

# **PUBLIC DISCLOSURE**

February 16, 2022

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Flatwater Bank  
Certificate Number: 10639

900 Lake Avenue  
Gothenburg, Nebraska 69138

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.

The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the assessment area's credit needs.
- The bank originated a majority of its small farm and small business loans inside its assessment area.
- The bank's assessment area does not include any low- or moderate-income census tracts. Therefore, the geographic distribution of loans was not evaluated.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

## DESCRIPTION OF INSTITUTION

Flatwater Bank, previously Gothenburg State Bank, is wholly owned by Williams Financial Corporation, a one-bank holding company located in Gothenburg, Nebraska. The bank received a "Satisfactory" rating at its previous FDIC Performance Evaluation, dated April 4, 2016, based on Interagency Small Institution Examination Procedures. Flatwater Bank operates three facilities, the main office in Gothenburg and full-service branches in Brady and Ansley, Nebraska. Flatwater Bank acquired the Ansley branch from Security State Bank in December 2018.

Flatwater Bank offers a variety of loan products, including agricultural, commercial, consumer, and home mortgage, but primarily focuses on agricultural lending. In addition, the bank offers a variety of deposit services including checking, savings, money market deposit accounts, and certificates of deposit. Alternative banking services include internet banking, mobile banking, electronic bill pay, and automated teller machines (ATMs).

As of December 31, 2021, the bank reported total assets of \$214.7 million, total loans of \$129.6 million, and total deposits of \$185.7 million. The following table illustrates the loan portfolio.

<b>Loan Portfolio Distribution as of 12/31/2021</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Construction, Land Development, and Other Land Loans	6,571	5.1
Secured by Farmland	22,581	17.4
Secured by 1-4 Family Residential Properties	12,034	9.3
Secured by Multifamily (5 or more) Residential Properties	0	0.0
Secured by Nonfarm Nonresidential Properties	7,621	5.9
<b>Total Real Estate Loans</b>	<b>48,807</b>	<b>37.7</b>
Commercial and Industrial Loans	23,571	18.2
Agricultural Production and Other Loans to Farmers	51,706	39.9
Consumer Loans	5,062	3.9
Obligations of State and Political Subdivisions in the U.S.	148	0.1
Other Loans	308	0.2
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
<b>Total Loans</b>	<b>129,602</b>	<b>100.0</b>
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any impediments that affect the bank's ability to meet assessment area credit needs.

### **DESCRIPTION OF ASSESSMENT AREA**

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. Flatwater Bank designated a single assessment area comprised of all of Custer, Sherman, and Valley counties and portions of Dawson and Lincoln Counties in Nebraska. Specifically, the assessment area consists of census tracts 9717, 9718, 9719 and 9720 in Custer County; 9681, 9682, 9683, and 9686 in Dawson County; 9597 in Lincoln County; 9701 in Sherman County; and 9713 and 9714 in Valley County. The institution expanded the assessment area in Custer County and added the census tracts in Sherman and Valley counties after the Ansley Branch acquisition in 2018.

#### **Economic and Demographic Data**

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)	12	0.0	0.0	100.0	0.0	0.0
Population by Geography	32,388	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	16,801	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	10,139	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	3,640	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	3,022	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	3,047	0.0	0.0	100.0	0.0	0.0
Farms by Geography	924	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	9,367	18.6	20.0	24.2	37.3	0.0
Household Distribution by Income Level	13,779	22.0	17.6	18.8	41.6	0.0
Median Family Income Non-MSAs - NE	\$61,457	Median Housing Value				\$100,763
		Median Gross Rent				\$585
		Families Below Poverty Level				7.5%
<i>Source: 2015 ACS and 2021 D&amp;B Data            Due to rounding, totals may not equal 100.0%</i>						

The 2017 United States Department of Agricultural Census data identified 3,580 farm operations in the counties that comprise the bank's assessment area. The same census data identified total commodity sales in excess of \$2.4 billion reported in the assessment area counties, demonstrating the significant economic role the agricultural industry holds in the area. According to 2021 D&B Data, area businesses are predominantly small operations with 89.4 percent of farms and businesses operating out of a single location and 73.0 percent employing fewer than five employees.

### **Competition**

The assessment area is moderately competitive for financial products and services. According to the June 2021 FDIC Deposit Market Share data, 33 financial institutions operated 62 branches in the assessment area. Of these institutions, Flatwater Bank ranked 6<sup>th</sup> with 6.0 percent of deposits. Agricultural financing competition also comes from non-bank entities with options for operating, machinery, and land loans.

### **Community Contact**

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

Examiners contacted a person familiar with the area's development needs and initiatives. The contact stated that agricultural-related businesses are the dominant economic drivers. The contact also stated that small businesses fill the rural areas' retail needs in the absence of large box store options. The contact noted that the local economy is slowly growing and coming back from stresses

incurred from the COVID-19 pandemic. The contact identified agriculture, small business, and residential real estate as credit needs within the area. The contact indicated that the financial institutions are responsive and meet the credit needs of the assessment area.

### **Credit Needs**

Considering information from bank management, the community contact, and demographic and economic data, examiners determined that the primary credit needs for the assessment area are agricultural loans and small business loans. Home mortgage lending demand and opportunity are also available throughout the assessment area.

## **SCOPE OF EVALUATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated April 4, 2016, to the current evaluation dated February 16, 2022. Examiners used the Interagency Small Institution Examination Procedures, which includes a Lending Test, to evaluate Flatwater Bank's CRA performance. Refer to the Appendices later in the evaluation for a description of the criteria under the Lending Test.

In early 2020, the COVID-19 pandemic began to spread across the nation, resulting in numerous businesses and individuals experiencing financial difficulties. In an effort to stabilize the economy and offset financial hardships, the government initiated the Paycheck Protection Program (PPP) administered through the Small Business Administration. The PPP is a loan program designed to provide a direct incentive for small businesses to keep their workers on payroll. Thus, the PPP created additional small business lending opportunities for community financial institutions. In 2020, the bank originated 232 loans totaling \$12.1 million and in 2021, originated 357 loans totaling \$66.2 million through the PPP, which assisted small farms and small businesses struggling with the impact of the pandemic. These loans are included in this analysis.

### **Activities Reviewed**

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

Examiners reviewed all small farm and small business loans originated or purchased between January 1, 2021, and December 31, 2021, to conduct the Assessment Area Concentration analysis. This consisted of 260 small farm loans totaling approximately \$31.0 million and 503 small business loans totaling approximately \$22.1 million. Examiners then sampled small farm and small business loans from inside the assessment area to conduct the Borrower Profile analysis. Specifically, examiners reviewed 55 small farm loans totaling approximately \$6.2 million and 58 small business loans totaling approximately \$2.3 million to evaluate the institution's record of lending to farms and businesses of different sizes. As a standard of comparison, 2021 D&B Data was used to evaluate small farm and small business lending. Bank management indicated that the loans reviewed were representative of the institution's performance during the entire evaluation period, and bank data confirms this statement. As a result, the evaluation does not contain any additional years of data.

Examiners applied equal weight to each loan product when drawing overall conclusions for this evaluation based upon the assessment area credit needs and the bank's loan activity. When conducting the Assessment Area Concentration analysis, examiners placed equal weight on the number and dollar volume of the loans. However, examiners emphasized performance by number of loans when conducting the Borrower Profile analysis, because the number of loans is a better indicator of the number of farms and businesses served.

## CONCLUSIONS ON PERFORMANCE CRITERIA

### LENDING TEST

Flatwater Bank demonstrated satisfactory performance under the Lending Test. The bank's performance as described under the Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile criteria supports this conclusion.

#### Loan-to-Deposit Ratio

Flatwater Bank's average net loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area's credit needs. The ratio, calculated from Consolidated Report of Condition and Income data, averaged 82.0 percent over the 23 quarters from June 30, 2016 to December 31, 2021. The bank's net loan-to-deposit ratio ranged from a high of 90.6 percent on September 30, 2016, to a low of 68.0 percent on September 30, 2021. Bank management believes the recent stimulus payments from the government in response to the COVID-19 pandemic inflated bank's deposits over pre-pandemic levels, which in turn caused the quarterly loan-to-deposit ratios to trend slightly downward since the pandemic started.

Examiners compared Flatwater Bank's average net loan-to-deposit ratio to four other institutions. Examiners selected the comparable institutions based on their asset size, geographic location, and lending focus. As shown in the following table, Flatwater Bank's average net loan-to-deposit ratio significantly exceeds one institution and is comparable to the other institutions, reflecting reasonable performance.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/21 \$(000s)	Average Net Loan-to-Deposit Ratio (%)
<b>Flatwater Bank, Gothenburg, Nebraska</b>	<b>214,677</b>	<b>82.0</b>
Custer Federal State Bank, Broken Bow, Nebraska	133,120	89.4
First National Bank in Ord, Ord, Nebraska	158,982	53.4
Nebraska State Bank and Trust, Broken Bow, Nebraska	292,604	98.2
The Hershey State Bank, Hershey, Nebraska	90,392	98.2

*Source: Reports of Condition and Income 6/30/16 through 12/31/21*

In addition, Flatwater Bank originates long-term home mortgage loans, which are sold to secondary market investors. Since the bank sells the loans shortly after origination, the loan-to-deposit ratio does not reflect these loans. The following table provides information regarding the secondary market loans the bank originated since the prior evaluation.

Loans Sold on the Secondary Market (Not reflected in the Loan-to-Deposit Ratio)		
	Number of Loans Sold	Dollar Volume of Loans Sold (000s)
From 4/6/2016	32	3,783
2017	19	2,302
2018	22	3,750
2019	25	3,454
2020	62	9,525
2021	56	9,152
<b>TOTALS</b>	<b>216</b>	<b>31,966</b>

Source: Bank records from 4/6/2016 to 12/31/2021

**Assessment Area Concentration**

A majority of small farm and small business loans reviewed, by number and dollar volume, were located in the assessment area. The following table provides details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	213	81.9	47	18.1	260	25,423	82.0	5,588	18.0	31,011
Small Business	364	72.4	139	27.6	503	15,305	69.3	6,775	30.7	22,080

Source: Bank Data

**Geographic Distribution**

The assessment area does not include any low- and moderate-income geographies, and a review of the Geographic Distribution criterion would not result in meaningful conclusions. Therefore, this criterion was not evaluated.

**Borrower Profile**

The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes. Examiners focused on the percentage of small farm and small business loans to farms and businesses with gross annual revenues of \$1 million or less. Reasonable small farm and small business lending performance supports this conclusion.

**Small Farm Loans**

The distribution of small farm loans reflects reasonable penetration among farms of different sizes. The bank's record of lending to farms with gross annual revenues of \$1 million or less is comparable to demographic data, reflecting reasonable performance. The following table provides details.



Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.0	47	85.5	5,273	84.4
>\$1,000,000	1.9	5	9.1	913	14.6
Revenue Not Available	1.1	3	5.5	58	0.9
<b>Total</b>	<b>100.0</b>	<b>55</b>	<b>100.0</b>	<b>6,244</b>	<b>100.0</b>

Source: 2021 D&B Data, Bank Data.  
Due to rounding, totals may not equal 100.0%

### ***Small Business Loans***

The distribution of borrowers reflects reasonable penetration among businesses of different sizes. The percentage of small business loans made to businesses with gross annual revenue of \$1 million or less is lower than the percentage of businesses reporting revenue in this category. However, the bank demonstrated a willingness to meet the credit needs of businesses of varying sizes, including small businesses, by originating PPP loans. The Small Business Administration administers these loans as part of the Coronavirus Aid, Relief, and Economic Security Act. The table includes 14 loans made to businesses without revenues available, but these were all PPP loans. Reported revenue was not available for most PPP loans given the program requirements. Therefore, examiners evaluated these PPP loans using loan size as a proxy. All 14 PPP loans reviewed were originated for less than \$100,000, indicating that the bank is helping to serve the needs of small businesses in the assessment area. The following tables provide details.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	81.6	40	69.0	1,460	64.0
>\$1,000,000	4.8	4	6.9	505	22.1
Revenue Not Available	13.6	14	24.1	315	13.8
<b>Total</b>	<b>100.0</b>	<b>58</b>	<b>100.0</b>	<b>2,280</b>	<b>100.0</b>

Source: 2021 D&B Data, Bank Data.  
Due to rounding, totals may not equal 100.0%

### **Response to Complaints**

The institution has not received any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

### **DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

## 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 geographic distribution of the bank's loans;
- 4) 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; 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.

**American Community Survey (ACS):** A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

**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.