

PUBLIC DISCLOSURE

June 29, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

York State Bank
Certificate Number: 16079

700 North Lincoln Avenue
York, Nebraska 68467

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory performance under the Lending Test supports the rating. The following points summarize the bank's Community Reinvestment Act (CRA) performance

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- The overall majority of the small farm and small business loans reviewed, by number, were originated or purchased outside the assessment area, while the overall majority, by dollar volume, were originated or purchased inside the assessment area. Although the bank's performance under this criterion is less than reasonable, it did not impact the CRA rating.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.
- The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.
- The institution did not receive any complaints regarding its CRA performance since the previous evaluation. As a result, examiners did not evaluate the bank's record of responding to CRA-related complaints.

The concurrent compliance examination identified a violation of Section 5 of the Federal Trade Commission Act affecting a limited number of consumer borrowers. This did not impact the bank's CRA rating due to the nature and extent of the infraction, the institution's policies and procedures, management's commitment to address the violation, and other relevant information.

DESCRIPTION OF INSTITUTION

Background

York State Bank is a community financial institution operating in central Nebraska. Lauritzen Corporation, a multi-bank holding company headquartered in Omaha, Nebraska, owns the institution. The bank is affiliated with a number of financial institutions through common ownership. Lending activities of these institutions were not considered as part of this evaluation. York State Bank received a Satisfactory rating at its previous FDIC Performance Evaluation, dated January 13, 2014, based on Interagency Small Institution Examination Procedures.

Operations

The bank's main office is in York, Nebraska. In addition, the institution operates two full-service branches in Geneva and Gresham, Nebraska. Two limited-service facilities are maintained in York as well. The bank has not opened or closed any offices or been involved in any mergers or acquisitions since the prior evaluation.

York State Bank offers a variety of lending products, including agricultural, commercial, construction and land development, home mortgage, and consumer loans. Agricultural lending is the institution's primary lending focus followed by commercial lending. In addition, the bank offers several deposit products including checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include online and mobile banking in addition to several automated teller machines.

Ability and Capacity

Assets totaled approximately \$148.4 million as of March 31, 2020, and included total loans of \$120.4 million. Deposits totaled \$124.8 million as of the same date. Examiners did not identify any financial, legal, or other impediments that affect the bank's ability to meet the assessment area's credit needs. The following table details the loan portfolio distribution.

| Loan Portfolio Distribution as of 3/31/2020 | | |
|---|-----------------|--------------|
| Loan Category | \$(000s) | % |
| Construction, Land Development, and Other Land Loans | 1,447 | 1.2 |
| Secured by Farmland | 15,583 | 12.9 |
| Secured by 1-4 Family Residential Properties | 7,436 | 6.2 |
| Secured by Multifamily (5 or more) Residential Properties | 869 | 0.7 |
| Secured by Nonfarm Nonresidential Properties | 4,209 | 3.5 |
| Total Real Estate Loans | 29,544 | 24.5 |
| Commercial and Industrial Loans | 12,380 | 10.3 |
| Agricultural Production and Other Loans to Farmers | 74,143 | 61.6 |
| Consumer Loans | 2,612 | 2.2 |
| Obligations of State and Political Subdivisions in the U.S. | 1,706 | 1.4 |
| Other Loans | 0 | 0.0 |
| Lease Financing Receivable (net of unearned income) | 0 | 0.0 |
| Less: Unearned Income | 0 | 0.0 |
| Total Loans | 120,385 | 100.0 |
| <i>Source: Reports of Condition and Income</i> | | |

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. York State Bank designated a single assessment area which includes all of York and Fillmore counties in Nebraska. Both York and Fillmore counties are located in nonmetropolitan Nebraska. The following sections discuss demographic and economic information for the assessment area.

Economic and Demographic Data

According to the 2015 American Community Survey (ACS), the assessment area contains five middle-income census tracts and one upper-income census tract. York County census tract 9696 is the sole upper-income tract. The following table illustrates select demographic characteristics of the assessment area.

| Demographic Information of the Assessment Area | | | | | | |
|---|--------|---------------|------------------------------|------------------|-----------------|---------------|
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 6 | 0.0 | 0.0 | 83.3 | 16.7 | 0.0 |
| Population by Geography | 19,522 | 0.0 | 0.0 | 85.8 | 14.2 | 0.0 |
| Housing Units by Geography | 9,190 | 0.0 | 0.0 | 86.1 | 13.9 | 0.0 |
| Owner-Occupied Units by Geography | 5,718 | 0.0 | 0.0 | 83.1 | 16.9 | 0.0 |
| Occupied Rental Units by Geography | 2,350 | 0.0 | 0.0 | 93.3 | 6.7 | 0.0 |
| Vacant Units by Geography | 1,122 | 0.0 | 0.0 | 86.4 | 13.6 | 0.0 |
| Businesses by Geography | 1,709 | 0.0 | 0.0 | 87.2 | 12.8 | 0.0 |
| Farms by Geography | 445 | 0.0 | 0.0 | 71.5 | 28.5 | 0.0 |
| Family Distribution by Income Level | 5,357 | 17.2 | 17.5 | 24.4 | 40.8 | 0.0 |
| Household Distribution by Income Level | 8,068 | 20.3 | 16.3 | 18.9 | 44.5 | 0.0 |
| Median Family Income Non-MSAs - NE | | \$61,457 | Median Housing Value | | | \$104,162 |
| | | | Median Gross Rent | | | \$602 |
| | | | Families Below Poverty Level | | | 8.6% |
| Source: 2015 ACS and 2019 D&B Data. Due to rounding, totals may not equal 100.0 | | | | | | |
| (*) The NA category consists of geographies that have not been assigned an income classification. | | | | | | |

York and Geneva are the largest communities in the assessment area with populations of 7,766 and 2,217, respectively, according to the 2010 U.S. Census. Outside of these communities, the assessment area is largely rural in nature and heavily dependent upon agriculture.

Competition

The bank's assessment area is moderately competitive for financial services. According to the June 30, 2019 FDIC Deposit Market Share data, nine financial institutions operate 26 offices in the assessment area. York State Bank ranked 4th among these institutions, with a 9.7 percent deposit market share.

Community Contact

As part of the evaluation process, examiners contact third parties active in the assessment area to assist in identifying credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners reviewed a recent community contact with an economic development organization. The individual stated that the economy is generally good, with strong housing demand and business expansion. They stated that there is a need for additional housing in the area. However, the individual had a positive opinion of the local financial institutions and indicated that the housing concerns were not due a lack of available financing.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners concluded that agricultural and commercial loans are the assessment area's primary credit needs.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated January 13, 2014, to the current evaluation dated June 29, 2020. Examiners used the Interagency Small Institution Examination Procedures to conduct the evaluation, which includes a Lending Test. Refer to the Appendices later in the evaluation for a description of the criteria used to evaluate the bank's performance under the Lending Test.

Activities Reviewed

Examiners reviewed small farm and small business loans to evaluate the bank's performance. They selected these products based on the bank's business strategy and the number and dollar volume of loans originated during the evaluation period. No other loan types, such as consumer or home mortgage loans, represent major product lines. As a result, examiners did not review any other loan products, as they would provide no material support for conclusions or the rating.

Examiners reviewed all small farm and small business loans originated or purchased from April 10, 2019 to April 9, 2020, to evaluate the bank's record of lending inside its assessment area (Assessment Area Concentration analysis). This consisted of 360 small farm loans totaling approximately \$40.5 million, and 124 small business loans totaling approximately \$10.6 million. Examiners then reviewed a sample of small farm and small business loans located inside the assessment area to evaluate the bank's record of lending to farms and business of all sizes (Borrower Profile analysis). This consisted of 50 small farm loans totaling approximately \$9.0 million and 45 small business loans totaling approximately \$4.7 million. 2019 D&B data provided a standard of comparison for small farm and small business loans reviewed. Bank management indicated that the loan samples were representative of the institution's performance during the entire evaluation period. Bank data confirmed this statement.

Examiners placed greater weight on small farm loans when drawing conclusions since agricultural lending comprised the majority of loans originated during the review period. When conducting the Assessment Area Concentration analysis, examiners placed equal weight on the number and dollar volume of loans. When conducting the Borrower Profile analysis, examiners placed greater weight on the number of loans than the dollar volume of loans. This is because the number of loans is a better indicator of the farms and business served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

York State Bank demonstrated reasonable performance under the Lending Test. The bank's performance under the Loan-to-Deposit Ratio and Borrower Profile criterion supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. This ratio, calculated from Reports of Condition and Income, averaged 92.9 percent over the past 25 quarters from March 31, 2014, to March 31, 2020. Examiners compared the bank's ratio to two similarly-situated institutions. The similarly-situated institutions were selected based on their asset size, geographic location, and lending focus. As shown in the following table, the bank's average net loan-to-deposit ratio compares reasonably to the similarly-situated institutions' ratios.

| Loan-to-Deposit Ratio Comparison | | |
|---|---|--|
| Bank | Total Assets as of 3/31/2020 (\$000s) | Average Net Loan-to- Deposit Ratio (%) |
| York State Bank, York, Nebraska | 148,442 | 92.9 |
| Henderson State Bank, Henderson, Nebraska | 260,858 | 120.5 |
| Farmers and Merchants Bank, Milligan, Nebraska | 120,170 | 114.4 |
| Source: Reports of Condition and Income 3/31/2014 through 3/31/2020 | | |

Assessment Area Concentration

As shown below, the overall majority of small farm and small business loans reviewed, by number, were originated or purchased outside the assessment area, while the overall majority, by dollar volume, were originated or purchased inside the assessment area. The reason that the majority of the number of loans reviewed was outside the assessment area is because the bank purchases a large number of agricultural loans/leases from an affiliated financial institution. Since the majority of the loans reviewed, by number, was outside the assessment area and because small farm loans received greater weight than small business loans in drawing conclusions, the bank's performance under this criterion is less than reasonable. However, this did not impact the CRA rating.

| Lending Inside and Outside of the Assessment Area | | | | | | | | | | |
|---|-----------------|-------------|------------|-------------|------------|---------------------------------|-------------|---------------|-------------|---------------|
| Loan Category | Number of Loans | | | | | Dollar Amount of Loans \$(000s) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | # | \$ | % | \$ | % | \$(000s) |
| Small Farm | 133 | 36.9 | 227 | 63.1 | 360 | 21,499 | 53.1 | 19,005 | 46.9 | 40,504 |
| Small Business | 88 | 71.0 | 36 | 29.0 | 124 | 8,111 | 76.7 | 2,463 | 23.3 | 10,574 |
| Total | 221 | 45.7 | 263 | 54.3 | 484 | 29,610 | 58.0 | 21,468 | 42.0 | 51,078 |
| Source: 4/10/2019 - 4/9/2020 Bank Data. Due to rounding, totals may not equal 100.0 | | | | | | | | | | |

Borrower Profile

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. Examiners focused on the percentage of loans to farms and businesses with gross annual revenues of \$1 million or less.

Small Farm

The distribution of borrowers reflects reasonable penetration among farms of different sizes. Although the percentage of loans to farmers with gross annual revenues of \$1 million or less lags the percentage of farmers in this revenue category, two mitigating factors help explain why. First, the 2017 Agricultural Census indicates that 35.8 percent of producers in the assessment area did not have any interest expense. Second, the 2017 Agricultural Census shows that 12.9 percent of the assessment area farms reported revenues of less than \$10,000. Such farms often do not require traditional bank financing to support their operations. After considering this information, the bank's performance is reasonable. The following table provides details.

| Distribution of Small Farm Loans by Gross Annual Revenue Category | | | | | |
|--|-------------------|-----------|--------------|-----------------|--------------|
| Gross Revenue Level | % of Farms | # | % | \$(000s) | % |
| <=\$1,000,000 | 96.4 | 38 | 76.0 | 5,624 | 62.5 |
| >1,000,000 | 1.8 | 12 | 24.0 | 3,380 | 37.5 |
| Revenue Not Available | 1.8 | 0 | 0.0 | 0 | 0.0 |
| Total | 100.0 | 50 | 100.0 | 9,004 | 100.0 |
| <i>Source: 2019 D&B Data and 4/10/2019 - 4/9/2020 Bank Data. Due to rounding, totals may not equal 100.0</i> | | | | | |

Small Business

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. The bank's record of lending to businesses with gross annual revenues of \$1 million or less is similar to D&B data. The following table provides details.

| Distribution of Small Business Loans by Gross Annual Revenue Category | | | | | |
|--|------------------------|-----------|--------------|-----------------|--------------|
| Gross Revenue Level | % of Businesses | # | % | \$(000s) | % |
| <=\$1,000,000 | 76.8 | 38 | 84.4 | 2,658 | 56.4 |
| >1,000,000 | 6.6 | 7 | 15.6 | 2,056 | 43.6 |
| Revenue Not Available | 16.6 | 0 | 0.0 | 0 | 0.0 |
| Total | 100.0 | 45 | 100.0 | 4,714 | 100.0 |
| <i>Source: 2019 D&B Data and 4/10/2019 - 4/9/2020 Bank Data. Due to rounding, totals may not equal 100.0</i> | | | | | |

Geographic Distribution

The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.

Response to Complaints

The bank did not receive any complaints regarding its CRA performance since the previous evaluation. Therefore, examiners did not evaluate the bank's record of responding to CRA-related complaints.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The concurrent compliance examination identified a violation of Section 5 of the Federal Trade Commission Act that affected a limited number of consumer borrowers. This did not impact the bank's CRA rating due to the nature and extent of the infraction, the institution's policies and procedures, management's commitment to address the violation, and other relevant information.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
- 4) The geographic distribution of the bank's loans; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in

information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area 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 the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (e.g., geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

