased During Evaluation Period
Agricultural Loans	68.25%	51.72%
Consumer Loans	16.23%	37.80%
Commercial Loans	8.68%	6.50%
Residential Loans	5.38%	3.52%
Other Loans	1.46%	0.46%
Total	100%	100%

Source: Bank reports

DESCRIPTION OF INSTITUTION

FNB is a \$42 million institution located in Cambridge, Nebraska. FNB Financial Services owns 97% of FNB. FNB Financial Services is a 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. The bank also owns automated teller machines (ATMs) located at the main bank location in Cambridge and at the LPO in Arapahoe. The ATM in Arapahoe also accepts deposits.

FNB offers traditional loan and deposit products. According to the September 30, 2009 call report, the bank had the following outstanding loans by dollar volume: agricultural (75%), residential real estate loans (9%), consumer (8%), and commercial (7%). These loan amounts are reflective of the bank's overall business strategy. Net loans totaled 64% of total assets as of September 30, 2009.

FNB received a "Satisfactory" rating at its May 7, 2004 CRA examination. There are no legal or financial impediments limiting the bank's ability to help meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB's AA includes all of Frontier, Furnas, Gosper, and Red Willow Counties. The AA includes the following seven contiguous census tracts: 9611 in Frontier County, 9637 and 9638 in Furnas County, 9676 in Gosper County and 9631, 9632, and 9633 in Red Willow County. The 2000 Census Data shows all census tracts in the AA are middle-income. The AA meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income (LMI) areas. Refer to the CRA Public File for a map specifically outlining the bank's AA.

Census tracts in Frontier and Furnas counties are designated as underserved by the Federal Financial Institutions Examination Council (FFIEC) and the census tracts comprising Red Willow County are designated as underserved and distressed. The designation of the underserved and distressed census tracts is due to the remote rural location and population loss the census tracts have sustained. An underserved census tract is also likely to have difficulty financing the fixed costs of meeting essential community needs. The presence of one full-service branch, a drive-in, and two ATMs in the AA is an indication that the bank is helping to provide retail and community development services to the underserved area. The volume of community development activities also indicates that the bank is doing an exceptional job in meeting the needs of the community. Refer to the Community Development Loans, Investments, and Services sections below for further details.

According to the 2000 U.S. Census, the total population of the AA is 22,014. The 2000 Census indicated a weighted average median family income of \$39,448. Of the 6,198 families in the AA, 17% were low-income, 21% moderate-income, 29% middle-income, and 33% upper-income. A total of 11% of households in the AA were below the poverty level.

Economic conditions in the AA are stable despite national economic conditions. Major sources of employment in Cambridge include agriculture, health services, local schools, communications, power companies, and manufacturing. Other employment sources in the AA include retail trade and finance, insurance, and real estate companies. According to the U.S. Bureau of Labor Statistics, unemployment levels in the AA are below the national average of 9.5%, and the state of Nebraska average of 4.6% for

September 2009. The AA unemployment rate (county average) was 3.8% for September 2009.

Competition from other financial institutions is high. There are 18 other financial institutions with branches within the AA that provide the primary competition for FNB. This includes three financial institutions located in Cambridge along with several other large regional financial institutions and branches in the surrounding area. The bank ranks 8th with a deposit market share of 4.71%.

In conducting the assessment of the bank’s CRA performance, we contacted a local organization. The community contact described the economic conditions of the area as fair overall. The contact indicated the primary credit need of the community was primarily agricultural loans, and to a lesser extent, small business and home loans. They concluded local financial institutions do a good job at helping to support the needs of the community and offering financial assistance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB’s average LTD ratio is reasonable given its size, financial condition, and AA credit needs. We compared the bank’s LTD to eight similarly situated banks of similar size. The similarly situated banks ranged in size from approximately \$27 million to \$87 million. FNB’s LTD ratio averaged 68% over the past twenty quarters (since the prior CRA examination) and was 73% as of September 30, 2009. The average for the eight similarly situated banks within the AA is 86%, with a range from 76% to 95%. While the bank’s LTD ratio is low compared to the similarly situated banks, this does not raise significant concern as there is a high level of competition in the local community and surrounding area.

Lending in Assessment Area

A majority of FNB’s loans were made within the bank’s AA. The random sample showed 65% by number and 75% by dollar amount were originated within the bank’s AA. The following table illustrates the bank’s satisfactory performance regarding lending in the AA.

Lending in FNB’s Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000)
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Agricultural	13	65%	7	35%	20	\$1,195	75%	\$404	25%	\$1,599

Source: Random Loan Sample.

Lending to Farms of Different Sizes

The distribution of loans to farms reflects reasonable penetration among farms of different sizes. A total of 95% of loans by number and 63% of loans by dollar were to small farms, or farms with total revenues of less than or equal to \$1,000,000. This is reasonable when considering characteristics of the area and demographic data that indicates 99% of the area's farms are considered small farms. While the percentage of loans in the AA by dollar amount shows considerably less lending to small farms it is not of significant concern as it was caused by one borrower in the sample who had significantly high gross revenue. The following table shows the distribution of farm loans among different sized farms in the AA.

Borrower Distribution of Loans to Farms in FNB's Assessment Area				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	98.69%	0.56%	0.75%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	63%	37%	0%	100%

Source: Random Loan Sample and 2009 Geodemographic Data.

Geographic Distribution of Loans

All census tracts in the AA are middle-income. Therefore, specific analysis of geographic distribution is not meaningful.

Community Development Loans

FNB originated four community development loans in the AA since the last CRA examination totaling \$2,106,796. The bank originated three loans totaling \$1,800,000 to the City of Cambridge to help finance a water project benefiting the Bartley, Indianola, and Cambridge communities. FNB originated one loan for \$306,796 to the City of Cambridge to help finance electrical improvements in the Cambridge community. These loans stabilize the AA, which is located in an underserved nonmetropolitan middle-income geography, to help meet essential community needs, including LMI individuals.

Community Development Investments

During the evaluation period, FNB had three qualifying investments totaling \$165,500 and made donations to four community organizations in the amount of \$12,000. The bank purchased one bond in the amount of \$50,000 from School District 18 (Arapahoe) to help fund building improvements for the school. The bank purchased one bond in the amount of \$100,000 from the City of Arapahoe Combined Utility to help fund electrical and water services to the Arapahoe community. FNB made donations to the Cambridge and Arapahoe libraries, the local hospital medical foundation, and the

Cambridge School Foundation. These qualified investments stabilize the AA by helping meet essential community needs, including LMI individuals.

The bank purchased a warrant in the amount of \$15,500 from the City of Cambridge to help provide operating funds for an apartment complex in Cambridge. The apartment complex provides affordable housing to LMI individuals and families. FNB continues to have an outstanding investment, with a current balance of \$79,278, which was used to help finance the construction of this apartment complex.

Community Development Services

Three bank officers provided community development services to qualifying programs in the AA. One officer served as Treasurer of the Cambridge Memorial Hospital Board and another officer also acted as Treasurer of the Cambridge Public School Foundation Board. These services stabilize the AA by helping meet essential community needs, including LMI individuals. Officers also served on the Cambridge Economic Development Board, the Cambridge Development Company Board, the Cambridge Chamber of Commerce board of directors, and were members of the Cambridge Investment Club. These organizations provide economic development to the community and assistance to small businesses.

Responses to Complaints

The Bank has not received any complaints regarding CRA performance since the last CRA examination dated May 7, 2004.

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.