



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 09, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Madison County Bank
Charter Number 707715

111 W. Third Street
Madison, NE 68748-0510

Office of the Comptroller of the Currency

13710 FNB Parkway
Suite 110
Omaha, NE 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.

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

Summarize the major factors supporting the institution's rating.

Madison County Bank's ("Madison" or "institution") lending performance reflects a satisfactory response to community credit and community development needs. This conclusion is based on the following results from our review:

- The loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance.
- The bank originated a majority of loans inside its assessment area (AA).
- Lending activities represent a reasonable penetration among individuals of different income levels and businesses of different sizes.
- Geographic distribution of loans represents a reasonable dispersion.

SCOPE OF EXAMINATION

Madison County Bank was evaluated under the Small Bank examination procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities.

The lending test for the institution covers its performance from January 1, 2010 through June 30, 2012, as this is representative of its lending strategy since the last CRA examination. The lending test is based on Madison's primary loan products (agricultural and residential real estate loans).

Since Madison is not located in a Metropolitan Statistical Area and is not subject to the requirements of the Home Mortgage Disclosure Act, the income data on residential home loan borrowers is not maintained outside of the individual mortgage files. Therefore, a sample of 20 residential mortgage products originated during the evaluation period was used to evaluate the bank's loan performance. We also sampled 20 agricultural loans as part of the lending test.

DESCRIPTION OF INSTITUTION

Madison County Bank is owned by Madison County Financial Corporation, which is wholly-owned by Madison County Holding Company. There is no public ownership as the members of Madison County Holding Company are the depositors of Madison County Bank.

Madison is a community-based institution, with its main office and 4 full-service branch offices in the cities of Albion, Norfolk, Madison, and Plainview. Plainview was upgraded to a full-service branch in July of 2008. The institution also has two insurance branches located in Creighton and Randolph, Nebraska. These branches are able to take

applications for loans and deposit accounts, but are not able to accept deposits. Madison does not have any deposit taking ATMs outside the three county assessment area.

The assessment area is reliant upon an agriculture-based economy, and the institution is highly active in agricultural lending. The business philosophy is to originate single-family mortgage loans, including the use of the Mortgage Partnership Finance (MPF) program with the Federal Home Loan Bank. Madison offers various types of loans, including one-to-four family, multi-family, agricultural, commercial, home equity, and numerous types of consumer loan products. Mortgage lending products include VA, FHA, SBA, Nebraska Investment Finance Authority (NIFA) first-time homebuyer loans, Guaranteed Rural Housing (GRH) loans, and Federal Home Loan Bank Down Payment Assistance Program loans. The institution also offers small energy loans through the Nebraska Energy Office, which are low interest loans for home improvement. Madison offers a number of deposit-oriented products and services, including savings accounts, checking accounts, certificates of deposit, IRAs, ATM cards, telebanking, and bank by mail.

As of June 30, 2012, total assets were approximately \$233.9MM. Madison reported total net loans and leases of \$182.5MM, which makes up approximately 78% of total assets. While commercial loans make up a higher dollar volume of the total loan portfolio by dollar, the number of residential real estate loans originated during the assessment period was considerably higher than commercial loans. The bank continues to focus on residential real estate lending. Together, residential real estate and agricultural loans comprise approximately 54% of loans originated from January 1, 2010 to June 30, 2012. Therefore, they are considered the bank's primary loan products.

Loan Originations by Loan Type				
Loan Category	\$ (000)	%	#	%
Agricultural Loans	\$ 172,666	38.71%	1,704	45.06%
Residential Loans	\$ 67,092	15.04%	751	19.86%
Commercial Loans	\$ 158,747	35.59%	323	8.54%
Consumer Loans	\$ 42,200	9.46%	469	12.40%
Other	\$ 5,356	1.20%	519	13.72%
	\$ 446,061	100.00%	3,782	100.00%

Source: Bank records from January 1, 2010 to June 30, 2012

There are no legal or financial impediments to Madison's ability to meet the credit and community development needs of its AA. The bank was rated Satisfactory at its last CRA examination dated July 10, 2007.

DESCRIPTION OF ASSESSMENT AREA

Boone-Madison-Pierce Assessment Area

Madison's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA includes all 12 contiguous census tracts located in Boone, Madison, and Pierce counties. These counties are located in northeast Nebraska. The bank excluded Platte county as part of their AA from last exam and included Pierce county as they upgraded their Plainview insurance branch to a full-service banking branch.

Demographic Information for Full Scope Area: Boone-Madison-Pierce Counties AA					
Demographic Characteristics	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts/BNAs)	12	0	8.33	75.00	16.67
Population by Geography	49,342	0	7.03	67.68	25.29
Owner-Occupied Housing by Geography	13,000	0	4.12	69.78	26.10
Business by Geography	5,769	0	5.95	73.60	20.45
Farms by Geography	869	0	1.38	89.99	8.63
Family Distribution by Income Level	12,832	16.26	19.44	23.85	40.45
Distribution of Low and Moderate Income Families throughout AA Geographies	4,580	0	9.21	74.92	15.87
Median Family Income		41,596	Median Housing Value		73,611
HUD Adjusted Median Family Income for 2011		56,200	Unemployment Rate		2.05%
2011 HUD updated MFI			Households Below Poverty Level		12%

Source: U.S. Census Data

The current local economy is stable. Economic activity in the area is mainly agriculture related in the rural areas and small manufacturing companies in the bigger cities. Norfolk, Nebraska is one major city in the AA, which would be the most prominent area for small businesses and services. The average unemployment rate for the AA is low and the average employee wages have increased from the last exam.

Competition from other financial institutions is average. The bank's competitors include several local community banks, branches of larger regional institutions, and a few large bank branches scattered throughout the AA.

In conducting the assessment of the bank's performance, we contacted a local community organization. The contact provided information about the Boone county portion of the AA. The contact indicated there are a few basic needs in the Boone county area necessary to keep attracting young professionals to the area. Community projects include a new city pool, upgrades to the local medical center, and the possibility of a new centrally located school in Albion. The contact stated the local banks have a presence in local fund-raising and believes they will be a big part in the funding of new projects. The contact had no complaints regarding cooperation with the banks.

We reviewed a list of donations and credit contributions in which the bank has participated. The bank has shown its willingness to contribute to the AA through purchases of bond issues for various projects and helping fund projects in the communities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Madison's lending test is satisfactory. The bank's LTD ratio is more than reasonable, and a majority of loans are originated inside its AA. There were no complaints, so we placed more emphasis on the borrower and geographic distributions.

The bank's geographic distribution is reasonable as the AA does not have many low- or moderate-income census tracts. The borrower distribution was also reasonable. The bank has some low- and moderate-income borrowers, but the majority were middle- to upper-income borrowers. Compared to the demographic information, the bank does a reasonable job of lending to borrowers of different income levels and businesses of different sizes.

Loan-to-Deposit Ratio

Madison's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's net loan-to-deposit ratio averaged 102.59% over the last 20 quarters, with a quarterly low of 89.90% and a quarterly high of 114.63%.

The bank's net loan-to-deposit ratio compares favorably with other community banks of similar size, location, and product offerings. Madison ranks first among a total of six similarly situated banks serving its assessment area. The other five had average net loan-to-deposit ratios averaging 85.26 percent and ranging from 62.56% to 101.67% over the last 20 quarters.

Lending in Assessment Area

A majority of the primary loan products originated by Madison are to families and businesses inside its AA. The following table details the bank’s lending within the AA by number and dollar amount of loans originated during the evaluation period.

Table 1 - Lending in Boone-Madison-Pierce Counties AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	3	7.5%	1	2.5%	4	\$215	4.3%	\$99	2.0%	\$314
Home Refinance	12	30.0%	3	7.5%	15	\$1,148	23.1%	\$345	6.9%	\$1,493
Home Improvement	0	0.0%	1	2.5%	1	\$0	0.0%	\$160	3.2%	\$160
Agricultural	12	30.0%	8	20.0%	20	\$2,256	45.4%	\$750	15.1%	\$3,006
Total	27	67.5%	13	32.5%	40	\$3,619	72.8%	\$1,354	27.2%	\$4,973

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

The overall borrower distribution for the Boone-Madison-Pierce counties AA reflects reasonable penetration among individuals of different income levels. The majority of income levels within the AA are middle- and upper-income. While the distribution to low-income families was a little lower than the percent of families within the AA, the bank was consistent with the concentrations of income levels.

Home Loans

The distribution of home purchase, home improvement, and home refinance loans to borrowers reflects a reasonable penetration among individuals of different income levels. During our review period, our testing revealed that 5% and 20% of loans were made to low- and moderate-income families. When compared to the percent of families in the assessment area, the low-income percentage is lower than the 16.3% average in the AA, but the lending to moderate-income families is comparable to the 19.4% average. This is not a concern as these are generally consistent with the income levels of families within the AA. Middle- and upper-income families make up 64% of families in the AA.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Boone-Madison-Pierce Counties AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	16.3	5%	19.4	5%	23.9	10%	40.5	15%
Home Improvement	16.3	0%	19.4	0%	23.9	0%	40.5	0%
Home Refinance	16.3	0%	19.4	15%	23.9	30%	40.5	20%

Source: U.S. Census Data

Agricultural Loans

The distribution of farm loans reflects a reasonable penetration among agricultural borrowers of different sizes, with 80% of the bank’s agricultural loans originated or purchased during the loan period being made to small agricultural borrowers. Small farm borrowers are borrowers with gross annual revenue of \$1MM or less. Demographic data shows that 99% of the area’s farm borrowers are small farmers. We used a loan proxy of \$100M as 25% of our loans had unknown revenue, and of the unknown revenue borrowers, most had total assets well below \$1MM. This was conservative and would give a more accurate reflection of farm lending in the AA. Using the proxy, our testing revealed that 80% of the loans were made to small farms in the AA. This was lower than the 99.1% in the AA, but not a concern. Approximately 75% of sample loans were under \$200M, with the average loan being approximately \$257M.

Table 3 - Borrower Distribution of Loans to Farms in Boone-Madison-Pierce Counties AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.1	0.4	0.6	100%
% of Bank Loans in AA by #	80%	10%	10%	100%
% of Bank Loans in AA by \$	43%	52%	5%	100%

Source: U.S. Census Data

Geographic Distribution of Loans

Madison’s overall geographic distribution is reasonable. The institution’s AA has only one moderate-income tract and no low-income tracts.

Home Loans

The bank’s geographic distribution of home loans in the AA reflects a reasonable dispersion throughout census tracts of different income levels, including the moderate-income census tract.

Table 4 - Geographic Distribution of Residential Real Estate Loans to in Boone-Madison-Pierce Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner occupied housing	% of Number of Loans	% of AA Owner occupied housing	% of Number of Loans	% of AA Owner occupied housing	% of Number of Loans	% of AA Owner occupied housing	% of Number of Loans
Residential RE	0	0	4.12	10	69.78	75	26.10	15

Source: U.S. Census Data

Agricultural Loans

The bank’s geographical distribution of agricultural loans in the AA reflects a reasonable dispersion throughout the census tracts of different income levels. All loans in the sample were made to middle-income tracts, which make sense as most of the agricultural areas are located primarily in middle-income tracts. While the level of agricultural loans originated in the moderate-income census tract is poor, this received little weight as there is only one moderate-income census tract in the AA, which is located within the city of Norfolk where agricultural loans would be in less demand.

Table 5 - Geographic Distribution of Loans to Farms in Boone-Madison-Pierce Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Agricultural	0	0	1.38	0	89.99	100	8.63	0

Source: U.S. Census Data

Responses to Complaints

Madison has not received any CRA complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.