



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**December 01, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First Newton National Bank  
Charter Number: 13609

100 North 2nd Avenue West  
Newton, Iowa 50208

Office of the Comptroller of the Currency

Omaha Field Office  
13710 FNB Parkway, Suite 110  
Omaha, Nebraska 68154

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Outstanding.**

First Newton National Bank of Newton (FNNB) meets the credit needs of its assessment areas (AAs). The primary lending activities are residential real estate and business.

- While community development (CD) services and activities are optional for a small bank, FNNB CD and other Community Reinvestment Act (CRA) activities are outstanding, and strengthen its overall CRA performance. First Newton National Development Corporation (FNNDC), a wholly owned community development corporation (CDC), has constructed five houses targeted towards low- and moderate-income families.
- A substantial majority of the bank's loans are within the AA.
- The bank's lending efforts result in satisfactory penetration of borrowers of different income levels and businesses of different sizes.

**SCOPE OF EXAMINATION**

The scope of the CRA examination included the time period of August 26, 2002 to December 1, 2008. Small bank procedures were used to evaluate the bank's performance under the CRA. A full scope review was completed of the bank's CRA activities in the AAs. We determined FNNB's primary loan products are residential real estate (RE) and business loans. Examiners used Home Mortgage Disclosure Act (HMDA) data to evaluate the bank's residential real estate performance. To evaluate the bank's business lending performance, we selected a sample of business loans originated from January 1, 2006 through November 7, 2008.

**DESCRIPTION OF INSTITUTION**

FNNB is a nearly \$83 million bank headquartered in Newton, Iowa, in Jasper County. The bank is located approximately 40 miles east of Des Moines, in central Iowa. FNNB operates with one other branch in Newton and a branch in Bondurant, IA, Bondurant National Bank, which opened in 2005. The bank also operates five deposits taking automated teller machines (ATMs) located in Newton and Bondurant. In addition, FNNB owns 100% of FNNDC, a community development corporation set up to assist in the creation of affordable housing for low- and moderate- income families and community development within Newton, Iowa. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AAs. The bank was rated Outstanding at its last CRA examination dated August 26, 2002.

FNNB offers traditional loans and deposit products. As of September 30, 2008, the bank's loan portfolio totaled 45.3% of total assets. We determined FNNB's primary loan products are residential real estate (RE) and business loans. The bank reports data under the requirements of the HMDA. The HMDA data was tested and found to be

reliable. The following table shows the breakdown of loans originated and purchased from January 1, 2006 to November 11, 2008.

<b>Loan Type</b>	<b>% by Dollars of Loans Originated/Purchased during evaluation period</b>	<b>% by Number of Loans Originated/Purchased during evaluation period</b>
<b>Home Loans</b>	<b>47%</b>	<b>37%</b>
Consumer Loans	2%	16%
<b>Business Loans</b>	<b>44%</b>	<b>39%</b>
Agricultural Loans	6%	7%
Total	100%	100%

*Source: Bank reports.*

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNNB has two assessment areas in central Iowa which are described below.

### **Jasper County AA**

The Jasper County AA consists of nine census tracts which include 0401 through 0409. The AA consists of eight middle income and one upper income census tracts; there are no low- or moderate-income census tracts. The bank's AA meets the requirements of the regulations and does not arbitrarily exclude low- or moderate-income geographies. A map of the AA can be obtained from the bank's CRA Public File.

According to the 2000 U.S. Census, the total population of the AA was 37,213. The Housing and Urban Development (HUD) 2007 weighted average median family income for non-metropolitan statistical areas in Nebraska was \$53,500. Approximately 12% of families in the AA are low-income, 16% moderate-income, 25% middle-income, and 46% upper income. Only 7.2% of the AA households were below the poverty level. Based upon Census data, the weighted average median family housing value was \$84,598, and 71% of housing was owner-occupied.

The local economy remains relatively stable. According to the Iowa Workforce Development, unemployment in Jasper County is high at 6.9%, as of October 31, 2008. Major employers include the local school districts, county governments, Iowa Telecom, Skiff Medical Center, TPI Composites, and several retail and manufacturing businesses located throughout the AA. Jasper County is serviced by 10 other financial institutions. These include eight state banks, one federal savings bank, and one regional bank.

Examiners interviewed a community contact located in Jasper County. The community contact described the economic conditions of the area as stable. The contact indicated the primary need in the area was commercial loans, specifically start-up and smaller businesses. The contact added that local institutions are good at helping to support with the needs of the community and offer financial assistance.

## **Polk County AA**

The Polk County AA consists of eighty census tracts which include six low income tracts, 20 moderate income tracts, 38 middle income tracts, and 16 upper income tracts.

Polk County is one of five counties that make up the Des Moines Metropolitan Statistical Area (MSA). The bank's AA meets the requirements of the regulations and does not arbitrarily exclude low- or moderate-income geographies. A map of the AA can be obtained from the bank's CRA Public File.

According to the 2000 U.S. Census, the total population of the AA was 374,601. The 2000 Census indicated a Des Moines MSA Median Family income of \$55,620. Approximately 18% of families in the AA were low-income, 19% moderate-income, 25% middle-income, and 39% upper income. Only 7.6% of the AA households were below the poverty level. Based upon Census data, the weighted average median family housing value was \$104,457, and 66% of housing was owner-occupied.

The local economy in Polk County has seen the affects of the nationwide economic downturn and housing crisis. The primary concerns that have been identified in the Des Moines market include decreasing home values and sales. According to the Iowa Workforce Development, unemployment in Polk County is 3.9% as of October 31, 2008. The major employment industries in Des Moines are financial services, insurance, government, manufacturing, trade, and services.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNNB's average loan-to-deposit (LTD) ratio is reasonable given the size, financial condition, AA credit needs, and other compensating factors. The LTD ratio over the past twenty quarters was 51%, and was 49% as of September 30, 2007. This is lower than the average LTD for similarly situated banks in the assessment area at 77%. The average LTD of these banks ranged from 64% to 94%. Compensating factors include FNNB's significant number of secondary market loan sales. Since 2003, the bank has originated 203 secondary market real estate loans totaling over \$22 million. If these loans were included in the total loans, the LTD ratio would be approximately 79.7%, which is comparable to other banks in the AA.

### **Lending in Assessment Area**

FNNB originates a substantial majority of its loans in the AA. Examiners completed a data integrity review of the bank's HMDA LAR submissions and found these to be accurate. Using the information submitted for HMDA regarding residential real estate loans and a sample of 20 business loans, the bank originated nearly 88% by number and 79% by dollar amount within its AAs. The following table illustrates the banks excellent performance regarding lending in the AA.

<b>Table 1 - Lending in First National Newton Bank Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Total Res. RE	161	88.5%	21	11.5%	182	\$12,595	79.4%	\$3,250	20.5%	\$15,845
Total Business	16	80.0%	4	20.0%	20	\$2,440	76.0%	\$771	24.0%	\$3,211
<b>Totals</b>	<b>177</b>	<b>87.6%</b>	<b>25</b>	<b>12.4%</b>	<b>202</b>	<b>\$15,035</b>	<b>78.9%</b>	<b>\$4,021</b>	<b>21.1%</b>	<b>\$19,056</b>

Source: HMDA Reports & Bank Business Loan Sample.

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

FNNB meets the standards for lending to borrowers of different income and businesses of different sizes. The sample included the 2006, 2007, and year-to-date residential real estate loans from the HMDA LAR, and twenty business loans from the Jasper County AA.

Residential RE Loans

The bank’s lending to borrowers of different incomes in the Jasper County AA is satisfactory. The bank originated 8% of residential real estate loans to low-income borrowers. Demographic data shows 12% of families are low income in Jasper County. In addition, the bank originated nearly 22% of residential real estate loans to families with moderate income versus the demographic comparable of nearly 16%.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Jasper County AA</b>								
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
Res RE	12.41%	8.06%	15.85%	21.77%	25.32%	19.35%	46.43%	50.81%

Source: 2008 Geodemographic Data, HMDA Reports & Bank Reports

The bank’s lending to borrowers of different incomes in the Polk County AA is satisfactory. FNNB originated 2.7% of residential real estate loans to low-income borrowers, and nearly 22% of residential real estate loans to moderate-income borrowers. Demographic information indicated nearly 18% of families located in the AA have low-incomes and 18.7% of families located in the AA have moderate-incomes. The majority of weight regarding residential real estate loan income distribution was put upon the Jasper County loans, as this is where the majority of loans are originated. Only a small percentage of loans were originated in Polk County.

<b>Table 2 – Borrower Distribution of Residential Real Estate Loans in Polk County AA</b>								
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
Res RE	17.56%	2.70%	18.72%	21.62%	25.08%	16.22%	38.64%	48.65%

Source: 2008 Geodemographic Data, HMDA Reports & Bank Reports

**Business Loans**

FNNB has reasonable penetration of lending to businesses of different sizes. The bank originated 85% by number and 92% by dollar of loans to businesses in Jasper County. This compares favorably to the demographic comparative which indicated 59% of businesses have less than \$1 million in gross revenues.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Jasper County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	59.11%	3.42%	37.47%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	92%	8%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

There were not enough originated business loans in Polk County to complete a borrower distribution analysis.

**Geographic Distribution of Loans**

The geographical distribution of the bank’s primary products reflects a good penetration throughout the designated AAs.

**Residential RE Loans**

FNNB has satisfactory distribution of residential real estate loans originated to low and moderate census tract income levels within the Polk County AA. The bank originated 7.5% of residential real estate loans for houses in the low census tract income level, and 25% of loans for houses in the moderate census tract income levels. This compares favorably with demographic information, which indicates 2% of houses are in the low census tract income level and nearly 20% of houses are in the moderate census tract income level.

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
<b>Residential RE</b>	2.20%	7.5%	19.87%	25.00%	50.48%	47.50%	27.45%	20%

*Source: 2008 Geodemographic Data, HMDA Reports & Bank Reports.*

Geographic distribution of residential real estate loans and business loans was not completed for the Jasper County AA as there are no low or moderate income census tracts.

Geographic distribution of business loans was also not completed on the Polk County AA as there were not enough originated loans to complete a sufficient sample.

**Qualified Investments and CD Services**

Community development activities, services, and investments within FNNB are outstanding, and represent an excellent responsiveness to the needs of the AA. In 1995, FNNB created FNNDC, a CDC, to address low- and moderate-income housing shortage in Newton. The creation of a CDC for a small bank is exceptional. During the assessment period, FNNDC constructed and sold five single-family dwellings. One home was purchased by a low income family and one by a moderate income family. One home was purchased by a retired couple; however, sufficient information could not be obtained to determine the families' level of income.

In addition to building homes, FNNB, through First Newton National Foundation (FNNF), made a number of qualified investments which totaled nearly \$18,000. FNNF donated \$300 to St. Nicks Christmas Club which offers assistance to low income families with children, and \$2000 to Progress Industries which assists disabled and low income individuals. In addition, FNNF donated \$2,750 to Habitat for Humanity, which builds affordable housing in the AA. Finally, FNNF donated \$12,640 to the local United Way which provides assistance to programs targeting low-to-moderate income families.

FNNB's level of community development service is excellent. FNNB employees actively participate in a number of organizations that work to assist low- and moderate-income individuals. These include: Newton Development Corporation, Jasper County Alliance, Newton Housing and Development Corporation, Red Rock Community Action Program, and one individual was a Board member with United Way. In addition, a number of employees have provided volunteer services for the House of Compassion and the Salvation Army, which also assist low- and moderate-income individuals. Finally, FNNB also actively participates in a number of organizations that assist small businesses, including the Newton Chamber of Commerce and the Community Revitalization Task Force.

### **Responses to Complaints**

The Office of the Comptroller of the Currency and the bank did not receive any complaints about its CRA performance during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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