



## **PUBLIC DISCLOSURE**

August 26, 2013

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank of Muscatine  
Charter Number 15579

300 East Second Street  
Muscatine, Iowa 52761

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**

The First National Bank of Muscatine's (FNB) lending performance reflects a satisfactory response to the needs of its assessment area (AA). This conclusion is based on the following:

- FNB's loan-to-deposit (LTD) ratio is reasonable;
- A majority of FNB's loans are originated within its AA;
- FNB's distribution of loans to borrowers of different income levels reflects reasonable penetration;
- FNB's distribution of loans to borrowers in different geographies within its AA reflects reasonable dispersion; and
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

**SCOPE OF EXAMINATION**

We evaluated FNB 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, 2012 to July 31, 2013. This period is representative of the bank's lending strategy since the previous Community Reinvestment Act (CRA) examination.

FNB's primary products are commercial and residential real estate loans. The following table shows the percentage of loan originations by loan type from January 1, 2012 to July 31, 2013.

<b>Table 1: Loan Originations</b>		
<b>Loan Type</b>	<b>% by Dollar</b>	<b>% by Number</b>
Commercial	52%	32%
Residential RE	33%	31%
Consumer	7%	34%
Agricultural	8%	3%

*Source: Bank-provided loan origination reports (2012-YTD 2013).*

To evaluate FNB's lending performance, we initially selected a random sample of 20 commercial loans and 20 residential real estate loans originated between January 1, 2012 and July 31, 2013. We expanded our sample, as some loans in our original sample were excluded due to bank coding errors. We also expanded our sample to ensure we had 20 loans for each primary product within the bank's AA for the geographic distribution analysis.

## **DESCRIPTION OF INSTITUTION**

FNB is a \$305 million financial institution headquartered in Muscatine, Iowa. The bank has three other bank branches, all located in Muscatine. The bank operates five automated teller machines (ATMs), of which four have deposit-taking capabilities. All ATMs are located in Muscatine. FNB closed two branch locations in 2012.

The bank is a wholly owned subsidiary of Iowa First Bancshares Corporation, a two-bank holding company headquartered in Muscatine, Iowa. As of June 30, 2013, the holding company had total assets of \$440 million. The holding company also owns First National Bank of Fairfield in Fairfield, Iowa.

FNB offers a full range of deposit and loan products, and services to its customers. As of June 30, 2013, the bank's loan portfolio totaled \$220 million, or 72 percent of total assets. The June 30, 2013 call report identifies \$154 million in real estate loans, \$48 million in commercial loans, \$11 million in consumer loans, and \$7 million in agricultural loans.

There are no legal or financial impediments to FNB's ability to meet the credit needs of its AA. FNB received a satisfactory rating at its last CRA examination dated July 21, 2009.

## **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 Muscatine County and includes ten contiguous census tracts (CTs). The city of Muscatine is situated along the Mississippi River and in the southeast corner of Muscatine County. According to 2010 United States census data, the AA population is 42,745. Approximately 11 percent of AA households are below the poverty level. A map of the AA can be found in FNB's CRA public file.

Competition within the AA is moderate. Six other deposit-taking financial institutions serve the Muscatine County AA. Three of those institutions obtain a substantial majority of their deposits inside the AA. FNB holds the second largest deposit market share of the seven institutions with 31 percent. For comparison purposes, we excluded four of the institutions because the majority of their deposits were located outside of the AA, and/or their asset size was not comparable to FNB. Therefore, we compared FNB to the remaining two similarly situated institutions for lending test purposes.

The condition of the local economy is average. Muscatine County's unemployment rate is comparable to state averages. The AA's unemployment rate as of July 2013 was 4.9 percent, compared to the state of Iowa's unemployment rate of 4.8 percent, as reported by the Bureau of Labor Statistics. Both are below the national average of 7.4 percent.

We contacted a community representative during the examination. The community contact indicated the employment front in the area is steady, and major employers appear to be doing well. Major employers in the area include HNI Corp., Heinz Company, Kent Corp., Monsanto, the local schools and hospitals, and the city and county government. The representative indicated all local institutions are generous with donations to support fundraisers. Overall, the representative concluded that FNB and other financial institutions in the area meet the credit needs of the community, including low- and moderate-income individuals and families, through appropriate products and services. However, the representative emphasized there has been a greater need for micro-financing (loans of \$500 to \$1,000), which he indicated the institutions could improve upon. The representative has seen more individuals get into financial trouble with loans from payday lenders.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

FNB'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 of the AA. In addition, FNB originates a majority of its loans inside the AA. The borrower distribution of residential real estate and business loans reflects reasonable penetration. We completed a geographic distribution of loans, and concluded that FNB has reasonable dispersion of lending to borrowers and businesses of different geographies within its AA. FNB has not received any complaints regarding its CRA performance since the previous examination.

### **Loan-to-Deposit Ratio**

FNB's lending level is reasonable and meets the criteria for satisfactory performance. FNB's LTD ratio as of June 30, 2013 was 83 percent. Over the past 17 quarters ending June 30, 2013, FNB's quarterly average LTD ratio was 86 percent. This ratio is above the quarterly average LTD ratio of the two similarly situated institutions of 67 percent. The similarly situated banks utilized for comparison purposes are community banks located in Muscatine County and are of similar asset size.

### **Lending in Assessment Area**

FNB originates a majority of commercial and residential real estate loans within its AA, which meets the standard for satisfactory performance. Management originated 80 percent of its loans by number and 56 percent of its loans by dollar amount within the AA.

The discrepancy between the percentage of originated loans in the AA by number (80 percent) and by dollar volume (56 percent) is due to one large loan that was located

outside of the AA. If you exclude this loan from the sample, the percentage of sampled loans originated in the AA by dollar volume increases to 79 percent.

<b>Table 2 - Lending in Muscatine County</b>										
Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	15	75	5	25	20	2,491	46	2,884	54	5,375
Residential RE	17	85	3	15	20	1,297	91	129	9	1,426
Combined	32	80	8	20	40	3,788	56	3,013	44	6,801

Source: Sample of commercial and residential RE loans from 2012 and YTD 2013

### Borrower Distribution of Loans

The distribution of borrowers, given the demographics of the AA, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

- **Lending to Businesses of Different Sizes**

The distribution of loans to businesses of different sizes reflects reasonable penetration. Our sample of 20 commercial loans indicated FNB originated 65 percent of its loans by number and 46 percent by dollar volume to small businesses. Small businesses are those with annual gross revenues equal to or less than \$1 million.

The inconsistency between the percentage of loans originated to small businesses by number (65 percent) and by dollar amount (46 percent) is from one large loan that was selected for our sample. If you exclude this loan from the sample, the percentage of loans originated to small businesses by dollar volume increases from 46 percent to 68 percent.

The demographic data for the AA shows 74 percent of businesses reporting revenue data have annual gross revenues of \$1 million dollars or less.

<b>Table 3 - Borrower Distribution of Loans to Businesses in Muscatine County</b>				
Gross Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74	4	22	100
% of Bank Loans in AA by #	65	35	0	100
% of Bank Loans in AA by \$	46	54	0	100

Source: 2012 Business Demographic Data; Sample of loans from 2012 and YTD 2013

- **Lending to Borrowers of Different Income Levels**

The distribution of loans to borrowers of different income levels reflects reasonable penetration. Our sample of 20 residential real estate loans indicated FNB originated 15 percent and 25 percent of its loans by number to low- and moderate-income borrowers, respectively. Lending to low-income families is near the percentage of low-income

families in the AA, while lending to moderate-income borrowers is above the percentage of moderate-income families in the AA. Income levels are determined as percentage ranges from the 2012 weighted-average median family income for Iowa of \$59,300.

<b>Table 4 - Borrower Distribution of Residential RE Loans in Muscatine County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	18	15	16	25	21	20	44	40

Source: 2012 Business Demographic Data; Sample of loans from 2012 and YTD 2013

### Geographic Distribution of Loans

We analyzed the geographic distribution of loans at this examination. The bank’s AA does not include any low-income level CTs, but includes one moderate-income level CT. FNB has a reasonable dispersion of lending to borrowers and businesses of different geographies within its AA.

- Geographic Distribution of Business Loans**

FNB’s lending to businesses in different geographies within its AA is excellent, as FNB meets or exceeds the ratios for dispersion of loans to moderate-income CTs.

<b>Table 5 - Geographic Distribution of Loans to Businesses in Muscatine County</b>								
CT Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0	0	6	10	51	55	43	35

Source: 2012 Business Demographic Data; Sample of loans from 2012 and YTD 2013

- Geographic Distribution of Residential Real Estate Loans**

FNB’s lending to borrowers in different geographies within its AA is reasonable, as FNB meets or nearly meets the ratios for dispersion of loans to moderate-income CTs.

<b>Table 6 - Geographic Distribution of Residential RE Loans in Muscatine County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	0	0	8	5	48	40	44	55

Source: 2012 Business Demographic Data; Sample of loans from 2012 and YTD 2013

### **Responses to Complaints**

FNB 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.