



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**April 10, 2006**

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

**The Grundy National Bank of Grundy Center  
Charter Number 14066**

**603 Seventh Street  
Grundy Center, IA 50638**

**Comptroller of the Currency  
Minneapolis South  
920 Second Avenue South Suite 800  
Minneapolis, MN 55402**

**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.**

The major factors that support this rating are:

- Bank lending activity reflects satisfactory responsiveness to assessment area credit needs.
- The bank's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of the bank's commercial and agricultural loans are in the assessment area.
- The geographic distribution of loans to businesses and farms of different revenue size is satisfactory.
- The bank has not been the subject of any CRA complaints over the evaluation period.

## **DESCRIPTION OF INSTITUTION**

The Grundy National Bank of Grundy Center (GNB) is a \$152 million community bank located in north central Iowa, approximately 30 miles southwest of Waterloo, Iowa. GNB is a wholly-owned subsidiary of GNB Bancorporation, which is also the parent company for a state-chartered institution in Ackley, Iowa and a leasing company. Holding company assets total \$260 million.

The bank's main office and a branch facility are located in Grundy Center, the county seat. Both facilities have automated teller machines (ATMs). GNB has a branch facility and a cash-out only ATM in Holland, Iowa, and a branch facility and ATM in Conrad, Iowa.

The bank's December 31, 2005 Consolidated Reports of Income and Condition (Call Reports) reported total assets of \$152 million, total loans of \$94 million, and total deposits of \$99 million. There are no financial, legal or other factors that impede the bank's ability to meet its CRA obligations. The bank was rated "Satisfactory" at the previous CRA evaluation conducted December 10, 2001.

GNB is a full-service bank offering a variety of loan and deposit products. Loans and leases account for \$94 million (or 62%) of total bank assets as of December 31, 2005. The bank's lending focus is commercial and agricultural loans. At December 31, 2005, GNB's loan portfolio consisted of commercial loans and leases (44%), agricultural loans (35%), residential loans (16%), and consumer and other loans (5%).

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area is defined as Grundy County, Iowa, which is comprised of four census tracts (9901-9904). Based on 2000 census data, all four geographies in the county are middle-income. Grundy County was added to the Waterloo/Cedar Falls MSA effective January 1, 2004. The MSA includes Bremer, Blackhawk, and Grundy counties.

The 2000 census population of this assessment area (12,369) remains relatively unchanged from the 1990 census (12,029). 2000 Census data reports 4,964 households and 3,592 families. Of the 3,592 families in the assessment area, 13% are low-income, 22% are moderate-income, 30% are middle-income, and 35% are upper-income. According to 2000 U.S. Census information, the median age is 40 and the 2005 updated median family income is \$57,500. Approximately 6% of families in the assessment area are below the poverty level and 35% of households report social security as income.

Further, 2000 U.S. Census data reports 75% of the housing in the assessment area as owner-occupied, 19% rental occupied, and 6% vacant. Housing is primarily 1-4 family units with 94% of housing within this category. Four percent of housing is comprised of mobile homes and 2% is multifamily units. The median housing value for the assessment area is \$74,427.

Grundy County's economy is predominantly agricultural. According to 2004 Business Demographic Data, the agricultural sector provides the most jobs (32%), followed by services (25%), and retail trade (10%). The Iowa Workforce Development statistics show the February 2006 unemployment rate for Grundy County at 4.4%, the same as last year, and identical to the February 2006 Iowa statewide unemployment level.

Competition exists from other financial institutions in the area. Including GNB, there are seven financial institutions with a presence in Grundy County. Asset sizes range from \$28 million to \$786 million. GNB has the third largest asset size with \$152 million. According to June 30, 2005 deposit information from the Federal Deposit Insurance Corporation, GNB dominates the market share in Grundy County with 34%.

We made one community contact during this CRA examination. The community contact was to a government office. The contact stated area banks meet community credit needs. The contact expressed a need for high-tech jobs and child care.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

GNB's average quarterly net loan-to-deposit (LTD) ratio, which is one measure of the bank's overall level of lending, is reasonable given the bank's size, financial condition, and assessment area demographics. The bank's quarterly net LTD ratio averaged 80.54% for the 17 quarters beginning December 31, 2001, and ending December 31, 2005. The bank's LTD ratio has been steadily increasing since September 30, 2002 when it was 69.68% to a current 94.59% as of December 31, 2005.

To further evaluate the reasonableness of this ratio, we compared the bank's average net LTD ratio to other similarly situated institutions located within the bank's assessment area. Comparable institutions are chosen based on size, credit products offered, and/or markets served. The average net LTD ratios for similarly situated institutions in the bank's assessment area with asset sizes between \$28 million and \$374 million range between 42% and 97%. Information pertaining to GNB and the similarly situated institutions is detailed in the table below.

<b>Institution</b>	<b>Assets (as of 12/31/05)</b>	<b>Average Loan-to-Deposit Ratio; 4Q01-4Q05</b>
Iowa Savings Bank	\$28 million	41.60
First State Bank	\$107 million	70.18
Peoples Savings Bank	\$55 million	73.07
<b>Grundy NB of Grundy Center</b>	<b>\$152 million</b>	<b>80.54</b>
Farmers Savings Bank	\$119 million	83.03
Lincoln Savings Bank	\$374 million	96.56

As demonstrated in the above table, GNB's lending activity is reasonable in comparison to competition from similarly situated institutions, reflecting management's willingness to provide credit.

### **Lending in Assessment Area**

Over the evaluation period, GNB originated a majority of its commercial and agricultural loans inside its defined assessment area. Of loans originated from January 1, 2004 to March 31, 2006, 85% by number and 86% by dollar volume were made to businesses and farms located within the bank's assessment area. The table below details the distribution of loan originations over the evaluation period.

<b>In/Out Distribution of GNB Loan Originations January 1, 2004 through March 31, 2006</b>								
	<b>Number of Loans</b>				<b>Dollar of Loans</b>			
	<b>Inside</b>		<b>Outside</b>		<b>Inside</b>		<b>Outside</b>	
<b>Loan Type</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>Commercial</b>	17	85%	3	15%	\$2,680,724	85%	\$485,000	15%
<b>Agricultural</b>	17	85%	3	15%	\$1,591,912	89%	\$188,000	11%
<b>TOTALS:</b>	<b>34</b>	<b>85%</b>	<b>6</b>	<b>15%</b>	<b>\$4,272,636</b>	<b>86%</b>	<b>\$673,000</b>	<b>14%</b>

### **Lending to Businesses of Different Sizes**

Our conclusions regarding lending to businesses and farms of different sizes are based on loan samples. We sampled 20 commercial and 20 agricultural loans from originations in the bank's assessment area between January 1, 2004 and March 31, 2006.

The distribution of commercial loans to small businesses (i.e. businesses with annual gross revenues less than \$1 million) is satisfactory. As the table below illustrates, 11 of 20 loans sampled (55%) were originated to small businesses. This ratio is below the demographic comparator (65% of businesses in the area are small), but is considered reasonable.

<b>Borrower Distribution of Commercial Loans by Revenue Size</b>		
<b>Business Revenues</b>	<b>&lt; \$1,000,000</b>	<b>&gt; \$1,000,000</b>
% of AA Businesses*	65%	4%
% of Bank Loans in AA by #	55%	45%
% of Bank Loans in AA by \$	15%	85%

\*per 2004 Business Demographic Data;  
30.25% of businesses did not report revenues

The distribution of agricultural loans to small farms (i.e. farms with annual gross revenues less than \$1 million) is satisfactory. As the table below illustrates, 18 of 20 loans sampled (90% by number) were originated to small farms. This ratio is below the demographic comparator of 96% but considered reasonable.

<b>Borrower Distribution of Agricultural Loans by Revenue Size</b>		
<b>Business Revenues</b>	<b>&lt; \$1,000,000</b>	<b>&gt; \$1,000,000</b>
% of AA Businesses*	96%	2%
% of Bank Loans in AA by #	90%	10%
% of Bank Loans in AA by \$	85%	15%

\*per 2004 Business Demographic Data;  
2.14% of farms did not report revenues

### **Geographic Distribution of Loans**

The geographic distribution of loans is not a meaningful analysis for the bank. All geographies in GNB's assessment area are middle income.

### **Responses to Complaints**

GNB has not been the subject of any CRA complaints over the evaluation period.

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

We found no evidence of illegal discrimination or other illegal credit practices.