



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 29, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 7369

242 North Main Avenue
Sioux Center, IA 51250

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 South Minnesota Avenue, Suite 300
Sioux Falls, SD. 57108-2865

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 (FNB) meets the credit needs of its assessment areas (AAs). The primary lending activities are agriculture, business, consumer, and residential real estate.

- A substantial majority of the bank's loans by number and dollar volume are located within its AAs.
- The bank's quarterly average net loan-to-deposit ratio is reasonable and reflective of the bank's willingness to lend.
- The bank's lending efforts result in reasonable penetration of individuals of different income levels and businesses of different sizes.

Scope of Examination

FNB was evaluated under the Small Bank examination procedures that consisted of a lending test. The lending test evaluated the bank's record of meeting the credit needs of its AAs through its lending activities. The lending test for FNB included all loans originated and purchased from January 1, 2009 to March 31, 2011. A sample of 20 loans of each primary product type was selected to evaluate the bank's performance.

Description of Institution

FNB is a \$247 million bank headquartered in Sioux Center, Iowa. The bank has a main location in Sioux Center, three branches in LeMars, and two branches in Sioux City. The bank has eight automated teller machines (ATMs), four deposit taking ATMs, and four cash dispensing only ATMs located throughout its AA in northwestern Iowa. The bank is 100 percent owned by Northwest Financial Company, a three bank holding company located in Arnolds Park, Iowa.

Since the previous CRA examination, FNB merged with its affiliate bank in Sioux City adding the Sioux City and LeMars locations in 2007. The bank has opened and closed two branches in Sioux City and opened a new branch in LeMars. The bank has two AAs that include a non-MSA AA in Iowa and the Sioux City, IA-NE-SD metropolitan statistical area (MSA). For purposes of this CRA evaluation, FNB is an intrastate bank as all locations and census tracts are located in Iowa.

FNB offers traditional loan and deposit products. As of March 31, 2011 the bank's net loans represent 61 percent of total assets. Tier 1 Capital totaled \$22 million at March 31, 2011. The bank's primary products in the Non-MSA AA are agriculture, consumer, and refinanced residential real estate. Primary products in the MSA AA are commercial loans. The following table shows the percentage of each loan type originated and purchased from January 2009 to March 31, 2011.

The bank has no legal or financial factors that impede the bank's ability to meet the credit needs of the AAs. The bank received a "Satisfactory" rating at its last CRA examination dated September 22, 2004. Prior to the merger, FNB in Sioux City also received a "Satisfactory" rating at its last CRA examination dated November 20, 2003.

Description of Assessment Areas

FNB has two AAs located in Iowa. Both AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. Individuals can refer to the bank's CRA Public File for a map outlining the bank's AAs.

We did not identify any unmet credit needs in either AA. There are numerous other financial institutions located within the bank's AAs that provide for heavy competition. FNB holds the sixth place for market share in their non-MSA AA with 6.34 percent of deposits. FNB is tenth for market share in the Sioux City MSA with 3.12 percent of deposits.

Examiners made two community contacts in the Non-MSA AA and reviewed two other contacts conducted previously in the MSA AA. The contacts identified agriculture and commercial loans as the primary credit needs and indicated there is also a need for consumer and home loans. FNB offers and originates these types of loans. Contacts stated local institutions support the community.

Non-MSA AA

The first AA consists of Sioux, Lyon, and Plymouth counties in northwest Iowa. The AA includes 16 census tracts including tracts 9701 through 9707 in Sioux County, tracts 9501 through 9503 in Lyon County, and tracts 9701 through 9706 in Plymouth County. There are no low- or moderate-income tracts located in this AA.

The total population of the AA is 68,201 according to the 2000 U.S. Census. Median family income is \$57 thousand. Family income distributions in the AA are 13 percent low-income, 18 percent moderate-income, 28 percent middle-income, and 41 percent upper-income. The median housing value in the AA is \$84,105 and 75 percent of households are owner-occupied.

The local economy in this AA has remained stable with growth in some areas. Unemployment levels in Lyon, Plymouth, and Sioux Counties are 3.9 percent, 5 percent, and 4.5 percent, respectively. This is below the national average of 8.8 percent. Major employers include Pella, Wells Dairy, Groschopp Inc, The Interstates Companies, and non-profit employers including the local hospital, college, and school districts.

MSA AA

The second AA consists of 27 census tracts located in the MSA. The AA includes census tracts 0001 through 21.02, 0031, 0032, 0033, 0034.02, and 0035 in Woodbury County, IA. The AA consists of 1 low-income tract, 6 moderate-income tracts, 13 middle-income tracts, 6 upper-income tracts, and 1 other tract not designated as it does not contain any residents.

According to the 2000 U.S. Census, the total population of the MSA is 103,877. The Housing and Urban Development 2010 weighted average median family income is \$58,400. The distribution of family incomes within the MSA is estimated at 18 percent low-income, 19 percent moderate income, 24 percent middle-income, and 39 percent upper-income. The median housing value in the AA is \$75,392 and 65 percent of housing is owner-occupied.

The local economy has seen the effects of the nationwide economic downturn but remains in

better condition than many other metropolitan areas in the county. Major employers include Tyson Fresh Meats, Mercy Medical Center, Saint Luke's Regional Medical Center, and city and county government entities located in Woodbury County. John Morrell & Company, a major employer in the Sioux City area, closed operations in 2010 which affected 1,400 local jobs. According to the U.S. Bureau of Labor Statistics, unemployment within the MSA is 6.3 percent which has increased from recent years but remains below the national average of 8.8 percent.

Conclusions with Respect to Performance Tests

FNB's lending performance is satisfactory. The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs in the AA. FNB originates a substantial majority of its loans to borrowers located within its AA. The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the AA. FNB's March 31, 2011 loan-to-deposit ratio was 72.8 percent. The bank's quarterly net loan-to-deposit ratio averaged 84.44 percent over the past 27 quarters ending March 31, 2011. FNB's loan-to-deposit ratio ranged from a high of 95.01 percent to a low of 72.8 percent over this time period. FNB's average quarterly ratio is lower than the average ratio of 11 similarly situated banks in the AAs. The 11 similarly situated banks had a 27 quarter average ratio of 92.98 percent, and a range of 122.37 percent and 47.79 percent. Banks of similar size and location in the bank's AA were included for comparison. FNB originates and sells residential real estate loans, which would improve their loan-to-deposit ratio.

Lending in Assessment Area

FNB originates a substantial majority of its loans to borrowers within its defined AAs with a total of 91 percent by number and 92 percent by dollar volume. To evaluate the bank's lending performance, we sampled 20 loans of each primary product originated during the evaluation period. The bank's primary loan products in the Non-MSA were agriculture, consumer, and refinance residential real estate. The primary loan product in the MSA is commercial loans.

FNB originates a substantial majority of its loans to borrowers located in the non-MSA AA. Approximately 93 percent by number and dollar volume of loans were made to farms and individuals located within the bank's non-MSA AA.

NON-MSA ASSESSMENT AREA								
Loan Type	In Assessment Areas				Out of Assessment Areas			
	Number	% of Number	Dollars (000s)	% of Amount	Number	% of Number	Dollars (000s)	% of Amount
Agricultural	20	100%	2,526,189	100%	0	0%	0	0%
Consumer	19	95%	338,727	97%	1	5%	9,692	3%
Refinance	17	85%	1,559,602	83%	3	15%	328,974	17%
Total	56	93%	4,424,518	93%	4	7%	338,666	7%

Source: Loan sampling

FNB originated a substantial majority of its loans to borrowers located in the Sioux City MSA

AA. The primary product for this AA is commercial loans. Approximately 85 percent by number and 91 percent by dollar volume of loans were made to businesses located within the AA.

SIOUX CITY MSA ASSESSMENT AREA								
Loan Type	In Assessment Areas				Out of Assessment Areas			
	Number	% of Number	Dollars (000s)	% of Amount	Number	% of Number	Dollars (000s)	% of Amount
Commercial	17	85%	2,631,423	91%	3	15%	260,464	9%
Total	17	85%	2,631,423	91%	3	5%	260,464	9%

Source: Loan sampling

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

FNB meets the standard for performance and reflects reasonable penetration to individuals of different income levels and businesses and farms of different sizes. A sample of loans for each type of primary product was reviewed to determine the bank’s performance. All of the loans sampled were made to borrowers located within the AA during the evaluation period.

Performance in the Non-MSA AA

Distribution of loans to farms of various revenue sizes is reasonable. Ninety percent by number of the bank’s loans to farms originated and purchased during the sampling period were made to small farms. This is considered reasonable compared to the demographic data showing 98 percent of the area’s farms are considered small farms. The following table shows the distribution of farm loans among different sized farms in the AA.

BORROWER DISTRIBUTION OF AGRICULTURE LOANS			
Gross Annual Revenue	Non-MSA Assessment Area		
	% of Number	% of Amount	Farm Data
<= \$1 million	90%	72%	98%
>\$1 million	5%	0%	1%
Revenue Unavailable	5%	28%	1%
Total	100%	100%	100%

Source: Loan sampling and U.S. Census Business Demographic Data (2010)

Distribution of consumer loans to low- and moderate-income households is excellent as the bank’s penetration to low- and moderate-income households by number of loans exceeds community demographics. The following table shows the distribution of consumer loans among borrowers of different income levels.

BORROWER DISTRIBUTION OF CONSUMER LOANS	
Borrower Income Level	Non-MSA Assessment Area

	% of Number	% of Amount	% of Households
Low	20%	8%	17.81%
Moderate	25%	16%	16.02%
Middle	30%	25%	21.62%
Upper	25%	51%	44.55%
Total	100%	100%	100%

Source: Loan sampling and 2000 U.S. Census

FNB’s distribution of refinance residential real estate loans is reasonable. While FNB did not meet community demographic data for moderate-income families, FNB did exceed community demographics for low-income families based on the number of loans.

REFINANCE LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS			
Borrower Income Level	Non-MSA Assessment Area		
	% of Number	% of Amount	% of Families
Low	15%	5%	12.77%
Moderate	10%	14%	17.79%
Middle	25%	16%	28.12%
Upper	50%	65%	41.32%
Total	100%	100%	100%

Source: Loan sampling and 2000 U.S. Census

Performance in the MSA AA

Distribution of loans to businesses of various revenue sizes is reasonable. We expanded the sample to test 60 commercial loans to determine the bank’s performance. Sixty-five percent of the bank’s loans by number originated and purchased during the loan sampling period were made to small businesses with gross revenues of \$1 million or less. This is considered reasonable compared to demographic data that shows 73 percent of the area’s businesses are considered small businesses. Thirty-seven percent of the business loan volume in our sample was originated to businesses with revenues of \$1 million or less. The following table shows the distribution of commercial loans among different sized businesses in the AA.

BORROWER DISTRIBUTION OF COMMERCIAL LOANS	
Business Revenues (or Sales)	MSA Assessment Area

	% of Number	% of Amount	Business Data
<= \$1 million	65%	37%	73%
>\$1 million	35%	63%	5%
Revenue Unavailable	0%	0%	22%
Total	100%	100%	100%

Source: Loan sampling and 2010 U.S. Census Business Demographic Data

Geographic Distribution of Loans

FNB’s overall record of lending to businesses and individuals in different income tracts is excellent. Geographic distribution is excellent for commercial loans in the Sioux City MSA. There were no conspicuous gaps identified within the AA. Geographic distribution is not meaningful in the non-MSA AA as this AA only contains middle- and upper-income tracts.

Performance in the MSA AA

Geographic distribution of commercial loans in the Sioux City MSA reflects excellent dispersion throughout the census tracts of different income levels. The bank exceeded the demographic comparators for low- and moderate-income census tracts. While only 29 percent of the businesses in the AA are located within low- and moderate-income tracts, FNB originated 60 percent of its business loans to these businesses. The following table details the bank’s performance compared to the percentage of businesses in each census tract income level.

GEOGRAPHIC DISTRIBUTION OF BUSINESS LOANS IN THE MSA AA			
Census Income Tract Level	MSA Assessment Area		
	% of Number	% of Amount	% of Businesses
Low	15%	21%	3%
Moderate	45%	36%	26%
Middle	20%	32%	41%
Upper	20%	11%	30%
Total	100%	100%	100%

Source: Loan sampling and 2010 U.S. Census Business Demographic Data

Responses to Complaints

The bank has not received any CRA-related complaints since the last CRA examination.

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.

