



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 4, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Okey-Vernon First National Bank
Charter Number 8725

701 Davis Street
Corning, Iowa 50841

Office of the Comptroller of the Currency
Des Moines Field Office
1089 Jordan Creek Parkway, Suite 230
West Des Moines, Iowa 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 Satisfactory.

Okey-Vernon First National Bank's (OVFNB) lending performance reflects a satisfactory response to the needs of its assessment area (AA). This conclusion is based on the following results from our review:

- The loan-to-deposit (LTD) ratio is reasonable compared to the similarly situated bank in the AA;
- A majority of the bank's loans are originated within its AA;
- The bank's distribution of loans among farms of different sizes reflects reasonable penetration; and
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

SCOPE OF EXAMINATION

OVFNB was evaluated 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 January 1, 2010 to December 31, 2011. This period is representative of the bank's lending strategy since the previous Community Reinvestment Act (CRA) examination.

OVFNB's primary product is agricultural loans. The following table shows the percentage of loan originations by loan type from January 1, 2010 to December 31, 2011.

Loan Type	% by Dollar	% by Number
Agricultural	81%	49%
Consumer	11%	31%
Residential	5%	3%
Commercial	3%	17%

Source: 2010 and 2011 Bank-prepared loan origination reports

OVFNB does not maintain revenue information on agricultural loan customers outside individual credit files. To evaluate OVFNB's lending performance, we selected a random sample of 25 agricultural loans originated between January 1, 2010 and December 31, 2011.

DESCRIPTION OF INSTITUTION

OVFNB is a \$62 million financial institution headquartered in Corning, Iowa. The Corning location is a full-service office equipped with a drive-up facility and a deposit-taking automated teller machine (ATM). The bank has no other branches or ATMs. OVFNB has not opened or closed any branch locations since the previous CRA examination.

OVFNB is a wholly-owned subsidiary of Blue Grass Bancorporation, a one-bank holding company headquartered in Corning, Iowa. As of December 31, 2012, Blue Grass Bancorporation had total assets of \$9.7 million; \$8.8 million of those assets are OVFNB equity. The holding company also owns 100 percent of First Choice Insurance Agency. The insurance agency sells investment and insurance products and is also located in Corning. It does not have a lending function and does not negatively impact the bank's ability to meet the credit needs of the community. Previously, OVFNB and First Choice Insurance were owned by Whitmore Company, Inc., a multi-bank holding company that owns 100 percent of First Federal Saving Bank in Creston, Iowa and Page County State Bank in Clarinda, Iowa. As of December 31, 2011, ownership of OVFNB and the insurance agency transferred to Blue Grass Bancorporation. There have been no other merger or acquisition activities during the CRA evaluation period.

OVFNB offers a full range of deposit and loan products and services to its customers. OVFNB operates as a community bank and specializes in agricultural lending. As of December 31, 2012, the bank's loan portfolio totaled \$24 million. Agricultural lending makes up \$11 million of the portfolio.

There are no legal or financial impediments to OVFNB's ability to meet the credit needs of its AA. OVFNB received a Satisfactory rating at its last CRA examination dated July 23, 2007.

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 AA includes all of Adams County, Iowa and is composed of two contiguous middle-income census tracts. As of 2012, both tracts are considered distressed due to population loss and underserved due to the remote location of the county. According to 2010 United States Census Data, the AA population is 4,029. Corning is the largest town in the AA with a population of 1,635, or about 40 percent of the Adams County population. Approximately 21 percent of Adams County families are low-income, 23 percent are moderate-income, 26 percent are middle-income, and 30 percent are upper-income. In Adams County, 9.5 percent of households are below the poverty level. A map of the AA can be found in OVFNB's CRA public file.

Competition within the AA is moderate. The Adams County AA is served by four deposit-taking financial institutions. OVFNB has 54 percent of the deposit market share in the AA. This examination included comparisons to similarly situated banks. Three of the banks serving Adams County obtain the majority of their deposits outside the AA and are therefore not considered similarly situated institutions. OVFNB was compared to one bank for lending test purposes.

The local economy is stable. Adams County's unemployment is low at 4.2 percent as of December 2012, a decrease from 5.1 percent in December 2011, according to the Iowa Workforce website. The local economy is driven by agriculture, and the primary product at OVFNB is agricultural loans. Major employers include the local school district, the local hospital, Precision Pulley, Midwest Opportunities, and POET Bio-refining, an ethanol plant.

One meeting with a community contact from a local organization was conducted. The contact indicated all credit needs in the community were being met by the local banks: State Bank of Brooks, Iowa State Savings Bank, and OVFNB. The three banks frequently collaborate on community development projects such as main street improvements and upkeep, and the \$4 million Opera House renovation. The contact indicated housing development is always difficult due to the rural location of the community, and there could be more modern, middle-income housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

OVFNB's performance with regards to the lending test is satisfactory. The bank's LTD ratio is reasonable given its business strategy and corporate culture. This indicates the bank has made an effort to make credit available. In addition, OVFNB originates a majority of its loans inside the AA. The borrower distribution reflects reasonable penetration. A geographic distribution was not completed because the AA does not contain low- or moderate-income census tracts. OVFNB has not received any complaints regarding its CRA performance.

Loan-to-Deposit Ratio

OVFNB's lending level is reasonable and meets the criteria for satisfactory performance given its size, financial condition, and the credit needs of the AA. OVFNB's LTD ratio as of December 31, 2012 was 48 percent. Over the past 21 quarters ending December 31, 2012, OVFNB's average LTD ratio was 46 percent. This ratio compares reasonably to the quarterly average LTD ratio for the similarly situated bank in the AA at 32 percent.

Lending in Assessment Area

A majority of OVFNB's loans are originated within its AA, which meets the standard for satisfactory performance. Management originated 80 percent of its loans by number and 68 percent of its loans by dollar amount within the AA.

The following table details OVFNB's lending within the AA by number and dollar amount of loans.

Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture	20	80%	5	20%	25	\$1,564	68%	\$726	32%	\$2,290
Total	20	80%	5	20%	25	\$1,564	68%	\$726	32%	\$2,290

Source: A sample of agricultural lending from 2010-2011

Lending to Farms of Different Sizes

The distribution of loans to agricultural borrowers reflects reasonable penetration among farms of different sizes. Our sample of 25 agricultural loans indicated OVFNB originated 85 percent of its loans by number and 40 percent by dollar volume to small farms. Small farms are farms with gross annual revenue of \$1 million or less.

The dollar volume of agricultural loans to small farms is not representative of the bank's historical lending practices as larger farms generally borrow in larger amounts. The agricultural lending sample reflects this. The average loan origination amount for borrower's with gross annual revenues greater than \$1 million was \$315 thousand, compared to \$36 thousand for borrowers with gross annual revenues of \$1 million or less. The significant discrepancy between large and small farm loan origination amounts in the lending sample skews the dollar volume of agricultural loans to small farms.

The percentage of loans to small farms by number, 85 percent, compares reasonably to the demographic comparator, 99 percent. Eighty percent of agricultural loans in our sample were loans under \$100 thousand, and the average loan amount was \$92 thousand. This provides additional support for a reasonable distribution of loans to small farms.

The following table shows the distribution of agricultural loans to farms of different sizes within the AA:

Table 3 - Borrower Distribution of Loans to Farms in Adams County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms (demographic)	99%	1%	0%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	40%	60%	0%	100%

Source: 2011 Business Geodemographic Data; Sample of agricultural lending from 2010 and 2011

Geographic Distribution of Loans

A geographic distribution of loans was not performed at this examination. Both census tracts in the bank's AA are middle-income, therefore the analysis would not be meaningful.

Responses to Complaints

OVFNB 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) 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.