



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 27, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank Midwest
Charter Number 24267

302 South Market Street
Oskaloosa, Iowa 52577

Office of the Comptroller of the Currency
Des Moines Field Office
5550 Wild Rose Lane, Suite 400
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.

First National Bank Midwest (FNB) satisfactorily meets the credit needs of its assessment areas (AAs). This conclusion is based on the following:

- The bank's loan-to-deposit ratio is reasonable.
- A majority of the bank's loans are within its AAs.
- The overall distribution of loans to businesses of different sizes and borrowers of different income levels is reasonable.
- The bank's geographic distribution results in a reasonable dispersion of commercial loans to businesses in low- and moderate-income census tracts (CTs) within the AAs.

SCOPE OF EXAMINATION

FNB was evaluated under the Small Bank Examination Procedures, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. The lending test for FNB covers its performance from January 1, 2009 through July 31, 2012, as this is representative of its lending strategy since the last Community Reinvestment Act (CRA) examination.

FNB's primary loan products are residential real estate and commercial loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The HMDA data were tested and found to be reliable. Therefore, HMDA data were used to evaluate the bank's residential real estate lending performance. To evaluate the bank's business lending performance, we selected a sample of 20 business loans made from January 1, 2009 to July 31, 2012.

DESCRIPTION OF INSTITUTION

FNB is a \$104 million bank located in southeast Iowa. The bank operates out of its main branch in Oskaloosa, Iowa and from its Iowa branch locations in West Des Moines and What Cheer. Since the last CRA examination, the bank closed its Ankeny, Iowa branch (on November 29, 2008). FNB owns three automatic teller machines (ATM). The ATMs are located at the bank's branches in Oskaloosa, What Cheer, and West Des Moines. See FNB's public file for additional information on branch locations and ATMs.

IT & S, Inc., a one-bank holding company located in Oskaloosa, Iowa owns 100 percent of FNB. There are no legal or financial barriers limiting the bank's ability to meet community credit needs.

As of June 30, 2012, FNB’s loan portfolio accounted for 61 percent of total assets. The bank’s primary credit products are commercial and residential real estate loans. The bank has seen a drop in the total loan portfolio from \$122 million at the last CRA examination to \$64 million as of June 30, 2012. This was due to declining economic conditions in the AAs from 2008 to 2010. The bank continues its efforts to conduct commercial lending and residential lending to low- to moderate-income borrowers. The following table breaks down loan originations by outstanding dollars and number of loans originated from January 1, 2009 to July 31, 2012.

Table 1 - Loan Originations by Loan Type				
Loan Category	\$ (000)	%	#	%
Commercial Loans	\$133,989	68%	938	52%
Residential Loans	34,524	17%	282	15%
Agricultural Loans	22,060	11%	272	15%
Aircraft Loans	4,230	2%	49	3%
Consumer Loans	3,439	2%	275	15%
Total	\$198,242	100%	1,816	100%

Source: Bank records from January 1, 2009 to July 31, 2012

FNB was rated “Satisfactory Record of Meeting Community Credit Needs” at the previous CRA examination dated June 11, 2007.

DESCRIPTION OF ASSESSMENT AREAS

FNB has two AAs – the Oskaloosa AA and the West Des Moines AA. The AAs consist of CTs located in the Dallas, Keokuk, Madison, Mahaska, Polk, and Warren counties in Iowa. The West Des Moines AA contains part of the Des Moines Metropolitan Statistical Area (MSA). Individuals can refer to the CRA public file for maps specifically outlining the bank’s AAs.

Oskaloosa Assessment Area

FNB changed the Oskaloosa AA since the last CRA examination. It previously included all of Keokuk and Mahaska Counties. It now includes all of Mahaska County and only the northwest portion of Keokuk County. According to the 2000 United States Census, the population of the Oskaloosa AA is 28,213. All nine CTs in the Oskaloosa AA are middle-income. The 2011 weighted average updated median family income is \$58,500 for the Oskaloosa AA. The median household income in this AA is \$36,802. Sixty-eight percent of housing in the Oskaloosa AA is owner-occupied. The weighted average median housing cost for the Oskaloosa AA is \$65,096.

Oskaloosa, Iowa is the largest city in this AA with a population of 10,938 per the 2000 United States Census. The local economy is comprised of retail, industrial, and

agricultural sectors. The area's largest local employers include Cargill, CLOW Corporation, Panel Components, Musco Lighting, Mahaska Health Partnership, and Vermeer. A significant number of residents work at Pella Windows in Pella, Iowa, approximately 18 miles northwest of Oskaloosa. There are two four-year colleges located in Oskaloosa.

Examiners made one community contact in the Oskaloosa AA. The contact stated there are signs the economy is improving. A few businesses are expanding and some others are locating in the AA (mainly restaurant-type businesses). Housing for low- to moderate-income families is an on-going need. The contact also indicated there are some projects in the city of Oskaloosa that will need funding. These include commercial buildings in the downtown area with apartments and retail, an expansion of the local hospital, and new dormitories for the local universities. FNB offers and originates these types of loans. The contact stated the local financial institutions are very good at sponsoring events and donating funds for local affairs. The chamber offers the opportunity for institutions to host community seminars on financing and loans.

West Des Moines Assessment Area

The West Des Moines AA includes all of Polk County, the eastern portion of Dallas County, the northeastern corner of Madison County, and the northwestern corner of Warren County. This MSA includes, among others, the towns of Altoona, Ankeny, Clive, Des Moines, Norwalk, Urbandale, and West Des Moines. According to the 2011 Business Geodemographic Data, the population of the West Des Moines AA is 412,213. The West Des Moines AA contains 87 CTs. Seven percent of the CTs are low-income, 23 percent are moderate-income, 49 percent are middle income, and 21 percent are upper-income. The 2011 HUD updated MSA median family income is \$74,500 for the West Des Moines AA. The median household income in this AA is \$49,135. Sixty-seven percent of the housing in the West Des Moines AA is owner-occupied. The weighted average median housing cost for the AA is \$106,618.

Des Moines, Iowa is the largest city in the West Des Moines AA with a population of 196,917 per the 2000 United States Census. The local economy is comprised of the financial services, retail, and industrial sectors. The area's largest employers are Wells Fargo Bank, Principal Life Insurance, Iowa Health, Mercy Medical Centers, Nationwide/Allied Insurance, MidAmerica Energy Company, and CDS Global.

There is significant competition in the West Des Moines AA due to the number of financial institutions. While some of these are locally owned, the area also includes a number of large, nationally chartered banks with a strong community presence.

Examiners made one community contact in the West Des Moines AA during this CRA examination. The contact represented a community organization dedicated to business recruitment, development, and retention. The contact stated commercial development has slowed down over the past few years, but is still relatively strong. The contact

mentioned that Jordan Creek Parkway continues to have smaller commercial projects coming into the area. Business expansion had halted hiring during the economic downturn, but companies are now starting to expand and hire. There are quite a few apartment buildings and residential areas going up. Residential construction, apartment building, and commercial building are the primary credit needs. FNB offers and originates these types of loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

FNB's performance with regards to the lending test is satisfactory. The bank's LTD ratio is reasonable, and it originates a majority of its loans inside its AAs. There were no complaints regarding the bank's CRA performance.

The geographic and borrower distributions were both reasonable. The borrower distribution for residential real estate loans was excellent in the Oskaloosa AA, and the commercial borrower distribution was reasonable. The majority of the bank's business lending has been in the West Des Moines AA. The borrower and geographic distribution in the West Des Moines AA were reasonable.

Loan-to-Deposit Ratio

FNB meets the standards for the LTD ratio. FNB's average LTD ratio is reasonable given the institution's size, financial condition, and the credit needs of both AAs. FNB's ratio averaged 86.2 percent over the past 20 quarters, and ranged from 71.7 percent to 101.2 percent.

The bank's LTD ratio is comparable to other community banks of similar size, location, and product offerings. FNB ranks fourth among a total of seven similarly situated banks serving its AAs. The 20 quarter average for the other six banks ranged from 56.2 percent to 107.3 percent, with an average of 78.9 percent.

Lending in Assessment Area

FNB meets the standards for lending within its AAs. We used the HMDA data and a random sample of 20 commercial loans to determine the bank's lending performance within the AAs. The majority of loans were made within the AAs – 79.8 percent by the number of loans made and 61.3 percent by dollar of loans.

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

The overall borrower distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable. The overall borrower distribution for the Oskaloosa AA is excellent. However, we placed more emphasis on the business lending distribution in the West Des Moines AA. Of the loans made during the performance period, 68 percent were commercial loans. Approximately 78 percent of the commercial lending was done in the West Des Moines AA.

Oskaloosa Assessment Area

The primary lending products in the Oskaloosa AA are residential and commercial loans. The overall borrower distribution in the Oskaloosa AA is excellent. We placed more emphasis on the residential lending performance as loans for affordable housing were identified as an on-going credit need in the AA.

- *Residential Real Estate Loans*

The distribution of home loans to borrowers in the Oskaloosa AA reflects excellent penetration among borrowers of different income levels. Lending to low-income borrowers for home purchase and refinance is reasonable compared to the percent of low-income families in the AA. Fifteen percent of the number of both home purchase and refinance loans were made to low-income borrowers as compared 18 percent of families designated as low-income. The percentage of home purchase, improvement, and refinance loans made to moderate-income borrowers is excellent as it significantly exceeds the 19.9 percent of families designated as moderate-income.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2010 to December 31, 2011 as compared to the percent of families in each income category.

Table 2A - Borrower Distribution of Residential Real Estate Loans in Oskaloosa AA								
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
Home Purchase	18.0	15.0	19.9	35.0	25.8	30.0	36.3	20.0
Home Improvement	18.0	0.0	19.9	28.6	25.8	0.0	36.3	71.4
Home Refinance	18.0	15.0	19.9	30.0	25.8	20.0	36.3	35.0

Source: 2010 and 2011 HMDA Data

- *Business Loans*

The volume of lending to business of different sizes in the Oskaloosa AA is reasonable. Our sample of 20 business loans showed 50 percent by number and 23 percent by dollar of loans were granted to businesses in the AA with revenues less than \$1 million. Demographic data shows that 72 percent of the AA's businesses are considered small businesses. However, the demographic data and loan sample lacked information on 25 percent and 10 percent of the businesses, respectively. We found that 90 percent of the business loans in our sample were under \$200 thousand, and the average loan amount was \$78 thousand. This provides additional support for a reasonable distribution of loans to small businesses.

The following table shows the distribution of business loans among different sized businesses in the AA.

Table 2B - Borrower Distribution of Loans to Business in Oskaloosa AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	72.1	2.5	25.4	100.0
% of Bank Loans in AA by #	50.0	40.0	10.0	100.0
% of Bank Loans in AA by \$	23.0	70.0	7.0	100.0

Source: Commercial loan sample from January 1, 2009 to July 31, 2012

West Des Moines Assessment Area

The distribution of loans to businesses of different sizes reflects a reasonable penetration, with 55 percent of the loans sampled made to business with revenues less than \$1 million. Demographic data shows that 66 percent of the AA's businesses are considered small businesses. The demographic data lacked information on 31 percent of the businesses in this AA. We found that 70 percent of the business loans in our sample were under \$200 thousand, and the average loan amount was \$219 thousand. This provides additional support for a reasonable distribution of loans to small businesses.

Table 2C - Borrower Distribution of Loans to Business in West Des Moines AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	66.0	3.2	30.9	100.0
% of Bank Loans in AA by #	55.0	45.0	0.0	100.0
% of Bank Loans in AA by \$	46.0	54.0	0.0	100.0

Source: Commercial loan sample from January 1, 2009 to July 31, 2012

Geographic Distribution of Loans

FNB’s overall geographic dispersion is reasonable. This conclusion is based on the lending performance in the West Des Moines AA as all CTs in the Oskaloosa AA are middle-income. Lending opportunities to smaller businesses has increased during the evaluation period and is an identified credit need. There is no evidence of conspicuous gaps in lending throughout the bank’s AAs.

Oskaloosa Assessment Area

All CTs in the Oskaloosa AA are middle-income. Therefore, specific analysis of geographic distribution is not meaningful.

West Des Moines Assessment Area

FNB meets the standards for geographical distribution of loans in the West Des Moines AA. Loans to businesses in low-income CTs at 10 percent slightly exceed the demographic data of 9.6 percent. Lending to businesses in the moderate-income CTs is lower than the percent of AA businesses in those tracts. This is not a concern as over 81 percent of the businesses are located within middle and upper tracts.

Table 3 - Geographic Distribution of Loans to Businesses in West Des Moines AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Business Loans	9.6	10.0	8.9	5.0	45.6	40.0	35.8	45.0

Source: Loan Sample and 2011 Business Geographic Data.

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), 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 AA 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.