



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**August 21, 2006**

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

**First National Bank of Muscatine  
Charter Number 15579**

**300 East Second Street  
Muscatine, IA 52761**

**Comptroller of the Currency  
North Central Illinois & Eastern Iowa Field Office  
111 West Washington Street Suite 300  
East Peoria, IL 61611**

**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**

**First National Bank of Muscatine (FNB) is rated Satisfactory.**

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- FNB's lending to borrowers of different income levels regarding residential real estate is adequate.
- FNB's quarterly average loan-to-deposit ratio of 100 percent over the evaluation period is more than reasonable.
- FNB's community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.
- A majority of the loans originated by FNB are to customers from within its AA.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses First National Bank of Muscatine's record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Intermediate Small Bank performance criterion, which includes a lending test and a community development test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities. The community development test evaluates a bank's community development lending, qualified investment, and community development services activities.

- The evaluation period covers loans originated or purchased from August 13, 2003 through June 30, 2006.
- FNB has one AA, generating a majority of the bank's loans and deposits. The lending test is based on FNB's primary loan products.
- Conclusions regarding the bank's lending performance are based on small business and residential mortgage loans, including home purchases, home refinances, and home improvements. Small business and residential loans considered in the Lending Test were originated or purchased during the evaluation period, utilizing 2000 census data.
- Since the bank 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. Thus, a sample of

50 residential mortgage products originated during the evaluation period was used in assessing the range of distribution by borrower income levels.

- FNB is not required to maintain the revenue information on commercial loans outside of the individual credit files. Thus, a sample of 52 commercial loans originated during the evaluation period was used to assess the lending to businesses of different sizes.

## **DESCRIPTION OF INSTITUTION**

FNB is a \$275 million intrastate financial institution located on U.S. Highway 61 along the Mississippi River in Muscatine County in East Central Iowa. The main office is located in downtown Muscatine with a drive-up facility and Automated Teller Machine (ATM). FNB has four additional offices in Muscatine, three full-service locations and one limited-service location inside Wal-Mart. Each full-service office is equipped with drive-up facilities and an ATM. FNB has three additional ATMs located in Muscatine; in the Student Center at Muscatine Community College, at Muscatine High School, and in a convenience store in Grandview, IA, south of Muscatine at the intersection of U.S. Highway 61 and State Route 92.

Customers may also access their accounts through telephone banking or by the Internet. Internet and telephone banking services include transfers between FNB accounts, review of account balances or transactions, access loan account information, and bill-paying capability for the Internet banking product. The bank also offers debit cards providing customers with additional access to their accounts at point of sale or ATM locations.

The bank is a wholly owned subsidiary of Iowa First Bancshares Corp., a two-bank holding company headquartered in Muscatine, Iowa. As of June 30, 2006, the holding company had total assets of \$384 million. The holding company also owns First National Bank of Fairfield in Fairfield, Iowa. In addition, the holding company has one statutory business trust that is an unconsolidated subsidiary. The bank's affiliates do not negatively impact the FNB's ability to meet the credit needs of the community.

Since the last CRA evaluation, FNB did not close any facilities and opened one branch office. In December 2004, FNB opened a new branch office on the west side of Muscatine near Muscatine High School located on Cedar Plaza Drive. FNB's branching network is well positioned to provide financial products and services to all areas of the City of Muscatine and the County of Muscatine. FNB's strategy of providing high quality financial products and services through personal and convenient multi-channel delivery systems to meet the needs of the customers in the communities they serve has not changed.

FNB's two primary lending products are residential real estate and commercial loans. These two lending categories account for 85 percent of all loan originations from January 1, 2004 to June 30, 2006 and make up 90 percent of the outstanding loan balances as June 30, 2006. Thus, these two lending products were used for the analysis of this evaluation. Agricultural and consumer lending are not primary loan products accounting for 15 percent of all loan originations from January 1, 2004 to June 30, 2006, and the remaining 10 percent of the outstanding loan balances as of June 30, 2006.

<b>Table 1 – Loan Originations by Loan Type</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Loans	\$213,695	59%
Residential Loans	\$ 94,921	26%
Consumer Loans	\$ 37,695	11%
Agricultural Loans	\$ 15,508	4%
<b>Total Originations</b>	<b>\$361,819</b>	<b>100%</b>

Source: Bank Records from January 1, 2004 to June 30, 2006.

As of June 30, 2006, the bank reported \$234 million in outstanding loans and had a net loans and leases to total assets ratio of 84 percent. The loan portfolio consists of the following:

<b>Table 2 – Loan Portfolio Summary by Loan Type June 30, 2006</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Loans	\$118,283	51%
Residential Loans	\$ 90,745	39%
Agricultural Loans	\$ 14,861	6%
Consumer Loans	\$ 10,268	4%
<b>Total Loans</b>	<b>\$234,157</b>	<b>100%</b>

Source: Call Report June 30, 2006

There are no financial conditions, legal constraints or other factors that would hinder the bank's ability in helping to meet the credit needs of the communities within its assessment area. Tier 1 capital was reported at \$27 million as June 30, 2006. The bank's previous CRA rating as of August 13, 2003 was Satisfactory.

## **DESCRIPTION OF THE MUSCATINE ASSESSMENT AREA**

FNB's Assessment Area (AA) meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. The AA includes all 10 census tracts (CTs) in Muscatine County, which represents no change from the prior evaluation. Muscatine is the principal city and serves as the county seat of Muscatine County. The 2000 U.S. Census data shows this AA does not contain any low- or moderate-income CTs; all CTs in the AA are designated as middle- or upper-income.

Competition within the AA is primarily from two state banks that serve the same communities and have a similar business focus. Other competitors consist of smaller community banks in the area and from larger banks in the Quad Cities.

The following is demographic information for the assessment area:

**Table 3 - Demographic Information for Muscatine Assessment Area**

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	10	0%	0%	70%	30%
Population by Geography	41,722	0%	0%	72%	28%
Owner-Occupied Housing by Geography	11,946	0%	0%	70%	30%
Businesses by Geography	2,829	0%	0%	75%	25%
Farms by Geography	365	0%	0%	55%	45%
Family Distribution by Income Level	11,353	15%	17%	23%	45%
Distribution of Low- and Moderate- Income Families throughout the AA	3,611	0%	0%	82%	18%
Median Family Income	\$49,816	Median Housing Value			\$85,230
2006 HUD Adjusted Median Family Income for Iowa Non-MSA	\$52,800	Median Year Built			1959
Families Below the Poverty Level	6%	Average Monthly Gross Rent			\$ 456

*Source: 2000 U.S. Census Data*

### **Economic Data**

The local economy is considered stable. The July 2006 Muscatine County unemployment rate of 3.4% compares favorably to the 4.8% national average and to the 3.8% State of Iowa average rate. The economy of the AA is concentrated in the healthcare, education, manufacturing, and agricultural industries. Major employers include; HNI Corp, Bandag, Inc., Muscatine Foods Corporation, West Liberty Foods, Musco Sports Lighting, Monsanto Company, H.J. Heinz Company, the local school districts, and the city and county government.

We contacted an economic development official during the examination. The official indicated the primary credit needs in the assessment area are commercial, home, car, and general consumer loans. He felt FNB and other local financial institutions were actively meeting the credit needs of the area. The local banks have always been willing to participate in loan programs to meet the needs of the community, including low-and moderate-income families.

The contact stated the economy in the assessment area is rather strong as the unemployment rate is better than the national and state-wide average. Manufacturing businesses in Muscatine continue to be strong and provide ample employment opportunities. The contact indicated there are not any credit needs or banking services not met or provided for by the local financial institutions. He said all local banks and their employees remain actively involved in the community.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### LENDING TEST

FNB meets the standards for satisfactory performance.

- The distribution of loans to individuals of different income levels and businesses of different sizes is satisfactory.
- FNB's average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs.
- A majority of the loans originated by FNB are to customers from within its AA.

### LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of loans reflects satisfactory penetration among individuals of different income levels (including low-, and moderate-income) and businesses and farms of different sizes.

#### Residential Real Estate Loans

FNB's lending to borrowers of different income levels regarding residential real estate is adequate. Based on our sample, lending to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. Lending to low-income borrowers is below the percentage of low-income families in the AA. Although the lending to low-income borrowers is below the percentage of low-income families in the AA, this is considered reasonable given that six percent of families in the AA are below the poverty level.

Table 4 – Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number	% of AA Families	% of Number
Residential	15%	8%	17%	22%	23%	26%	45%	44%

Source: Bank records from January 1, 2004 to June 30, 2006; 2000 Census Data.

#### Commercial Loans

FNB performance of lending to businesses of different sizes is good. From a sample of commercial loans originated by FNB during 2004 through 2006, ninety percent of the loans were made to small businesses, while forty-eight percent of the dollar amounts were loans made to small businesses. Small businesses are businesses with annual gross revenues of less than one million dollars. The demographic data for the AA shows that fifty-nine percent of the businesses reporting revenue data in the AA have revenues equal to or less than one million dollars.

The following table shows the distribution of commercial loans among businesses of different

sizes within the AA:

<b>Table 5 – Borrower Distribution of Loans to Businesses of Different Sizes</b>					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	47	90%	59%	\$ 4,742	48%
>\$1,000,000	5	10%	5%	\$ 5,064	52%
Total	52	100%	64%	\$ 9,806	100%

Source: Bank records on new loans originated during 2004 through 2006; 2000 Census Data.

\*\* 36 percent of AA businesses did not report revenue data.

## LENDING IN THE ASSESSMENT AREA

FNB originates a majority of its loans to borrowers located within its assessment area. FNB's lending to customers within the AA for commercial and residential loans is reasonable. The following table details the bank's lending within the AA by number of loan originations and dollar volume during the evaluation period.

<b>Table 6 – Loans Originated within the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	695	79%	181	21%	876	\$132,546	62%	\$81,149	38%	\$213,695
Residential	1,203	83%	250	17%	1,453	\$73,694	78%	\$21,227	22%	\$94,921
Totals	1,898	81%	431	19%	2,329	\$206,240	67%	\$102,376	33%	\$308,616

Source: Bank records on new loans originated from January 1, 2004 to June 30, 2006.

## LOAN-TO-DEPOSIT RATIO

FNB's average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. FNB's quarterly average loan-to-deposit ratio for the period January 1, 2003, to June 30, 2006, is one hundred percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time period ranged from forty-seven percent to eighty-five percent. FNB's average loan-to-deposit ratio exceeds the seven similarly situated banks, which range in asset size from \$144 million to \$646 million. The similarly situated banks utilized for comparison purposes are community banks located in Muscatine and Scott Counties in Iowa and in Rock Island County in Illinois.

## GEOGRAPHIC DISTRIBUTION OF LOANS

A geographic distribution of loans was not performed during this evaluation. Since all the geographies are middle- and upper-income, the analysis would not be meaningful.

## RESPONSES TO COMPLAINTS

FNB has not received any complaints about its performance in helping to meet the credit needs within its AA during this 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.

## **COMMUNITY DEVELOPMENT TEST**

FNB's community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

### **Number and amount of community development loans**

FNB has one qualifying loan for \$720,000 originated during the evaluation period.

FNB participated with Central State Bank to make a loan for \$1,440,000 to construct a 22-unit apartment complex for persons with disabilities. This complex is known as Fulton Place, operated by the Muscatine Welfare Association, a not-for-profit organization that provides living facilities for disabled low-income individuals. All units will be affordable to individuals with incomes at or below 50% of adjusted median income. The complex offers 16 one-bedroom apartments and 6 two-bedroom apartments, all are handicap accessible.

### **Number and amount of qualified investments**

FNB has made contributions of \$98,250 to three community service organizations assisting low- and moderate-income individuals and families within the assessment area. During the evaluation period, FNB has contributed \$83,000 to the United Way, \$7,750 to Muscatine Development Corporation, and \$7,500 to Senior Resources, Inc., which provides programs and services to help senior citizens of Muscatine County.

### **Extent to which the bank provides community development services**

Delivery systems are reasonably accessible to individuals of different income levels. FNB operates five full-service offices and eight ATM's in the AA. Extended hours are available at all office drive-up locations. All branch locations offer extended lobby hours on Fridays and Saturdays. The Wal-Mart and Oakview branch offices offer additional lobby hours on Sundays. All of the bank's loan and deposit products are available at all branch locations

FNB offers a satisfactory level of community development services based on the capacity of the bank, and the need and availability of opportunities in the AA.

### **Bank's responsiveness, through community development activities, to community development lending, investment, and services needs**

FNB continues to be responsive to the needs of the community. The bank works with the City of Muscatine and the Muscatine Development Corporation. The officers and employees of the bank are heavily involved a large number of community service organizations.