



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 15, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Grundy National Bank of Grundy Center
Charter Number 14066

529 G Avenue
Grundy Center, IA 50638

Office of the Comptroller of the Currency

ADC-MINNEAPOLIS (8316) Field Office
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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 major factors supporting the institution's rating are:

- The bank's average net loan-to-deposit ratio of 89% is more than reasonable given the bank's size, financial condition, and assessment area needs.
- A majority of loan originations were made to customers within the bank's assessment area.
- The borrower distribution reflects a reasonable penetration of loans to small farms and small businesses when compared to area demographics. Overall, the bank demonstrates a reasonable commitment to meeting the lending needs of farms and businesses of all revenue sizes.

SCOPE OF EXAMINATION

We evaluated Grundy National Bank of Grundy Center's (GNB) record of meeting the credit needs of the community for the period from January 1, 2006, to March 31, 2011. Loan sampling was conducted to arrive at conclusions in relation to the bank's lending performance. In order to determine the bank's lending performance, we selected primary products based on the dollar amount and number of loan originations for the period of January 1, 2009, to March 31, 2011. A sample of loans was selected from each of GNB's primary products, agricultural and commercial loans. GNB originated 638 farm loans with original balances totaling 42% of total loans and 407 business loans with original balances totaling 43% between January 1, 2009 and March 31, 2011. We used 2010 census information for demographic comparison purposes.

DESCRIPTION OF INSTITUTION

GNB is a \$196 million community banking institution, chartered in 1934. GNB is one of two wholly-owned subsidiaries of GNB Bancorporation, also located in Grundy Center. GNB Bancorporation reports total assets of \$311 million from its ownership in GNB and affiliated Ackley State Bank, Ackley, Iowa. GNB is located approximately 30 miles southwest of Waterloo and 80 miles northeast of Des Moines, in north central Iowa.

GNB's main banking location is located in the city of Grundy Center, with a branch and deposit-taking ATM located in Conrad, IA. The Grundy Center location consists of three separate buildings. The building adjacent to the main office houses loan operations and lending staff. The building one block away houses investment, insurance, and real estate activities. Also located in Grundy Center is a deposit-taking automated teller machine (ATM) at the main branch.

As of March 31, 2011 GNB reports total assets of \$196 million, total loans of \$97 million, and total deposits of \$138 million. GNB offers a variety of products and services, including agricultural, commercial, residential real estate, and consumer loans, although

their primary focus is agricultural and commercial lending. GNB's loan portfolio consists of 43% agricultural loans, 42% commercial, 8% residential, and 6% consumer loans as of March 31, 2011.

We did not identify any financial, legal, or other factors which would impede the bank's ability to meet its CRA obligations. GNB was given a "Satisfactory" rating, during the previous CRA evaluation conducted April 10, 2006.

DESCRIPTION OF ASSESSMENT AREA

GNB's assessment area is comprised of the entirety of Grundy County, IA. Grundy County contains four separate census tracts (9901 – 9904). Grundy County is part of the Waterloo/Cedar Falls Metropolitan Statistical Area (MSA). This MSA also includes Blackhawk and Bremer Counties. All census tracts within GNB's assessment area are middle income census tracts. The assessment area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

Based on 2010 census data, the population of the assessment area is 12,453. The population has remained relatively stable from 2000 levels of 12,369. The median age within the assessment area is 40 years old. The Housing and Urban Development 2011 median family income for the Waterloo/Cedar Falls MSA is estimated at \$62,100. The Bureau of Labor Statistics unemployment rate as of March 31, 2011 was 6.7% in Grundy County, which exceeds the statewide unemployment rate of 6.1%.

According to 2000 US Census Data, there are 4,964 households located in the assessment area, of which 3,592 are considered families. Thirteen percent of these families are considered low-income, 22% are moderate-income, 30% are middle-income, and 34% are upper-income. Approximately 5.5% of households in the assessment area are below the poverty line.

2010 Business Geodemographic Data for the assessment area reports the largest business sectors are the service sector (38% of total businesses), the agriculture, forestry, and fishing sectors (26%), and the retail trade sector (10%). According to bank management, the largest employers in Grundy County are Grundy County Memorial Hospital, Richelieu Foods, Inc., R.S. Bacon Veneer, and the local school district. Per 2010 Business Geodemographic Data, the assessment area contains 1,013 businesses and 363 farms. A comparison of 2002 and 2007 Agricultural Census reports reveals the average size of farms in Grundy County decreased by approximately 11 percent between the two periods. However, the average value per acre of farmland in Grundy County increased by 52 percent between 2002 and 2007. A local community contact indicated farmland is currently valued at approximately \$7,500 per acre.

There are seven other banking institutions located within GNB's assessment area, with asset sizes ranging from \$93 million to \$1.6 billion. GNB is the third largest with \$196 million in total assets. GNB represents the largest deposit market share of the seven institutions located in Grundy County, with 30% of deposit market share, according to the June 30, 2010 Federal Deposit Insurance Corporation deposit market share report.

GNB's closest competitor is Lincoln Savings Bank, which has 21% deposit market share.

GNB's assessment area is not located within a Designated Disaster Area and is not categorized as a distressed or underserved middle-income, non-metropolitan geography.

Our community contact was a member of an economic development organization in Grundy Center. The contact indicated that the lending needs of the local community were being met by area banks.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

GNB's net loan-to-deposit ratio (LTD) more than reasonably compares to other similarly-situated institutions in their assessment area. The bank's quarterly net LTD ratio averaged 89.05% for the 21 quarters beginning March 31, 2006, and ending March 31, 2011. The bank's LTD remained relatively stable throughout the time period, with the exception of March 31, 2011, when total deposits increased by 39%, causing a large decline in the bank's LTD to 69%. Management attributed the increase in deposits to normal business growth and not to any particular product, promotion, or event. The loan portfolio has not experienced much growth in the last several years.

GNB's LTD was compared to those of three other financial institutions operating in, or near the bank's assessment area, with total assets ranging from \$90 million to \$200 million. These financial institutions operate under similar market conditions and have similar resources and financial characteristics as GNB. The average LTD for the three comparable banks over the same time period was 70.29%. The following table details information pertaining to GNB and other similarly-situated institutions:

Bank Loan-to-Deposit Ratios in Grundy County		
Institution	Assets (as of 3/31/11)	Average Loan-to-Deposit Ratio; 1Q06-1Q11
State Bank & Trust Company	\$149 million	51.55
Peoples Savings Bank	\$93 million	73.57
Farmers Savings Bank	\$130 million	85.76
Grundy NB of Grundy Center	\$196 million	89.05

Source: Call Report Data

Lending in Assessment Area

GNB extended a majority of commercial and agricultural loans within the assessment area. GNB originated 58% by number of total commercial and agricultural loans sampled within the bank's assessment area. Due in part to local competition and limited loan demand for agricultural and commercial loans in the bank's assessment area, the bank has originated some out of area participations. This contributes to the lower ratio.

The following table details the distribution of loan originations over the evaluation period:

Lending in Grundy County										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	10	50%	10	50%	20	\$1,006	30%	\$2,345	70%	\$3,351
Agricultural	13	65%	7	35%	20	\$1,467	55%	\$1,211	45%	\$2,678
Totals	23	58%	17	42%	40	\$2,473	41%	\$3,557	59%	\$6,030

Source: Loans originations covering the years 2009, 2010, through March 31, 2011

Lending to Businesses and Farms of Different Sizes

GNB's overall distribution of loans to businesses and farms of different sizes is reasonable.

The distribution of commercial loans to small businesses is reasonable. Based on a sample of 20 loans, 14 or 70% were originated to small businesses. This ratio is slightly below the demographic. The following table illustrates this information:

Borrower Distribution of Loans to Businesses in Grundy County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80%	3%	17%	100%
% of Bank Loans in AA by #	70%	30%	0%	100%
% of Bank Loans in AA by \$	32%	68%	0%	100%

Source: Sample of business loan originations covering the years 2009, 2010, through March 31, 2011; 2010 Business Geodemographic Data

The distribution of agricultural loans to small farms is reasonable. Based on a sample of 20 loans, 17 or 85% were originated to small farms. This ratio also reasonably approaches the demographic comparator of 99%. The following table illustrates this information:

Borrower Distribution of Loans to Farms in Grundy				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	99%	1%	0%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	57%	43%	0%	100%

Source: Sample of agricultural loan originations covering the years 2009, 2010, through March 31, 2011; 2010 Business Geodemographic Data

Geographic Distribution of Loans

The analysis of the geographic distribution of loans is not meaningful as all geographies within GNB's assessment area are middle-income.

Responses to Complaints

GNB has not received any CRA complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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