



**Comptroller of the Currency
Administrator of National Banks**

Small Bank

PUBLIC DISCLOSURE

October 19, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Hampton

Charter No. 13842

**211 First Avenue NW
Hampton, IA 50441**

**Office of the Comptroller of the Currency
920 Second Ave. S. Suite 800
Minneapolis, MN 55402**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The First National Bank of Hampton** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 19, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

INSTITUTION'S CRA RATING: The institution is rated "Satisfactory."

The bank has reasonable loan distribution to small farm operations and businesses of different sizes. The First National Bank of Hampton has an adequate record of consumer lending to low- and moderate-income borrowers. The average loan to deposit ratio is reasonable and the bank makes a substantial majority of their loans inside the assessment area.

DESCRIPTION OF INSTITUTION

First National Bank (FNB) of Hampton is a \$77 million institution. The one office is located in Hampton, Iowa. A.M. Saylor, Inc. owns 88% of the bank's outstanding stock, ownership is centered in trust accounts established by the Saylor family. No other individuals control more than 5% of outstanding bank shares. FNB is a full service bank offering a variety of loan and deposit products. In addition, trust services, discount brokerage and some retail nondeposit investment products are also available. The last CRA Performance Evaluation rating given in July 1994 was "Satisfactory."

Competition consists of two other banks in the city of Hampton and several financial institutions in nearby rural communities. There are no legal or financial impediments limiting FNB's ability to meet community credit needs.

The bank's focus is on agricultural and commercial lending. Table one details the bank's origination activity by loan type from January to September 1998.

Table 1

Loan Type	Number of Loans	% of Total	Dollar Volume (\$000's)	% of Total
Agriculture	333	25%	\$11,089	45%
Commercial and Commercial RE	278	20%	\$7,560	31%
Auto Loans	240	18%	\$1,748	7%
Home Equity Lines of Credit	136	10%	\$1,112	5%
1-4 Family Residential RE Refinances	29	2%	\$1,060	4%
1-4 Family Residential RE Purchase	23	2%	\$990	4%
Personal Loans	293	22%	\$721	3%
1-4 Family Residential RE 2nd Mortgages	14	1%	\$147	1%
Total Loan Originations	1,346	100%	\$24,427	100%

RE = Real Estate

DESCRIPTION OF THE ASSESSMENT AREA

FNB's assessment area (AA) includes all of Franklin County in Central Iowa, represented by three Bank Numbering Areas (BNA's). Cities included in the AA are: Alexander, Geneva, Hampton, Latimer and Sheffield. The AA is legal and does not arbitrarily exclude any low- or moderate-income areas.

The AA population is 11,000. Unemployment is low at 2.5% of the population with 13% of households below the poverty level. Owner occupied units account for 66% of total housing units. Hampton is a small city of 4,200 people, and is the county seat for Franklin County.

The updated 1998 Median Family Income for the assessment area is \$41,200. All three BNA's within the bank's AA are middle income. Table two describes family income levels for the AA.

Table 2

FNB Hampton Assessment Area Profile		
	Number of Families	% of Families
Low - Income \$0 - \$20,999	588	18%
Moderate - Income \$21,000 - \$33,999	582	18%
Middle - Income \$34,000 - \$49,999	940	29%
Upper - Income > \$50,000	1108	35%
Total	3218	100%

The majority of businesses in the AA reported gross revenues less than \$500,000 based on 1990 census data. The 1996 average gross revenues for North Central Iowa farms is \$203,000.

SAMPLING TECHNIQUES

The bank's focus, based on 1998 dollar and number volume of loan originations, is agriculture and commercial lending. Thus, we chose these two product lines to sample and provide the primary basis for conclusions about the bank's lending in relation to CRA criteria. The bank also makes a significant share of their loans to individuals for auto, personal and home equity needs. However, there was not adequate customer information available to assess the performance for these loan products based on income data. Instead we used the auto loan origination size as a proxy to the bank's penetration of various individual income levels. These results are the basis for our comments on the bank's consumer lending activity.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Lending to Farms of Different Sizes:

The distribution of loans to different sized farms is reasonable. All farm size categories have some penetration. The bank's lending record to smaller farm operations is adequate. The 1996 average gross farm income within the AA was \$203,000 (* see basis below). The bank made 39% of their loans by number and 21% by dollar volume to farm operations of less than average size. Bank records also show 29% by number and 16% by dollar volume of loans to smaller farm operations with annual revenues of less than \$100,000.

We sampled agricultural customers using year-to-date (YTD) 1998 originations. The sample included 191 loans totaling \$2.4 million. This represents 57% by number and 22% by dollar volume of originations during this time period.

Tables three and four illustrate the lending distribution to farm operations based on revenue.

Table 3

Lending Distribution Based on Revenue Size of Farms YTD 1998 Agriculture Loan Originations		
Revenue Size of Farms Sampled	FNB Lending Distribution by Number of Loans	FNB Lending Distribution by Dollar of Loans
< \$203,000	21%	39%
Average farm income= \$203,000*		
> \$203,000	79%	61%

Table 4

Lending Distribution Based on Farm Revenue Size YTD 1998 Agriculture Loan Originations		
Revenue Size of Farms Sampled (\$000's)	FNB Lending Distribution by Number of Loans	FNB Lending Distribution by Dollar Volume of Loans
\$0 - \$40	2%	1%
\$40 - \$100	27%	15%
\$100 - \$200	9%	5%
\$200 - \$500	36%	38%
> \$500	26%	41%
Totals	100%	100%

* Average farm income was derived from the 1996 Farm Summary for North Central Iowa. The report coverage includes Franklin County. The report is published by the University Extension of Iowa State University. The Iowa Farm Business Association collected the data and the Iowa State University Extension compiled it. Only farms with sales of \$40,000 or more were included in this weighted average. Thus, the overall average should be reflective of full-time Iowa farmers needing credit.

Lending to Businesses of Different Size:

The bank makes commercial loans to businesses of various sizes. The bank's penetration of lending to smaller size businesses is reasonable. We sampled the bank's commercial lending activity from January to September 1998. The sample included 90 loans totaling \$2.8 million. The sample represented 32% by number and 37% by dollar volume of all loans made in that time period.

Table five illustrates the bank has some penetration to all business size categories. However, compared to the 1990 census information on the sizes of businesses represented in Franklin County, the bank shows comparatively low penetration to businesses with revenues less than \$500,000. The bank originated 32% by number of commercial loans to these businesses. By comparison, census data shows 75% of the businesses in the community have revenues less than \$500,000.

While it appears that the bank is not adequately serving small businesses, we discovered that our sampling process was biased towards large businesses in two ways. First, the bank typically underwrites business loans on a note by note basis, rather than using revolving lines of credit. This creates numerous small dollar loans to larger borrowers, increasing their representation in the sample. Secondly, we found that information on the sales volume of sole proprietors, partnerships and other types of small businesses was not as readily available as information for the larger businesses or corporations. This also increased the large borrower representation in our sample.

To further understand the bank's lending to small businesses, we assessed the bank's small business loan originations using data from the bank's June 30, 1998 Report of Condition. The dollar size of the loan is used as a proxy for the size of the business receiving the loan. Table six shows that 83% by number and 36% by dollar volume of loans were originated in amounts less than \$100,000. Smaller dollar volume loans, such as these, are generally made to smaller types of business operators. Thus, the representation of small dollar amount business loans shows a reasonable distribution of commercial lending to small businesses by the bank.

Table 5

Lending Distribution Based on Revenue Size of Businesses YTD 1998 Business Loan Originations			
Revenue Size of Businesses Sampled (\$000's)	FNB Lending Distribution by Number of Loans	Percentage of Businesses in each Revenue Category (1990 census information)	FNB Lending Distribution by Dollar of Loans
\$0 - \$50	3%	75%	3%
\$50 - \$100	13%		2%
\$100 - \$250	8%		4%
\$250 - \$500	8%		2%
\$500 - \$1,000	0%		0%
> \$1,000	68%		89%
Totals	100%		100%
Percentage of Businesses in Assessment Area that did not Report Revenue Volumes		15%	

Table 6

Lending Distribution Based Origination Size of Business Loans Loans Outstanding as of June 30, 1998				
Dollar Size of Business Loans \$(000's)	FNB Lending Distribution by Number of Loans	% of Total	FNB Lending Distribution by Dollar of Loans	% of Total
\$0 - \$100	273	83%	\$3,770	36%
\$100 - \$250	36	11%	\$3,127	30%
\$250 - \$1,000	20	6%	\$3,655	34%
> \$1,000	0	0%	\$0	0%
Totals	329	100%	\$10,552	100%

Lending to Individuals of Different Incomes:

As mentioned in the sampling section above, income information on consumer borrowers was not readily available in most cases. However, because loans to individuals are material at 55% by number and 24% by dollar volume of all loan originations YTD 1998, analysis of the bank's consumer lending was appropriate. We used a sample of all auto loans made by the bank from January to June 1998 compiled for the bank's fair lending review. The sample of 56 loans represents 46% of all auto loans made during that time frame. We relied on the auto loan origination amount as a proxy in establishing the bank's distribution of consumer lending to various income levels.

The bank serves all income segments of their community and reasonably serves low and moderate income individuals based on the auto loan distribution. The results of our review showed the average auto loan origination was \$5,755. The lowest origination amount was \$1,000 and the highest was \$15,965. Tables seven and eight show that the majority of the bank's auto loans, 55% by number, were made in amounts less than the average for the time period.

Table 7

Consumer Lending Distribution Based on Size of Auto Loan Originations January -June 1998 Auto Loans	
Origination Size of Auto Loan	FNB Lending Distribution by Number of Loans
< \$5,755	55%
Average size of auto loan origination = \$5,755	
> \$5,755	45%

Also, further analysis showed that 16 loans, 29% of the sample, were originated in amounts less

than \$3,000. Auto loans of these small dollar amounts typically represent the low- and moderate-income population, who can only afford and qualify for smaller dollar loan amounts. Thus, it appears the bank is reasonably serving the low and moderate income individuals in their community based on the amount of small dollar auto lending.

Loan to Deposit Analysis

The bank's average loan to deposit ratio from September 1995 to June 1998 is 49%. This ratio is adequate given the bank's size, financial condition and lending opportunities within its AA. The average loan to deposit ratio for FNB and two comparable banks in their AA is 59%. FNB Hampton's lending volumes have trended upward since the last CRA examination. The loan to deposit ratio was 48% as of December 31, 1995 and has increased to 53% as of June 30, 1998.

Table eight illustrates the average loan to deposit ratios from September 31, 1995 to June 30, 1998 for similarly situated financial institutions operating in the bank's AA. Total asset figures are from the June 30, 1998 Reports of Condition.

Table 8

Loan-to-Deposit Ratios for Subject Bank and Comparable Banks			
Name of Bank	Location	Total Assets (\$000's)	LTD Ratio*
Hampton State Bank	Hampton	\$35,928	74%
United Bank and Trust Company	Sheffield	\$64,212	53%
First National Bank of Hampton	Hampton	\$77,310	49%

*LTD Ratio = Average of Quarterly Net Loan-to-Deposit Ratios from 9/95 - 6/98.

Lending Inside the Assessment Areas

FNB originates a substantial majority of their loans inside its AA, based on our review of two types of loans originated YTD 1998. Table nine illustrates the level of penetration of lending inside the bank's assessment area by product type:

Table 9

Penetration of Lending Inside the Assessment Area Loans Originated YTD 1998		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Agriculture Loans	86%	83%
Commercial Loans	92%	76%

The agriculture loan sample included 223 loans totaling \$2.9 million. This represents 67% by number and 26% by dollar volume of loans originated YTD 1998. The commercial loan sample included 100 loans totaling \$3.7 million. This represents 36% by number and 49% by dollar volume of loans originated in the same period. These samples included loans both inside and outside the assessment area resulting in larger samples than those used to construct tables 3, 4 and 5.

Geographic Distribution of Loans:

All BNA's in the AA are considered middle income. Given the homogenous nature of the AA, and the fact that there no low or moderate income geographies in the AA, an analysis of the distribution of loans among geographies was not relevant.

Response to CRA Related Complaints

The bank has not received any CRA related complaints since the previous evaluation.

Compliance with Antidiscrimination Laws

The First National Bank of Hampton is in compliance with applicable antidiscrimination laws and regulations. We found no evidence of apparent disparate treatment during our fair lending review.