



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 04, 2002 

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Waverly
Charter Number 3105**

**316 East Bremer Avenue
Waverly, IA 50677**

**Comptroller of the Currency
Minneapolis South Field Office
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.

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INSTITUTION'S CRA RATING

This institution is rated Outstanding.

- Average loan-to-deposit ratio is reasonable.
- A substantial majority of loans are in the bank's assessment area.
- First National Bank of Waverly has an excellent distribution of credit among businesses and farms of different sizes.

DESCRIPTION OF INSTITUTION

First National Bank of Waverly (FNB) is a \$146 million institution located in Waverly, Iowa, a city of approximately 9,000 people. FNB was chartered in 1864 and is the third oldest bank in Iowa. Waverly is the county seat of Bremer County and is a vibrant, progressive community with a diverse commercial, agricultural, financial and industrial base.

First Waverly Corporation, a two-bank holding company, located in Waverly, Iowa, owns First National Bank of Waverly, Waverly, Iowa and First National Bank of Cedar Falls, Cedar Falls, Iowa. As of March 31, 2002, First Waverly Corporation had assets of \$185 million. The bank does not have any affiliate relationships that impact the bank's CRA performance.

FNB's main office is in Waverly with a deposit-taking branch located on the west side of Waverly and a full service branch located in Plainfield, Iowa, approximately 10 miles north of the main bank. All offices are located in middle-income tracts. The bank owns two full-service ATMs, one located at each bank location in Waverly. In addition, the bank owns twenty-four other ATMs which are cash-out only machines. Most of these machines are located at Kwik Star convenience store locations throughout Iowa, including the towns of Waterloo, Waukon, McGregor, Cresco, Denver, and several other locations. FNB's sister bank in Cedar Falls also owns two full-service and one cash-out only ATM machines, all located in Cedar Falls. The banks have a sharing agreement which allows customers of both facilities to use ATMs of the other without fees. The Plainfield branch has been acquired since the last CRA examination.

The bank offers both telephone and Internet banking to its customers through their "Money Connection". Both services provide customers with 24-hour access to deposit and loan account information. It also allows the customer to make transfers between accounts, including making loan payments.

FNB offers a wide range of loan and deposit products well suited to the community's needs. The bank also participates in numerous federal and state government sponsored loan programs which increases the credit options for their customers. Trust services are also available. The bank's primary lending focus is commercial and farm loans. As of June 30, 2002, the bank's \$93 million loan portfolio consisted of 35.40% commercial loans, 29.18% farm loans, 24.42% residential real estate, 7.66% consumer and 3.34% other lending. In 2001, the bank sold \$6.3 million in residential real estate loans to the secondary market. As of June 30, 2002, net loans

made up 62.74% of total assets.

There are no financial, legal or other factors that impede FNB's ability to meet its CRA obligations. The bank's last CRA rating was a "Satisfactory Record of Meeting Community Credit Needs" dated July 13, 1998.

DESCRIPTION OF ASSESSMENT AREA

First National Bank's assessment area (AA) includes most of the block numbering areas (BNA) in Bremer County (BNAs #40-#46, excluding only BNA #47), the southwestern corner of Chickasaw County (BNA 9702) and the eastern portion of Butler County (BNA #9701 and #9705). The assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Key demographic information for this assessment area, using 1990 census data, includes seven middle income tracts (70%) and three upper income tracts (30%). 69.70% of the families within FNB's AA are located in the middle income tracts and 30.30% of the families are located in the upper income tracts. The 1990 census non-metropolitan areas of Iowa median family income was \$29,303. Based on the Department of Housing and Urban Development's 2002 estimate, the median family income is \$49,400 for non-metropolitan areas in the State of Iowa.

The 2000 census information pursuant to the US Census Bureau indicates the population of Bremer County at 23,368. This represents only a 2.2% increase over the 1990 census. The 1990 census also indicates the number of families in FNB's assessment area living below poverty level is 10.78%. According to 1999 information from the U.S. Bureau of the Census, 9.1% of the persons in Iowa are below the poverty level. In Bremer County, the percentage of persons below the poverty level is 5.1% and the percentages for Chickasaw Counties and Butler Counties are 8.3% and 8.0% respectively, compared to the national average of 12.4%. Only portions of Chickasaw and Butler counties are included in FNB's Assessment Area, but their higher poverty level can be attributed partly to the declining agricultural economy which plays an important role in these rural counties.

Unemployment levels in the assessment area tend to be lower than the state and national averages. Unemployment in Iowa as of October, 2002 is 4.0%, compared to 3.7% a year ago. The current national average is 5.7% compared to 5.4% in 2001. Unemployment levels in FNB's assessment area are 2.4% in Bremer County, 3.9% in Chickasaw County, and 3.8% in Butler County. The area has good employment opportunities, particularly within Bremer County. The largest employers are: CUNA Mutual, which employs more than 700 persons; Nestle Corporation, which has a powdered products facility in Waverly and is currently expanding; Terex Crane; and, Wartburg College. Several of the residents of Waverly commute to the Waterloo/Cedar Falls area, however, there are also a number of Waterloo/Cedar Falls residents that commute into Waverly.

Farming is also an important part of FNB's AA, however, the declining ag economy in the past few years has reduced the number of dairy and hog farms in the area. There are still a significant

number of cash crop and beef farms, but the area has seen a migration of persons taking off-farm jobs to support the farm income. We contacted a county coordinator for the United States Department of Agriculture/Farm Service Agency and she indicated that overall Bremer County and surrounding areas have had a good farming year in 2002. While hog and dairy prices remain low, crop yields and prices were exceptional. Other portions of Iowa were not as lucky as drought affected their crop yields. She hopes the improved crop prices will help to stimulate the area's agricultural economy.

There are ten state and national banks located within FNB's AA. The banks within the AA vary in size from \$30 to \$146 million and offer a wide range of banking products. In addition to traditional financial institutions, credit unions are marketing financial products in the area. Farm Credit Services also does some agricultural loans in the area. According to June 30, 2001 deposit information from the Federal Deposit Insurance Corporation, FNB is ranked first in deposit market share in Bremer, Chickasaw and Butler Counties with 12.77% of the deposits.

The cost of median family housing has increased from the 1990 census information of \$45,002 to \$88,000 per the 2000 census. Low- to moderate-income housing was indicated as a concern by the community development organization we contacted. At the present time, efforts are being made to revitalize the upper-units of downtown businesses for affordable living. In addition, several Waverly residents are moving into newer housing developments which is opening up more affordable housing for first-time home buyers and lower income persons in Waverly.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 16 quarters since the previous CRA exam is 77.72%. Similarly situated banks have quarterly average loan-to-deposit ratios ranging from 64.88% to 84.78% over the same time frame. Similarly situated banks include the banks with a presence in FNB's assessment area with total assets between \$46 and \$117 million.

The loan-to-deposit ratio does not take into account the 75 loans sold by FNB on the secondary market in 2001, totaling \$6,349,950.

Institution	Assets (as of 6/30/02)	Average Loan-to-Deposit Ratio 3Q98 – 2Q02
STATE BANK OF WAVERLY, Waverly, IA	\$117 million	64.88
SECURITY STATE BANK, Waverly, IA	\$ 53 million	71.78
FIRST NATIONAL BANK OF WAVERLY, Waverly, IA	\$146 million	77.72
DENVER SAVINGS BANK, Denver, IA	\$ 46 million	81.82
IOWA STATE BANK, Clarksville, IA	\$ 74 million	84.78

Lending in Assessment Area

Based on a sample of 20 commercial and 20 farm loans, FNB originates a substantial majority of its loans to borrowers located within its defined assessment area. The sample showed that of loans originated from July 13, 1998 through September 30, 2002, 95% by number and 95.2 % by dollar volume were made to businesses and farms located within the bank’s assessment area. The following table shows loans originated inside their assessment area by number and dollar volume:

Lending in Assessment Area by Number and Dollar Amount (000s)				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Commercial	19	95%	746,692	98%
Farm	19	95%	876,489	93%
Totals	38	95%	1,623,181	95.2

Source: Bank records (verified by examiners)

Lending to Businesses of Different Sizes

First National Bank of Waverly has an excellent distribution of credit among businesses of different sizes.

Commercial borrowers have a wide diversity of gross revenue levels ranging from a few thousand to more than a million dollars. A random sample of 20 commercial and 20 farm loan files indicates the following breakdown of annual revenues.

Lending Distribution Based on Revenue Size of Business/Farm		
Revenue Size of Businesses/Farms	Bank Lending Distribution by Number of Loans	Percentages of Businesses in each Revenue category (per 2001 Dunn & Bradstreet)
Commercial < 1 million sales	95%	89%
Farm < 1 million sales	100%	99%
Commercial > 1 million sales	5%	6%*
Farm > 1 million sales	0%	1%

*5% of commercial businesses have unreported revenues

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as none of the BNAs in the bank’s assessment area are defined as low or moderate-income BNAs.

Responses to Complaints

FNB has not received any complaints about its performance in helping meet assessment area

credit needs during this evaluation period.

Fair Lending Review

An analysis of the most recent public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1998.