



PUBLIC DISCLOSURE

May 4, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Newton National Bank
Charter Number 13609

100 North 2nd Avenue West
Newton, IA 50208

Office of the Comptroller of the Currency
Des Moines Field Office
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.

First Newton National Bank (FNNB) meets the credit needs of its assessment area (AA). The primary lending activity is business loans.

- FNNB’s loan-to-deposit (LTD) ratio is reasonable;
- A majority of FNNB’s loans are originated within its AA;
- FNNB’s distribution of loans to borrowers of different revenue levels reflects excellent penetration; and
- FNNB’s community development investments and services reflect excellent responsiveness to the needs of the AA.

SCOPE OF EXAMINATION

We evaluated FNNB 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 lending activities. The lending test covers the bank’s performance from January 1, 2013, to March 31, 2015. This period is representative of the bank’s lending strategy since the previous Community Reinvestment Act (CRA) examination. We also evaluated FNNB’s community development activities. The community development test covers the bank’s performance from December 2, 2008, through May 4, 2015.

FNNB’s primary product is business loans. The following table shows the percentage of loan originations by loan type from January 1, 2013, to March 31, 2015.

Table 1 - Loan Originations		
Loan Type	% by Dollar	% by Number
Residential RE	15	17
Consumer	4	33
Business	74	43
Agricultural	7	7

Source: Bank-provided origination reports

To evaluate FNNB’s lending performance, we selected a random sample of 20 business loans originated between January 1, 2013, and March 31, 2015.

DESCRIPTION OF INSTITUTION

FNNB is a \$77 million national bank located in Newton, Iowa. The bank operates with two branches and two automated teller machines (ATMs) in Newton. FNNB is wholly owned by United Iowa Bancshares, Inc. FNNB also owns First Newton National Development Corporation (FNNDC), a wholly owned community development

corporation (CDC) set up to assist in the creation of affordable housing for low- and moderate-income families and community development within Newton.

FNNB offers traditional loan and deposit products. As of December 31, 2014, the bank’s loan portfolio totaled \$46 million, or 59 percent of total assets. We determined FNNB’s primary lending product since the previous examination is business loans.

There are no legal or financial impediments to FNNB’s ability to meet the credit needs of its AA. FNNB received an outstanding rating at its last CRA examination dated December 1, 2008.

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 Jasper County. FNNB’s CRA public file contains a map of the AA. The AA includes nine contiguous census tracts (CTs). All nine CTs are classified as middle-income. There are no low- or moderate-income CTs in the AA. According to 2010 United States census data, the AA population is 36,842. Approximately 11 percent of AA households are below the poverty level. The following table shows the number and percent of AA families within each income level.

Table 2 – Family Income within Jasper County		
Income Category	Number	Percent
Low	2,003	20
Moderate	1,723	17
Middle	2,425	24
Upper	4,017	39

Source: 2010 U.S. Census Data

Competition in the AA is moderate. Eleven deposit-taking financial institutions serve the Jasper County AA. FNNB is the second smallest of the institutions that serve the AA and ranks fourth for deposit market share with approximately 12 percent.

The condition of the local economy is stable. According to the Iowa Workforce Information Network, unemployment in Jasper County is 4.6 percent as of March 2015. This is slightly higher than the state average of 4.0 percent. Major employers include the local school districts, governments, Skiff Medical Center, TPI Composites, and several retail and manufacturing businesses located throughout the AA.

We contacted a community representative during the examination. The community contact indicated the economy and employment in the area were stable and major employers appear to be doing well. The representative indicated area institutions are good at helping to support the needs of the community via donations, advice in their areas of expertise, and various community development projects. The representative

concluded that FNNB was community-minded and more responsive than most other institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNNB’s performance with regards to the lending test is satisfactory. The bank’s LTD ratio is reasonable given the bank’s size, financial condition, and credit needs in the AA. In addition, FNNB originates a majority of its loans inside the AA. The borrower distribution of business loans reflects excellent penetration. We did not complete a geographic distribution of loans, as there are no low- or moderate-income CTs within the AA. FNNB has not received any complaints regarding its CRA performance since the previous examination.

Loan-to-Deposit Ratio

FNNB’s lending level is reasonable and meets the criteria for satisfactory performance. Over the past 25 quarters ending December 31, 2014, FNNB’s quarterly average LTD ratio was 55 percent. This ratio is below the 67 percent quarterly average LTD ratio of eight similarly situated institutions. Compensating factors include FNNB’s significant level of secondary market loan sales. Since the previous examination, they have sold an average of \$3 million in real estate loans per year. If these loans were retained at the bank, it would have positively impacted the LTD ratio.

Lending in Assessment Area

FNNB originates a majority of business loans inside its AA, which meets the standard for satisfactory performance. From our sample, management originated 85 percent of its loans by number and 57 percent of its loans by dollar amount within the AA. The following table shows the originations inside and outside of the AA for our entire sample.

Table 3 - Lending in Jasper County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	17	85	3	15	20	2,073,387	57	1,594,279	43	3,667,666

Source: Sample of business loans from 2013, 2014, and 2015

Lending to Businesses of Different Sizes

The distribution of loans, given the demographics of the AA, reflects excellent penetration among businesses of different sizes.

The distribution of business loans to businesses of different sizes reflects excellent penetration. Our sample of 20 business loans indicated FNNB originated 90 percent by number and 93 percent by dollar to businesses with gross revenues less than or equal

to \$1 million. This compares favorably to the demographic comparative which indicates 78 percent of businesses have less than or equal to \$1 million in gross revenues.

Table 4 - Borrower Distribution of Loans to Businesses in Jasper County				
Business Revenues (or Sales)	≤\$1,000,000	≥\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78	4	18	100%
% of Bank Loans in AA by #	90	5	5	100%
% of Bank Loans in AA by \$	93	6	1	100%

Source: 2010 U.S. Census Data; Sample of business loans from 2013, 2014, and 2015

Geographic Distribution of Loans

We did not complete an analysis of loan distribution by geographic area, as it would not be meaningful. As previously mentioned, the AA does not contain any CTs classified as low- or moderate-income.

Qualified Investments and CD Services

FNNB has taken a leadership role in addressing the needs of the AA. FNNB created FNNDC, a CDC, to address the low- and moderate-income housing shortage in Newton. The creation and operation of a CDC for a \$77 million bank indicates a strong commitment to the community. The bank’s \$270 thousand equity investment in the CDC, along with the CDC’s activity, has greatly enhanced the bank’s overall CRA performance. During the assessment period, FNNDC rehabilitated two homes, which are now rented to low- and moderate-income families. The CDC also invested \$30 thousand in a local company to build a facility in a government-targeted redevelopment area and create jobs in the AA. Additionally, FNNDC donated two lots to Habitat for Humanity valued at \$12 thousand, to build homes for low- and moderate-income families.

In addition to the projects mentioned above, FNNDC donated to various entities that benefit low- and moderate-income families or housing totaling \$66 thousand. This includes \$30 thousand to Newton Development Corporation, which has ongoing projects to provide low- and moderate-income housing. It also includes \$19 thousand to the Jasper County United Way, which provides assistance to programs targeting low-to-moderate income families.

FNNB’s level of community development service is excellent. FNNB executives actively participate on the Board of Directors for Newton Development Corporation, Progress Industries and Foundation, Habitat for Humanity, and the Salvation Army. All of these organizations work to improve the availability of low- and moderate-income housing or jobs within the AA.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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