



PUBLIC DISCLOSURE

January 29, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Fairfield
Charter Number 13991

100 East Burlington
Fairfield, Iowa 52556

Office of the Comptroller of the Currency
1089 Jordan Creek Parkway, Suite 230
West Des Moines, Iowa 50266

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, and should not 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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Overall CRA Rating

The Lending Test is rated: Satisfactory.

The First National Bank in Fairfield's (FNB) lending performance reflects a satisfactory response to the needs of its assessment area (AA). This conclusion is based on the following:

- FNB's loan-to-deposit (LTD) ratio is more than reasonable;
- A majority of FNB's loans are originated inside its AA;
- FNB's distribution of loans to borrowers of different income levels reflects reasonable penetration; and
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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 MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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.

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, which 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).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, 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 conduct 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, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, 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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the

median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties 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 percent 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 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state 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 multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

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

Small Loan(s) to Farm(s): 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, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders’ equity, perpetual preferred shareholders’ equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

Description of Institution

FNB is a \$171 million financial institution headquartered in Fairfield, Iowa. The bank has one other bank branch that is also located in Fairfield. The bank operates five automated teller machines (ATMs), of which three have deposit-taking capabilities. All ATMs are located in Fairfield. FNB operates in one AA that is comprised entirely of Jefferson County. According to the FDIC deposit market share report, there are five other institutions serving the Jefferson County AA, of which FNB ranks second with 29 percent of total deposits.

The bank is a wholly owned subsidiary of Iowa First Bancshares Corporation (IFBC), a two-bank holding company headquartered in Muscatine, Iowa. As of December 31, 2017, the holding company had total consolidated assets of \$483 million. The holding company also owns First National Bank of Muscatine located in Muscatine, Iowa.

FNB offers a full range of deposit and loan products and services to its customers. As of September 30, 2017, the bank's loan portfolio totaled \$144 million or 84 percent of total assets. The September 30, 2017, call report identifies \$75 million in agricultural loans, \$42 million in business loans, \$24 million in residential real estate loans, and \$3 million in consumer loans.

There were no legal or financial impediments to FNB's ability to meet the credit needs of its AA over the evaluation period. FNB received a satisfactory rating at its last CRA examination dated December 17, 2012.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated FNB using small bank examination procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test covers the bank's performance from December 17, 2012, to January 29, 2018. This period is representative of the bank's lending strategy since the previous CRA examination.

FNB's primary products are agricultural and business loans. The following table shows the percentage of loan originations by loan type from January 1, 2014, to December 31, 2016. The 2017 census data was not available at the time of the exam; therefore, the analysis does not include 2017 loan data.

Table 1: Loan Originations		
Loan Type	% by Dollar	% by Number
Agricultural	47	33
Business	40	26
Consumer	3	29
Residential RE	10	12

Source: Bank-provided loan origination reports (2014-2016).

We initially selected 20 agricultural and business loans originated between January 1, 2014, and December 31, 2016, to assess lending in the AA. We expanded the sample to include 20 loans inside the Jefferson County AA for each primary product to evaluate borrower income distribution.

Selection of Areas for Full-Scope Review

We completed a full-scope review of the Jefferson County AA. The Jefferson County AA consists of all four CTs in Jefferson County. Refer to Appendix A of this evaluation for additional information.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

FNB's CRA performance is satisfactory.

LENDING TEST

FNB's performance with regards to the lending test is satisfactory. The bank's LTD ratio is more than reasonable given the bank's size, financial condition, and credit needs of the AA. In addition, FNB originates a majority of its loans inside the AA. The borrower distribution of agricultural and business loans reflects reasonable penetration. FNB has not received any complaints regarding its CRA performance since the previous examination.

Loan-to-Deposit Ratio

FNB's lending level is more than reasonable and meets the criteria for outstanding performance. FNB's LTD ratio as of September 30, 2017, was 95 percent. Over the past 20 quarters ending September 30, 2017, FNB's quarterly average LTD ratio was 93 percent. This ratio is above the quarterly average LTD ratio of two similarly situated institutions of 79 percent. The similarly situated banks utilized for comparison purposes are community banks located in Jefferson County, are of similar asset size, and have similar primary loan products.

Lending in Assessment Area

A majority of FNB's loans are originated inside its AA, which meets the standard for satisfactory performance. Management originated 60 percent of its loans by number and 79 percent of its loans by dollar within the AA.

The following table details FNB's lending within the AA by number and dollar amount of loans:

Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	6	50	6	50	12	1,109	49	1,143	51	2,252
Business	6	75	2	25	8	3,372	98	75	2	3,447
Combined	12	60	8	40	20	4,480	79	1,218	21	5,699

Source: Sample of 20 loans originated from January 1, 2014, to December 31, 2016

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

The distribution of borrowers, given the demographics of the AA, reflects reasonable penetration among farms and businesses of different sizes.

Agricultural Lending:

The distribution of loans to farms of different sizes reflects reasonable penetration. Our sample of 20 agricultural loans indicated FNB originated 80 percent of its loans by number and 83 percent by dollar amount to small farms. Small businesses are those with annual gross revenues equal to or less than \$1 million.

The demographic data for the AA shows 100 percent of farms reporting revenue data have annual gross revenues of \$1 million dollars or less.

Table 3 - Borrower Distribution of Loans to Farms in Jefferson County				
Gross Farm Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	100	0	0	100
% of Bank Loans in AA by #	80	15	5	100
% of Bank Loans in AA by \$	83	16	1	100

Source: 2016 Business Demographic Data; Sample of loans from 2014 – 2016

Business Lending:

The distribution of loans to businesses of different sizes reflects reasonable penetration. Our sample of 20 business loans indicated FNB originated 80 percent of its loans by number and 82 percent by dollar amount to small businesses. Small businesses are those with annual gross revenues equal to or less than \$1 million.

The demographic data for the AA shows 87 percent of businesses reporting revenue data have annual gross revenues of \$1 million dollars or less.

Table 3 - Borrower Distribution of Loans to Businesses in Jefferson County				
Gross Business Revenues	≤ \$1,000,000	> \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	88	5	7	100
% of Bank Loans in AA by #	80	15	5	100
% of Bank Loans in AA by \$	82	18	0	100

Source: 2016 Business Demographic Data; Sample of loans from 2014 – 2016

Geographic Distribution of Loans

A geographic distribution of loans was not performed at this examination. All of the geographies are middle-income, thus, the analysis would not be meaningful.

Responses to Complaints

FNB has not received any CRA-related complaints since the last CRA examination.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: 01/01/2014 to 12/31/2016	
Financial Institution		Products Reviewed
First National Bank in Fairfield Fairfield, Iowa		Agricultural Loans Business Loans
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A	N/A	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Jefferson County	Full-scope	

Appendix B: Community Profiles for Full-Scope Areas

Jefferson County AA

Demographic Information for Full Scope Area: Jefferson County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4	0.00	0.00	100.00	0.00	0.00
Population by Geography	16,843	0.00	0.00	100.00	0.00	0.00
Owner-Occupied Housing by Geography	4,943	0.00	0.00	100.00	0.00	0.00
Business by Geography	1,912	0.00	0.00	100.00	0.00	0.00
Farms by Geography	201	0.00	0.00	100.00	0.00	0.00
Family Distribution by Income Level	4,234	22.22	15.73	24.75	37.29	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	1,607	0.00	0.00	100.00	0.00	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level		56,190 63,300 16%	Median Housing Value Unemployment Rate (2010 US Census)		94,631 3.00%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 US Census and 2016 FFIEC updated MFI

FNB operates two branches and five ATMs, all located in Fairfield. The city of Fairfield is located in southeast Iowa and has a strong agricultural presence. FNB operates with one AA that consists entirely of Jefferson County. The AA includes four contiguous census tracts (CTs), all designated middle-income. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. A map of the AA can be found in FNB's CRA public file.

According to 2010 United States census data, the total population of the AA is 16,843, with 4,234 families. Of the 4,234 families, 22 percent are designated low-income, 16 percent are moderate-income, 25 percent are middle-income, and 37 percent are upper-income. Sixteen percent of AA households are below the poverty level. The median family income was \$63,300 in 2016.

Competition within the AA is moderate. Five other deposit-taking financial institutions serve the Jefferson County AA. FNB holds the second largest deposit market share of the six institutions with 29 percent of total deposits.

The condition of the local economy is average. Jefferson County's unemployment rate is in line with state averages. The AA's unemployment rate as of September 2017 was 3.4 percent, compared to the state of Iowa's unemployment rate of 3.0 percent, as reported by the Bureau of Labor Statistics. Both are below the national average of 4.2

percent. Despite the stronger employment rates, the agricultural economy has experienced financial stresses due to depressed commodity prices.

We contacted a community representative during the examination. The community contact indicated the economy is improving but is weaker for low- to moderate-income individuals and families. While the community contact felt that the primary credit needs of the area were small business and agricultural, they also saw a strong need for affordable housing in the area, particularly for low- and moderate-income seniors. The representative also mentioned that the city of Fairfield infrastructure is in need of improvement (i.e. water and sewer updates) and indicated that a city bond may be issued for banks to purchase. Overall, the representative concluded that all financial institutions in the area meet the credit needs of the community through appropriate products and services.