



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 16, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Primghar
Charter Number 4155**

**180 S. Hayes Avenue
Primghar, IA 51245**

**Comptroller of the Currency
Omaha North Field Office
13710 FNB Parkway #110
Omaha, NE 68154**

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 Satisfactory.

The First National Bank of Primghar (FNB) meets the credit needs of its assessment area. The bank's primary lending activities are to agricultural and consumer borrowers.

- A significant majority of the bank's loans are within the assessment area.
- Lending to borrowers of different income levels is satisfactory.
- FNB's lending level is satisfactory, given the institution's size, financial condition, and the assessment area's credit needs.
- The Office of the Comptroller of the Currency nor FNB has received a complaint about the bank's performance regarding the Community Reinvestment Act.

DESCRIPTION OF INSTITUTION

FNB is a \$22 million bank located in O'Brien County in northwestern Iowa. The bank's main office is located in Primghar, Iowa. The bank has no branches or deposit-taking automated teller machines. The bank has no holding company or affiliate operations. The bank's corporate structure has not changed since the last Community Reinvestment Act (CRA) examination.

FNB offers traditional loan and deposit products. The bank's primary credit products are agricultural and consumer loans, based on the number of originations. As of March 31, 2002, the bank's loan portfolio totaled 51% of total assets. The loan portfolio consisted of 56% agricultural loans, 16% residential real estate loans, 15% commercial loans, and 13% consumer loans based on originated dollar amounts.

The bank has no legal or financial impediments, which prevents them from fulfilling its obligations under the CRA. FNB was rated "Needs to Improve" at the last CRA examination dated November 15, 1999.

LOAN SAMPLING AND DATA INTEGRITY

We evaluated loans originated between January 1, 2001 and July 31, 2002. We could not sample loans back to the prior CRA examination date of November 15, 1999, because the bank upgraded its loan software on January 1, 2001 and prior records were purged from the system. The number and dollar volume of loans were then broken down by FDIC Call Codes to determine the bank's primary credit products. Agricultural loans were the bank's primary credit product based on the number of loans originated and the dollar volume of loans originated. Consumer loans were also a primary product based on the number of loans originated. The primary products were representative of the bank's business strategy. We found no problems with data integrity during our review of the loan sample.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) did not meet the requirements of the regulation. The AA arbitrarily excluded four townships in two different block numbering areas (BNAs). BNA 9902 did not include the townships of Floyd, Carroll, and Baker. BNA 9904 did not include the township of Caledonia. Geographically, these are the four western townships in O'Brien County. Bank management corrected the AA by adding the four excluded townships, and placed an updated map in the CRA Public File prior to the beginning of the examination.

The bank's AA now meets the requirements of the regulation. The bank's AA consists of BNAs 9901, 9902, and 9904 in O'Brien County. All three (100%) of the BNAs are middle-income census tracts. Individuals can refer to the CRA Public File for a map outlining the bank's AA.

According to the 1990 US Census, the total population of the AA is 10,471. The 1990 US Census estimated that 18% of families in the AA were low-income, 24% moderate-income, 26% middle-income, and 32% upper-income. The 2001 weighted average updated median family income is \$48,400 for non-metropolitan statistical areas in Iowa. Thirteen percent of the AA households are below the poverty level. The median housing value in the AA is \$28,479 and 70% of housing is owner-occupied.

Local economy is stable. Agriculture and agricultural related businesses provide the main employment sources in O'Brien County. There are ten other financial institutions with branches within the AA. These institutions provide the primary competition to FNB. These institutions range in size from approximately \$20 million to \$500 million in total assets.

Examiners made two community contacts during the CRA examination. Contacts were made to the Farm Services Administration and the O'Brien County Economic Development Board. Community contacts revealed that agricultural and small business loans are the primary credit need in the area. FNB offers and originated these types of loans. Both community contacts felt that the credit needs of the area were being met.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's average lending level is reasonable and meets the standard for satisfactory performance. This is based on the bank's loan-to-deposit (LTD) ratio, size, financial condition, and the AA credit needs. FNB's March 31, 2002 net LTD ratio was 66%. FNB's quarterly, average LTD ratio for the 10 quarters ending March 31, 2002 was 60%. The bank's ratio is lower than, but reasonably compares to the five similarly situated banks in the AA with a 10-quarter average LTD ratio of 77%, and a range of 59% - 91%. All banks with their main location in O'Brien County, and a majority of its deposits within the county, were used as similarly situated banks

for comparison. The similarly situated banks range in size from \$34 million to \$80 million in total assets. Since the last CRA examination, FNB's LTD ratio has increased significantly from 40%.

Lending in Assessment Area

FNB originates a significant majority of its loans within the AA. The bank's performance in this area exceeds the standard for satisfactory performance. We selected a sample of 30 agriculture and consumer loans originated between January 1, 2001 and July 31, 2002. The sample was tested to determine if loans being originated to farms and individuals were within the bank's AA. Loan sampling was limited to loans originated since January 1, 2001 due to the bank's change in service providers.

We found that 27 loans, or 90% of the agricultural and consumer loans originated were in the AA. Also, \$486,244, or 92% of the loan volume was in the AA.

The following table shows the breakdown of loans inside and outside of the AA.

| Lending in Block Numbering Areas 9901, 9902, & 9904 | | | | | | | | | | |
|--|-----------------|------------|----------|------------|-----------|------------------|------------|-----------------|-----------|------------------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Agricultural | 14 | 93% | 1 | 7% | 15 | \$428,280 | 97% | \$13,117 | 3% | \$441,397 |
| Consumer | 13 | 87% | 2 | 13% | 15 | \$57,964 | 68% | \$27,800 | 32% | \$85,764 |
| Totals | 27 | 90% | 3 | 10% | 30 | \$486,244 | 92% | \$40,917 | 8% | \$527,161 |

Source: Loan Sample.

Lending to Farms of Different Sizes and to Borrowers of Different Incomes

FNB has a satisfactory record of lending to agricultural borrowers of different sizes. The bank meets the standard for satisfactory performance. We reviewed a sample of 30 loans, totaling \$725,809 in loan volume, to determine the bank's lending to farms of different sizes. All of the loans in this sample were located in the AA and were originated between January 1, 2001 and July 31, 2002.

Sixteen of the 30 loans reviewed did not report revenue information. As a result, we relied upon the loan size as a proxy. We concluded that smaller dollar loan originations would be used by smaller farming operations, and larger dollar loan originations would be used by larger farming operations.

A significant majority of the bank's lending was to borrowers with small and moderate-sized operations, those with less than \$100,000 in gross annual revenue. One hundred percent of loans by number and volume were to operations with less than \$100,000 in annual gross revenue.

The following table shows the breakdown of loans to farms of different sizes based on loan size.

| Borrower Distribution of Loans to Farms by Loan Size in Block Numbering Areas 9901, 9902, & 9904 | | | | |
|---|------------|-------------|-------------|--------------------|
| Loan Size (000's) | # of Loans | % of Number | \$ of Loans | % of Dollar Volume |
| \$0 - \$25,000 | 20 | 67% | \$224,508 | 31% |
| \$25,001 - \$50,000 | 6 | 20% | \$223,501 | 31% |
| \$50,001 - \$100,000 | 4 | 13% | \$277,800 | 38% |
| >\$100,001 | 0 | 0% | \$0 | 0% |
| Totals | 30 | 100% | \$725,809 | 100% |

Source: Loan sample.

FNB has a satisfactory record of lending to individuals of different income levels. The bank meets the standard for satisfactory performance. We reviewed a sample of 30 loans, totaling \$152,119 in loan volume, to determine the bank's lending to individuals. All of the loans in this sample were located in the AA and were originated between January 1, 2001 and July 31, 2002.

Fourteen of the 30 loans reviewed did not report income information. However, we did not rely upon loan size as a proxy for lending to consumers of different income levels because the data would not be meaningful. Based on the smaller sample of 16 loans with income data and discussions with bank management, we are comfortable with the bank's record of lending to individuals of different income levels.

Geographic Distribution of Loans

All three block numbering areas within the AA are middle-income. Therefore, specific analysis of geographic distribution is not meaningful.

Responses to Complaints

FNB has met the standard for satisfactory performance. The Office of the Comptroller of the Currency and FNB have not received any complaints regarding the bank's CRA performance since the last CRA examination.

Fair Lending Review

An analysis of 1999, 2000, and 2001 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 1999.