



PUBLIC DISCLOSURE

July 25, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Muscatine
Charter Number 15579

300 East Second Street
Muscatine, IA 52761

Office of the Comptroller of the Currency

1089 Jordan Creek Parkway
Suite 230
West Des Moines, IA 50266

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.

The First National Bank of Muscatine's (FNB) lending performance reflects an outstanding response to the needs of its assessment area (AA). This conclusion is based on the following:

- FNB's loan-to-deposit (LTD) ratio is more than reasonable;
- A substantial majority of FNB's loans are originated inside its AA;
- FNB's distribution of loans to borrowers of different income levels reflects excellent penetration;
- FNB's distribution of loans to borrowers in different geographies within its AA reflects excellent dispersion; and
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

SCOPE OF EXAMINATION

We evaluated FNB using small bank examination procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test covers the bank's performance from August 26, 2013 to May 31, 2016. This period is representative of the bank's lending strategy since the previous Community Reinvestment Act (CRA) examination.

FNB's primary products are business and consumer loans. The following table shows the percentage of loan originations by loan type from August 26, 2013 to May 31, 2016.

Table 1: Loan Originations		
Loan Type	% by Dollar	% by Number
Business	54	19
Consumer	16	69
Residential RE	21	9
Agricultural	8	3

Source: Bank-provided loan origination reports (8/26/2013 – 5/31/2016).

To evaluate FNB's lending performance, we initially selected a random sample of 20 business and consumer loans originated between August 26, 2013 and May 31, 2016. We expanded our sample to ensure we had 20 loans for each primary product within the bank's AA for the borrower distribution and geographic distribution analysis.

DESCRIPTION OF INSTITUTION

FNB is a \$319 million financial institution headquartered in Muscatine, Iowa. The bank has three other bank branches, all located in Muscatine. The bank operates five

automated teller machines (ATMs), of which four have deposit-taking capabilities. All ATMs are located in Muscatine.

The bank is a wholly owned subsidiary of Iowa First Bancshares Corporation, a two-bank holding company headquartered in Muscatine, Iowa. As of June 30, 2016, the holding company had total assets of \$474 million. The holding company also owns First National Bank in Fairfield located in Fairfield, Iowa.

FNB offers a full range of deposit and loan products and services to its customers. As of June 30, 2016, the bank's loan portfolio totaled \$247 million or 77 percent of total assets. The June 30, 2016 call report identifies \$175 million in real estate loans, \$39 million in business loans, \$16 million in consumer loans, and \$11 million in agricultural loans.

There are no legal or financial impediments to FNB's ability to meet the credit needs of its AA. FNB received a satisfactory rating at its last CRA examination dated August 26, 2013.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The bank's AA consists entirely of Muscatine County and includes ten contiguous census tracts (CTs). The city of Muscatine is situated along the Mississippi River and in the southeast corner of Muscatine County. A map of the AA can be found in FNB's CRA public file.

According to 2010 United States census data, the total population of the AA is 42,745, with 16,481 households. Of the 16,481 households, 20 percent are designated low-income, 15 percent are moderate income, 19 percent are middle income, and 47 percent are upper income. Eleven percent of AA households are below the poverty level. The median family income was \$60,700 in 2015.

Competition within the AA is moderate. Seven other deposit-taking financial institutions serve the Muscatine County AA. FNB holds the second largest deposit market share of the eight institutions with 31 percent of deposits.

The condition of the local economy is average. Muscatine County's unemployment rate is comparable to state averages. The AA's unemployment rate as of June 2016 was 3.5 percent, compared to the state of Iowa's unemployment rate of 4.0 percent, as reported by the Bureau of Labor Statistics. Both are below the national average of 4.9 percent.

We contacted a community representative during the examination. The community contact indicated employment in the area is steady, and major employers appear to be doing well. Major employers in the area include HNI Corp, Kent Feeds, Muscatine Community School District, Raymond-Muscatine Inc., and Stanley Consultants. The

representative indicated that the primary industry is manufacturing, and the primary credit need is small business loans. The representative felt that all local institutions and their employees are active members of the community and devote significant time and resources to helping the community thrive through donations, volunteer hours, and fundraisers. Overall, the representative concluded that FNB and other financial institutions in the area meet the credit needs of the community through appropriate products and services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB’s performance with regards to the lending test is outstanding. The bank’s LTD ratio is more than reasonable given the bank’s size, financial condition, and credit needs of the AA. In addition, FNB originates a substantial majority of its loans inside the AA. The borrower distribution of consumer and business loans reflects excellent penetration. FNB has excellent dispersion of lending to borrowers and businesses of different geographies within its AA. FNB has not received any complaints regarding its CRA performance since the previous examination.

Loan-to-Deposit Ratio

FNB’s lending level is more than reasonable and meets the criteria for outstanding performance. FNB’s LTD ratio as of June 30, 2016 was 91 percent. Over the past 12 quarters ending June 30, 2016, FNB’s quarterly average LTD ratio was 91 percent. This ratio is above the quarterly average LTD ratio of two similarly situated institutions of 71 percent. The similarly situated banks utilized for comparison purposes are community banks located in Muscatine County and are of similar asset size.

Lending in Assessment Area

FNB originates a substantial majority of business and consumer loans inside its AA, which meets the standard for outstanding performance. Management originated 90 percent of its loans by number and 95 percent of its loans by dollar amount within the AA.

Table 2 - Lending in Muscatine County										
Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	4	80	1	20	5	369	94	23	6	392
Consumer	14	93	1	7	15	305	97	10	3	315
Combined	18	90	2	10	20	673	95	33	5	706

Source: Sample of business and consumer loans from 8/23/13 – 5/31/16

Borrower Distribution of Loans

The distribution of borrowers, given the demographics of the AA, reflects excellent penetration among businesses of different sizes and individuals of different income levels (including low- and moderate-income).

- **Lending to Businesses of Different Sizes**

The distribution of loans to businesses of different sizes reflects excellent penetration. Our sample of 20 business loans indicated FNB originated 80 percent of its loans by number and 87 percent by dollar volume to small businesses. Small businesses are those with annual gross revenues equal to or less than \$1 million.

The demographic data for the AA shows 78 percent of businesses reporting revenue data have annual gross revenues of \$1 million dollars or less.

Table 3 - Borrower Distribution of Loans to Businesses in Muscatine County				
Gross Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	78	5	17	100
% of Bank Loans in AA by #	80	15	5	100
% of Bank Loans in AA by \$	87	11	2	100

Source: 2015 Business Demographic Data; Sample of loans from 8/23/13 – 5/31/16

- **Lending to Borrowers of Different Income Levels**

The distribution of loans to borrowers of different income levels reflects excellent penetration. Our sample of 20 consumer loans indicated FNB originated 20 percent and 35 percent of its loans by number to low- and moderate-income borrowers, respectively. Lending to low-income borrowers is comparable to the percentage of low-income households in the AA, while lending to moderate-income borrowers is above the percentage of moderate-income households in the AA.

Income levels are determined as percentage ranges from the 2015 weighted-average median family income for Iowa of \$60,700. Low-income households are those that report less than 50 percent of the median family income, while moderate-income households are those that report at least 50 percent but less than 80 percent of the median family income.

Table 4 - Borrower Distribution of Consumer Loans in Muscatine County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer	20	20	15	35	19	20	47	25

Source: 2015 Business Demographic Data; Sample of loans from 8/23/13 – 5/31/16

Geographic Distribution of Loans

The bank’s AA does not include any low-income level CTs, but does include one moderate-income level CT. Therefore, we analyzed the geographic distribution of loans to ensure an appropriate level of lending in the moderate income CT. FNB has demonstrated excellent dispersion of lending to businesses and borrowers of different geographies within its AA. The bank’s AA consists of 10 contiguous CTs, and our sample of 20 business loans and 20 consumer loans indicated lending in nine of the 10 CTs. The CT not represented in our sample was a middle income CT. The low level of lending in this CT is acceptable, given that the bank’s branches are not located near the subject CT.

We relied more heavily on the conclusions of the business loan sample when developing an overall geographic distribution conclusion, as business lending represented over 50 percent of all lending by dollar during the evaluation period.

- **Geographic Distribution of Business Loans**

FNB’s lending to businesses in different geographies within its AA is excellent, as FNB meets the ratio for dispersion of loans to moderate-income CTs. FNB’s lending in the moderate-income CT represented 5 percent of loans, which is comparable to the percentage of AA businesses located in the moderate-income CT at 5 percent.

Table 5 - Geographic Distribution of Loans to Businesses in Muscatine County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	0	0	5	5	55	80	40	15

Source: 2015 Business Demographic Data; Sample of loans from 8/23/13 – 5/31/16

- **Geographic Distribution of Consumer Loans**

FNB’s lending to borrowers in different geographies within its AA is reasonable, as FNB meets the ratios for dispersion of loans to moderate-income CTs. FNB’s lending in the moderate-income CT represented 10 percent of loans, which exceeds the percentage of AA households located in the moderate-income CT at 8 percent.

Table 6 - Geographic Distribution of Consumer Loans in Muscatine County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0	0	8	10	52	35	40	55

Source: 2015 Business Demographic Data; Sample of loans from 8/23/13 – 5/31/16

Responses to Complaints

FNB has not received any CRA-related complaints since the last CRA examination.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 CFR 25.28(c) in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered, as part of the bank's lending performance.

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