



**PUBLIC DISCLOSURE**

May 29, 2018

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

First National Bank  
Charter Number 3105

316 East Bremer Avenue  
Waverly, Iowa 50677

Office of the Comptroller of the Currency  
Omaha Field Office  
13710 FNB Parkway, Suite 110  
Omaha, NE 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.

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## **Overall CRA Rating: This institution is rated Outstanding.**

### **The Lending Test is rated: Outstanding**

- First National Bank's (FNB) loan-to-deposit (LTD) ratio is more than reasonable;
- A substantial majority of FNB's loans are originated within its assessment area (AA);
- FNB's distribution of loans reflects excellent penetration among farms and businesses of different sizes;
- A geographic distribution of loans was not performed, as the bank's AA does not include any low- or moderate-income census tracts (CTs); and
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

### **The Community Development Test is rated: Outstanding**

- FNB offers various products and services at no cost to the customer;
- FNB originated \$14 million in community development (CD) loans, purchased \$565 thousand of CD investments, and donated \$20 thousand to qualified organizations during this evaluation period; and
- Bank employees and directors provided their financial expertise to qualified organizations and individuals during this evaluation period.

## 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 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 \$386 million bank located in Waverly, Iowa. Waverly is the county seat of Bremer County. FNB is a full-service financial institution that operates five branches and four automated teller machines throughout northeast Iowa. FNB is a subsidiary of First of Waverly Corporation, a single-bank holding company. As of March 31, 2018, the bank's loan portfolio totaled \$305 million, or 79 percent of total assets. The March 31, 2018, call report identifies \$139 million in business loans, \$101 million in farms loans, \$60 million in home loans, and \$5 million in consumer loans. FNB has one AA comprised of 19 contiguous CTs in Blackhawk, Bremer, Butler, and Chickasaw Counties.

There are no legal, financial, or other impediments to FNB's ability to meet the credit needs of its AA. FNB received a satisfactory rating at its last CRA examination dated June 22, 2015.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

This performance evaluation outlines FNB's record of meeting the credit needs of its AA from June 22, 2015 to May 29, 2018. We evaluated FNB using the Intermediate Small Bank procedures, which include both a lending test and a CD test. Our lending test evaluated FNB's record of meeting the credit needs of the Waverly AA through its lending activities. FNB's primary products are farm loans and business loans. The following table shows the percentage of loan originations by loan type from January 1, 2016 to March 31, 2018.

Table 1: Loan Originations		
Loan Type	% by Dollar	% by Number
Farm	46%	31%
Business	41%	24%
Home	11%	24%
Consumer	2%	21%

*Source: Bank-provided loan origination reports (Jan. 2016-March 2018)*

### Selection of Areas for Full-Scope Review

We completed a full scope review for the Waverly AA. The Waverly AA consists of 19 CTs in Blackhawk, Bremer, Butler, and Chickasaw counties. All CTs identified are whole and complete tracts.

## **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 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

The bank's collective performance is outstanding, with outstanding performance demonstrated under the lending test and outstanding performance demonstrated under the CD test.

### LENDING TEST

FNB's collective performance under the lending test is outstanding.

#### Loan-to-Deposit Ratio

FNB's quarterly average loan-to-deposit ratio is more than reasonable at 93.84 percent for the 12 quarters ending March 31, 2018. FNB exceeded the average loan-to-deposit ratio of two similarly situated institutions, at 77.35 percent.

#### Lending in Assessment Area

A substantial majority of business and farm loans originated during this evaluation period were inside the Waverly AA. In our sample, 93 percent of the loans by number and 97 percent of the loans by dollar were to businesses and farms located or operating inside the AA. This meets the standard for outstanding performance.

**Table 1 - Lending in Waverly Assessment Area**

Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Farm	19	95%	1	5%	20	\$2,748	98%	\$50	2%	\$2,798
Business	18	90%	2	10%	20	\$2,134	95%	\$120	5%	\$2,254
Totals	37	93%	3	7%	40	\$4,882	97%	\$170	3%	\$5,052

Source: Loan sample.

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

FNB's collective performance under the borrower distribution test is satisfactory. The distribution of business borrowers in our sample reflects excellent penetration among businesses of different sizes. In our sample, 85 percent of the loans by number were to small businesses, or businesses with gross revenues of \$1 million or less. This is higher than the 2015 ASC U.S. Census data, which indicates 81 percent of businesses within the bank's AA report gross revenues of \$1 million or less. This meets the standard for outstanding performance. In our sample, 71 percent of business loans by dollar were made to small businesses. We placed less weight on the distribution of loans by dollar, as small businesses are more likely to originate small loans, and large businesses are more likely to originate large loans.

**Table 2A - Borrower Distribution of Loans to Businesses in Waverly Assessment Area**

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	81%	6%	13%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	71%	29%	0%	100%

Source: 2015 ASC U.S. Census Data; Loan sample

The distribution of agricultural borrowers in our sample reflects a reasonable penetration among farms of different sizes. FNB's performance is below the AA demographics but remains adequate. In our sample, 95 percent of the loans by number were to small farms, or farms with gross revenues of \$1 million or less. This meets the standard for satisfactory performance. We placed less weight on the distribution of loans by dollar, as small farms are more likely to originate small loans and large farms are more likely to originate large loans.

<b>Table 2B - Borrower Distribution of Loans to Farms in Waverly Assessment Area</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	93%	7%	0%	100%

Source: 2015 ASC U.S. Census Data; Loan sample

<b>Table 2C - Borrower Distribution of Loans to Businesses by Loan Size in Waverly Assessment Area</b>				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000's)	Percent of Dollar Volume
\$0 - \$100,000	12	60%	\$412	16%
\$100,001 - \$250,000	5	25%	\$957	38%
\$250,001 - \$500,000	3	15%	\$1,159	46%
Over \$500,000	0	0%	\$0	0%

Source: Loan sample.

<b>Table 2D - Borrower Distribution of Loans to Farms by Loan Size in Waverly Assessment Area</b>				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000's)	Percent of Dollar Volume
\$0 - \$100,000	9	45%	\$384	12%
\$100,001 - \$250,000	7	35%	\$1,299	43%
\$250,001 - \$500,000	4	20%	\$1,365	45%
Over \$500,000	0	0%	\$0	0%

Source: Loan sample.

**Geographic Distribution of Loans**

A geographic distribution analysis is not meaningful, as the bank's AA does not contain any low- or moderate-income census tracts. Therefore, we did not complete a geographic distribution review.

**Responses to Complaints**

The bank did not receive any CRA-related complaints during this evaluation period.

**COMMUNITY DEVELOPMENT TEST**

FNB's collective performance under the CD test is outstanding.

**Number and Amount of Community Development Loans**

CD loans demonstrated excellent responsiveness to CD needs and opportunities in the AA during the evaluation period. Management originated 17 CD loans totaling \$14 million during the evaluation period. Three loans are through the Iowa Agricultural Development Authority Beginning Farmer loan

program. This program allows the bank to offer interest rates that are lower than market on loans to beginning farmers to make capital purchases. The loan program provides funding with the issuance of federal tax-exempt bonds. The remaining 14 CD loans were loans to small businesses that created or retained jobs in the bank's assessment area.

#### **Number and Amount of Qualified Investments**

CD investments demonstrated adequate responsiveness to CD needs and opportunities in the AA during the evaluation period. Management purchased two investments totaling \$565 thousand in the AA during the evaluation period. Management also provided information on two prior period investments in a syndicator that provides affordable housing in the state of Iowa with the potential to impact the bank's AA. The prior period totals \$95 thousand. Investments total \$660 thousand including the current and prior periods.

Management made 43 qualified donations totaling more than \$20 thousand to five organizations in the AA during the evaluation period. Donations supported organizations that provide community services primarily to low- and moderate-income individuals.

#### **Extent to Which the Bank Provides Community Development Services**

The bank's record of providing CD services in the AA is excellent. Twenty three employees provided services to four qualified CD organizations during the evaluation period. Examples of CD services provided by bank employees include:

- Two bank employees worked with the Federal Home Loan Bank to provide 14 loans using the Homeownership Fund program that provides grant funds to be used for down payment, closing cost, and counseling or rehabilitation assistance to low- to moderate-income homebuyers.
- One employee serves on the board of directors of a community organization that provides support services for people with disabilities and the elderly that are primarily low- to moderate-income individuals.
- Nineteen bank employees provided fund raising support for an organization that provides mentoring services to children primarily from low- to moderate-income families, with one employee serving on the board of directors.

#### **Responsiveness to Community Development Needs**

FNB's CD activities in aggregate in the AA represent outstanding responsiveness to CD needs in the AA. CD activities are consistent with the CD needs identified by community contacts in the AA.

## 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”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): (01/01/16 to 03/31/18) Investment and Service Tests and CD Loans: (01/01/16 to 04/03/2018)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First National Bank Waverly, IA	Agricultural and business loans	
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Waverly AA	Full Scope	

## Appendix B: Community Profiles for Full-Scope Areas

The Waverly AA consists of 19 contiguous census tracts in Blackhawk, Bremer, Butler, and Chickasaw Counties. Blackhawk and Bremer Counties fall within the Waterloo/Cedar Falls Metropolitan Statistical Area (MSA). Using the 2015 ASC US Census data, nine of the CTs are classified as upper-income, nine of the CTs are classified as middle-income, and one CT is classified as other. This represents a significant change from the 2010 US Census data, which shows that 14 CTs were middle-income and 5 were upper-income. There are no low- or moderate-income CTs in the AA. The 2015 ASC US Census data was used for this review, as the majority of the loans evaluated during this review were originated after the 2015 ACS US Census was completed. According to the 2015 ASC US Census data, the AA population is 75,079.

The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

Competition in the AA is strong. Twenty-seven deposit-taking financial institutions serve the Waverly AA, per the June 30, 2017, FDIC Deposit Market Share Report. FNB ranks third for deposit market share with approximately 8 percent, or \$307 million in AA deposits.

### Waverly AA

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	19	0.00	0.00	47.37	47.37	5.26
Population by Geography	75,079	0.00	0.00	38.58	54.50	6.92
Owner-Occupied Housing by Geography	20,288	0.00	0.00	42.84	56.85	0.31
Businesses by Geography	4,698	0.00	0.00	40.49	57.81	1.70
Farms by Geography	617	0.00	0.00	60.29	39.71	0.00
Family Distribution by Income Level	17,463	12.28	15.11	22.42	50.19	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	4,783	0.00	0.00	49.80	48.99	1.21
MSA Median Family Income	= \$65,147	Median Housing Value		= \$166,338		
FFIEC Updated MSA Median Family Income for 2017	= \$67,353	Unemployment Rate		= 3.08%		
Households Below the Poverty Level	= 12.50%					

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2015 ASC U.S. Census and 2017 HUD updated MFI.