



PUBLIC DISCLOSURE

June 22, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 3105

316 East Bremer Avenue
Waverly, Iowa 50677

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 Lending Test is rated: Outstanding.

- First National Bank's (FNB) loan-to-deposit (LTD) ratio is more than reasonable;
- A substantial majority of FNB's loans are originated within its assessment area (AA);
- FNB's distribution of loans reflects excellent penetration among farms and businesses of different sizes;
- A geographic distribution of loans was not performed, as the bank's AA does not include any low- or moderate-income census tracts (CTs); and
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

The Community Development (CD) Test is rated: Satisfactory.

- FNB offers various products and services at no cost to the customer;
- FNB originated \$5.8 million in community development (CD) loans and donated \$293 thousand to qualified organizations during this evaluation period; and
- Bank employees and directors provided their financial expertise to qualified organizations and individuals during this evaluation period.

Scope of Examination

This performance evaluation outlines FNB's record of meeting the credit needs of its AA from January 21, 2009 to June 22, 2015. We evaluated FNB using the Intermediate Small Bank procedures, which include both a lending test and a CD test.

Our lending test evaluated FNB's record of meeting the credit needs of the Waverly AA through its lending activities. FNB's primary products are business loans and farm loans. The following table shows the percentage of loan originations by loan type from January 1, 2012 to December 31, 2014.

Table 1: Loan Originations		
Loan Type	% by Dollar	% by Number
Business	52%	27%
Farm	35%	27%
Home	10%	18%
Consumer	3%	28%

Source: Bank-provided loan origination reports (2012- 2014)

Our CD test evaluated the bank's record of meeting the needs of its AA through its CD lending activities, qualified donations and investments, and CD services. We considered CD activities the bank participated or engaged in between January 21, 2009 and June 22, 2015. Our primary objective was to determine FNB's responsiveness to the CD needs of its AA.

Description of Institution

FNB is a \$329 million bank located in Waverly, Iowa. Waverly is the county seat of Bremer County. FNB is a full-service financial institution that operates six branches and six automated teller machines throughout northeast Iowa. FNB is a subsidiary of First of Waverly Corporation, a single bank holding company. As of March 31, 2015, the bank's loan portfolio totaled \$253 million, or 77 percent of total assets. The March 31, 2015 call report identifies \$127 million in business loans, \$75 million in farms loans, \$47 million in home loans, and \$4 million in consumer loans.

There are no legal or financial impediments to FNB's ability to meet the credit needs of its AA. FNB received an outstanding rating at its last CRA examination dated January 20, 2009.

Description of Assessment Area

The Waverly AA consists of 19 contiguous census tracts in Blackhawk, Bremer, Butler, and Chickasaw Counties. Blackhawk and Bremer Counties fall within the Waterloo/Cedar Falls Metropolitan Statistical Area (MSA). Five of the CTs are classified as upper-income, while the other fourteen are middle-income; there are no low- or moderate-income CTs in the AA. According to the 2010 United States census data, the AA population is 73,596.

The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts.

Competition in the AA is strong. Twenty-six deposit-taking financial institutions serve the Waverly AA, per the June 30, 2014 FDIC Deposit Market Share Report. FNB ranks fifth for deposit market share with approximately 8 percent, or \$265 million in AA deposits. Further compounding competition are four of the state's five largest credit unions and the Farm Credit Administration.

We obtained a community contact who provided information regarding the local economy. The contact noted that the economy is slowing down. Price declines in agricultural commodities are the primary driver for the decline, along with some commercial business layoffs. John Deere is one of the area's major employers and their performance has a substantial effect on the community. The contact also noted

that some communities are still recovering from the flood in 2008. The representative indicated area institutions are good at helping with the needs of the community. The contact stated that the greatest needs continue to be business lending and affordable housing.

Conclusions with Respect to Performance Tests

The bank’s collective performance is satisfactory, with outstanding performance demonstrated under the lending test and satisfactory performance demonstrated under the CD test.

LENDING TEST

FNB’s collective performance under the lending test is outstanding.

Loan-to-Deposit Ratio

FNB’s quarterly average LTD ratio is more than reasonable at 83.25 percent for the 25 quarters ending March 31, 2015. FNB exceeded the average LTD ratio of two similarly situated institutions, at 66.61 percent.

Lending in Assessment Area

A substantial majority of business and farm loans originated or purchased during this evaluation period were inside the Waverly AA. In our sample, 70 percent of the loans by number and 83 percent of the loans by dollar were to businesses and farms located or operating inside the AA. This meets the standard for outstanding performance.

Table 2 - Lending in the Waverly Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	14	70%	6	30%	20	\$4,553	91%	\$473	9%	\$5,026
Farm	14	70%	6	30%	20	\$2,925	73%	\$1,058	27%	\$3,983
Totals	28	70%	12	30%	40	\$7,478	83%	\$1,531	17%	\$9,009

Source: 2010 US Census data; Loan sample.

Lending to Businesses of Different Sizes

FNB's collective performance under the borrower distribution test is outstanding. We placed a greater emphasis on the distribution of business borrowers, as business loans represented a larger share of the bank’s loan activity during this evaluation period.

The distribution of business borrowers in our sample reflects excellent penetration among businesses of different sizes. In our sample, 85 percent of the loans by number were to small businesses, or businesses with gross revenues of \$1 million or less. This compares favorably to 2010 Census data, which indicates 74 percent of businesses within the bank’s AA report gross revenues of \$1 million or less. This meets the standard for outstanding performance. We placed minimal weight on the distribution of loans by dollar, as these figures are naturally skewed. Small businesses are more likely to originate small loans, and large businesses are more likely to originate large loans.

Table 3A - Borrower Distribution of Loans to Businesses in the Waverly Assessment Area				
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable or Unknown	Total
% of AA Businesses	74%	5%	21%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$ (000's)	54%	46%	0%	100%

Source: 2010 US Census data; Loan sample.

The distribution of agricultural borrowers in our sample reflects a reasonable penetration among farms of different sizes. FNB’s performance is below the AA demographics, but remains adequate. In our sample, 80 percent of the loans by number were to small farms, or farms with gross revenues of \$1 million or less. This meets the standard for satisfactory performance. We placed minimal weight on the distribution of loans by dollar, as these figures are naturally skewed. Small farms are more likely to originate small loans and large farms are more likely to originate large loans. The average loan amount for loans to large farms in our sample was \$613 thousand, compared to an average loan amount of \$54 thousand to small farms.

Table 3B - Borrower Distribution of Loans to Farms in the Waverly Assessment Area				
Farm Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable or Unknown	Total
% of AA Farms	99%	1%	0%	100%
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$ (000's)	26%	74%	0%	100%

Source: 2010 US Census data; Loan sample.

Geographic Distribution of Loans

A geographic distribution analysis is not meaningful, as the bank’s AA does not contain any low- or moderate-income census tracts.

Responses to Complaints

The bank did not receive any CRA-related complaints during this evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB's collective performance under the CD test is adequate.

Banking Access

FNB offers various products and services for no fee. In addition, access to the bank's products and services are offered through various channels.

Free services include an automated telephone banking system, internet banking, electronic bank statements, mobile banking, and remote deposit capture. Providing banking services free of charge and through various channels allows greater access to financial services and products to low- and moderate-income individuals.

Number and Amount of Community Development Loans

FNB's responsiveness to lending in the AA is adequate. Community Development lending for affordable housing totaled 6 loans, or \$4 million, and created over 120 affordable housing units in the assessment area. Affordable housing is an identified need according to the community contact. The contact stated that numerous units of affordable housing had been destroyed by floods in previous years. Community development lending for FNB totaled 13 loans or \$5.8 million.

Number and Amount of Qualified Investments

FNB's responsiveness to provide qualified investments in the AA is adequate. Major investments include low-income housing tax credits used to create affordable housing for low- to moderate-income individuals. Other investments include local market donations to organizations that provide support services to low- and moderate-income individuals such as the Waverly United Way, Larrabee Center, Inc. and Big Brothers/Big Sisters. Community development investments for the bank total \$293 thousand, with a total of 133 donations and investments.

Extent to Which the Bank Provides Community Development Services

FNB's responsiveness to provide CD services in the AA is adequate. Associate services were responsive to community needs by providing services such as accessing grants through the Federal Home Loan Bank's Homeownership Fund Program that allows funds to be used for down payment assistance. These services were considered more impactful because affordable housing was identified as a major community need in the bank's assessment area. Other services include serving on the boards of the Larrabee Center, Inc., Waverly Area Small Business Incubator & Consulting, and Big Brothers/Big Sisters. A total of 17 services were qualified meeting community development during the examination period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c), or 12 CFR § 195.28(c), in determining a 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 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.