



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 1, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Citizens First National Bank of Storm Lake
Charter Number: 10034**

**East 5th and Lake
Storm Lake, Iowa 50588**

**Office of the Comptroller of the Currency
Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, South Dakota 57108**

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 Citizens First National Bank of Storm Lake's (CFNB) lending level is satisfactory, given the institution's size, financial condition, and the AA's credit needs.
- A majority of the bank's loans by both number (70 percent) and dollar volume (72 percent) are originated within its defined AA.
- CFNB has reasonable performance in lending to farms of different sizes and excellent performance in consumer lending to borrowers of different income levels.

SCOPE OF THE EXAMINATION

We considered loans originated between January 1, 2005 and June 30, 2007. Based on the number and dollar volume of loans shown in the table below, we determined that agricultural and consumer loans are the bank's primary products. These primary products are representative of the bank's business strategy. We sampled 20 agricultural loans and 20 consumer loans for our analysis.

Loan Portfolio Originations		
Loan Type	Originated Loans by Dollar	Originated Loans by Number
Agricultural Loans	47%	23%
Commercial Loans	26%	10%
Residential Loans	12%	5%
Consumer Loans	15%	62%
Total	100%	100%

Source: Bank reports.

DESCRIPTION OF INSTITUTION

CFNB is a \$161 million bank located in Buena Vista County in northwestern Iowa. The bank is 100 percent owned by First National Company, Inc., a \$184 million, one-bank holding company also located in Storm Lake, Iowa. The bank has four locations: a main office and two branches in Storm Lake, and a branch in Early, Iowa. The bank also has one deposit-taking automated teller machine, located at the main office in downtown Storm Lake.

CFNB offers traditional loan and deposit products. As of June 30, 2007, the bank's loan portfolio totaled 60 percent of total assets. The loan portfolio consisted of 41 percent agricultural, 26 percent commercial, 19 percent residential real estate, and 14 percent consumer loans based on outstanding dollars.

CFNB has no legal or financial impediments that prevent it from fulfilling its obligations under the CRA. CFNB was rated "Satisfactory" at its last CRA examination on November 18, 2002.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. The bank's AA consists of ten contiguous census tracts (CTs). The bank's AA consists of CTs 9601 through 9606 in Buena Vista County and CTs 9801 through 9804 in Sac County. All ten (100 percent) CTs are middle-income geographies.

According to the 2000 U.S. Census, the total population of the AA is 31,940, and the weighted average median family income is \$41,766. The Department of Housing and Urban Development (HUD) 2006 weighted average updated median family income is \$52,800 for non-metropolitan statistical areas in Iowa. The distribution of family incomes within the AA are estimated at 18 percent low-income, 21 percent moderate-income, 27 percent middle-income, and 34 percent upper-income. About 11 percent of the AA households are below the poverty level. The median housing value in the AA is \$61,299, and 66 percent of housing is owner-occupied.

The local economy is stable. Major employers include Tyson Fresh Meats, Sara Lee Foods, Buena Vista University, Buena Vista Regional Medical Center, and city and county government entities located throughout the AA. Unemployment is low at just over three percent for both counties as of July 2007. This is slightly below Iowa's state unemployment rate of four percent.

Competition is relatively high with 21 financial institutions serving the AA. CFNB ranks first among these banks, with 18 percent of the deposit market share.

We did not identify any unmet credit needs in CFNB's AA. Examiners made one community contact during this CRA examination. The contact identified agricultural and consumer loans as the primary community needs, and stated the local financial institutions are great at getting involved with the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's net loan-to-deposit (LTD) ratio is reasonable, given its size, financial condition, and AA credit needs. The bank's quarterly net LTD ratio averaged 58 percent for the last 19 quarters beginning September 30, 2002 and ending June 30, 2007. CFNB's net LTD ratio has remained relatively stable over these 19 quarters, and as of June 30, 2007 totals 66 percent. The bank generates a significant volume of long-term fixed-rate residential real estate loans that are sold into the secondary market. Since September 1, 2002, the bank has originated 290 secondary market real estate loans totaling over \$16.5 million. If the current outstanding balance of these loans were included in the June 30, 2007 net loans and leases, the bank's net LTD ratio would be approximately 77 percent.

Our review compared the bank's lending level described above to six other similarly situated institutions. The comparable banks had total assets between \$99 million and \$246 million, a comparable loan mix to our subject bank, and either a main office or a branch within the AA. These banks had an average net LTD ratio of 82 percent, ranging from 44 percent to 117 percent for the 19 quarters between September 30, 2002 and June 30, 2007.

Lending in Assessment Area

CFNB originates a majority of its loans within the AA. The bank originated 28 loans, or 70 percent of agricultural and consumer loans within the AA. The bank originated \$1,062,855, or 72 percent of agricultural and consumer loan volume within the AA. The table below shows the level of lending inside and outside of the AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture Loans	15	75%	5	25%	20	\$1,012,043	73%	\$380,099	27%	\$1,392,142
Consumer Loans	13	65%	7	35%	20	\$50,812	63%	\$30,013	37%	\$80,825
Totals	28	70%	12	30%	40	\$1,062,855	72%	\$410,112	28%	\$1,472,967

Source: Loan sample.

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

CFNB has a reasonable record of lending to agricultural borrowers of different sizes. CFNB originated 90 percent of agricultural loans by number and 77 percent by dollar volume to farms with gross annual revenues less than \$1 million. CFNB’s lending compares favorably to community demographics, which show 96 percent of AA farms generate gross annual revenues of less than \$1 million. The following table shows loans to farms compared to AA demographics.

Borrower Distribution of Loans to Farms in Assessment Area		
Farm Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms*	96%	2%
% of Bank Loans in AA by #	90%	10%
% of Bank Loans in AA by \$	77%	23%

Source: Loan sample, U.S. Census data. * 2% of AA farms did not report revenue.

CFNB has an excellent record of lending to consumers of different income levels. CFNB originated 60 percent of its consumer loans to low-income borrowers, which significantly exceeds the 17 percent of low-income AA households. In addition, the bank originated 20 percent of its consumer loans to moderate-income borrowers. While this figure equals the 21 percent of moderate-income AA households, 50 percent of the bank’s remaining loans that were not made to low-income borrowers were made to moderate-income borrowers. The following table shows consumer loans by household income level compared to the AA demographics.

Borrower Distribution of Consumer Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Number	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households	% of Number	% of AA Households
Consumer Loans	60%	17%	20%	21%	10%	27%	10%	35%

Source: Loan sample, U.S. Census data.

Geographic Distribution of Loans

All 10 CTs within the AA are middle-income. Therefore, specific analysis of geographic distribution is not meaningful.

Responses to Complaints

The Office of the Comptroller of the Currency and the bank have not received any complaints regarding the bank's CRA performance since the last CRA examination dated November 18, 2002.

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.