



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**April 16, 2007**

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

**First National Bank in Fairfield  
Charter Number 13991**

**100 East Burlington Avenue  
Fairfield, IA 52556**

**Comptroller of the Currency  
North Central Illinois & Eastern Iowa Field Office  
111 West Washington Street, Suite 300  
East Peoria, IL 61611**

**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**

**First National Bank in Fairfield (FNB) is rated satisfactory.**

- FNB's distribution of loans to businesses and farms of different sizes is satisfactory.
- A substantial majority of the loans originated by FNB are to customers from within its assessment area (AA).
- FNB's quarterly average loan-to-deposit ratio of ninety percent over the evaluation period is reasonable, given the bank's size, financial condition, and AA credit needs.

## **SCOPE OF EXAMINATION**

This Performance Evaluation assesses First National Bank in Fairfield's record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Small Bank performance criterion, which includes a lending test. The lending test evaluates a bank's record of helping to meet the credit needs of its assessment area through its lending activities.

- The evaluation period covers loans originated or purchased from November 18, 2002 through March 31, 2007.
- FNB has one assessment area, generating a majority of the bank's loans and deposits. The lending test is based on FNB's primary loan products.
- Conclusions regarding the bank's lending performance are based on commercial and agriculture loans originated or purchased from January 1, 2005 through March 31, 2007, utilizing 2000 census data.
- FNB does not maintain revenue information on commercial and agriculture loan customers outside of the individual credit files. Thus, a sample of 22 commercial loan customers and 22 agricultural loan customers with loans originated during the evaluation period was used in accessing the level of lending to commercial and agriculture borrowers of different sizes.

## **DESCRIPTION OF INSTITUTION**

FNB is a \$111 million financial institution located in Fairfield, Iowa, on U.S. Highway 34 in Jefferson County, Iowa. The main office location is at 100 East Burlington Avenue, Fairfield, IA. The bank has one branch location at 1900 West Burlington Avenue, Fairfield, IA. Both of those locations are full-service offices equipped with drive-up facilities and an Automated Teller Machine (ATM). FNB has two additional ATMs located in the Hy-Vee Food Stores, Inc. at

2000 West Burlington Avenue, Fairfield, IA and Batavia Gardens Conoco at 100 1<sup>st</sup> Street, Batavia, IA.

Customers may also access their accounts through telephone banking or by the Internet. Internet and telephone banking services include transfers between FNB accounts, review of account balances or transactions, access loan account information, and bill-paying capability for the Internet banking product. The bank also offers debit cards providing customers with additional access to their accounts at point of sale or ATM locations.

Since the previous CRA evaluation, FNB has not opened or closed any branch locations.

The bank is a wholly owned subsidiary of Iowa First Bancshares Corporation, a two-bank holding company headquartered in Muscatine, Iowa. As of December 31, 2006, the holding company had total assets of \$394 million. The holding company also owns First National Bank of Muscatine in Muscatine, Iowa. In addition, the holding company has one statutory business trust that is an unconsolidated subsidiary. The bank’s affiliates do not negatively impact the FNB's ability to meet the credit needs of the community.

FNB’s business strategy is “a commitment to putting their customers FIRST as it provides financial services to the Fairfield community.”

FNB has two primary lending products: commercial and agriculture loans. These two lending categories account for 84 percent of all loan originations during the evaluation period and make up 72 percent of the outstanding loan balances as of December 31, 2006. Thus, these two lending products were used for the analysis of this evaluation. Residential real estate and consumer lending are not primary loan products, accounting for 16 percent of all loan originations during the evaluation period and the remaining 28 percent of the outstanding loan balances as of December 31, 2006.

<b>Table 1 – Loan Originations by Loan Type from January 1, 2005 through January 31, 2007</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Loans	\$ 61,176	60%
Agricultural Loans	\$ 24,243	24%
Residential Loans	\$ 9,863	10%
Consumer Loans	\$ 6,566	6%
<b>Total Originations</b>	<b>\$ 101,848</b>	<b>100%</b>

*Source: Bank Records from January 1, 2005 – January 31, 2007*

As of December 31, 2006, the bank reported \$72 million in outstanding loans and had a net loans

and leases to total assets ratio of 63 percent. The loan portfolio consists of the following:

<b>Table 2 – Loan Portfolio Summary by Loan Type December 31, 2006</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Commercial Loans	\$ 34,843	49%
Residential Loans	\$ 16,574	23%
Agricultural Loans	\$ 16,013	22%
Consumer Loans	\$ 4,055	6%
<b>Total Loans</b>	<b>\$ 71,485</b>	<b>100%</b>

*Source: Call Report December 31, 2006*

There are no financial conditions, legal constraints or other factors that would hinder the bank's ability in helping to meet the credit needs of the communities within its assessment area. Tier 1 capital was reported at \$9 million as December 31, 2006. The bank's previous CRA rating as of November 18, 2002 was Satisfactory.

## **DESCRIPTION OF THE ASSESSMENT AREA**

FNB's Assessment Area (AA) meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas. FNB has one AA, no change from the prior evaluation, consisting of Jefferson County in Iowa, a non- Metropolitan Statistical Area. There are four census tracts (CT), all designated as middle-income.

Competition for financial services within the AA remains strong. There are three banks and one credit union within the city of Fairfield and several other smaller banks in Jefferson County that compete for agriculture customers.

The following is demographic information for the assessment area:

<b>Table 3 - Demographic Information for the Assessment Area</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>
Geographies (Census Tracts)	4	0%	0%	100%	0%
Population by Geography	16,181	0%	0%	100%	0%
Owner-Occupied Housing by Geography	4,479	0%	0%	100%	0%
Businesses by Geography	2,113	0%	0%	100%	0%
Farms by Geography	256	0%	0%	100%	0%
Family Distribution by Census Tract	4,306	0%	0%	100%	0%
Family Distribution by Income Level	4,306	18%	20%	21%	41%

Distribution of Low- and Moderate-Income Families throughout the AA	4,306	0%	0%	100%	0%
Median Family Income	\$44,382	Median Housing Value			\$75,652
2006 HUD Adjusted Median Family Income for the IA Non-MSA	\$52,800	Median Year Built			1958
Families Below the Poverty Level	7%	Average Monthly Gross Rent			\$ 430

Source: 2000 U.S. Census Data

### **Economic Data**

The local economy is considered stable. The March 2007 Jefferson County unemployment rate of 4.1% compares favorably to the 4.4% national average and compares reasonably to the 3.2% State of Iowa average rate. The economy of the AA is concentrated in agriculture, manufacturing, and education industries. Major employers include; Cambridge Investment Research Inc., Dexter Company, Harper Brush Works Inc., Jefferson County Hospital, Maharishi University, the local school districts, and city, county, and state governmental entities.

We contacted a City of Fairfield official during the examination. The official indicated the primary credit needs in the assessment area are agriculture, commercial, small business, residential, car, and general consumer loans. He felt FNB and other local financial institutions were actively meeting the credit needs of the area. The contact stated the economy in the assessment area continues to experience stabilized growth with the support of Maharishi University. The contact indicated that three area banks, including FNB, are actively involved with the economic development organizations in the area and remain very supportive of community redevelopment efforts. The contact indicated there are not any credit needs or banking services not met or provided for by the local financial institutions.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

FNB meets the standards for satisfactory performance.

- The distribution of loans to businesses and farms of different sizes is satisfactory.
- A substantial majority of the loans originated by FNB are to customers from within its AA.
- FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs.

### **LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES**

The distribution of loans reflects a reasonable penetration among businesses and farms of different sizes.

## Commercial Loans

FNB's performance of lending to businesses of different sizes is reasonable. Based on our sample, ninety-three percent of the loans were made to small businesses, while thirty-nine percent of the dollar amounts were loans made to small businesses. Small businesses are businesses with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows that sixty-four percent of the businesses reporting revenue data in the AA have revenues equal to or less than one million dollars.

The following table shows the distribution of commercial loans among businesses of different sizes within the AA:

<b>Table 4 – Borrower Distribution of Loans to Businesses of Different Sizes</b>					
Business Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	202	93%	64%	\$2,953	39%
>\$1,000,000	15	7%	4%	\$4,670	61%
Total	217	100%	68%	\$7,623	100%

Source: Bank records on new loans originated from January 1, 2005 to March 31, 2007; 2000 Census Data.

\*\* 32 percent of AA businesses did not report revenue data.

## Agriculture Loans

FNB's performance of lending to farm related businesses of different sizes is reasonable. Based on our sample, ninety-four percent of the loans were made to small farms, while seventy-seven percent of the dollar amounts were loans made to small farms. Small farms are farms with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows that ninety-nine percent of the farms reporting revenue data in the AA have revenues equal to or less than one million dollars.

The following table shows the distribution of agriculture loans among businesses of different sizes within the AA:

<b>Table 5 – Borrower Distribution of Loans to Farms of Different Sizes</b>					
Farm Revenues	Number of Loans		% Businesses in AA**	Dollars of Loans	
	#	%		\$(000)	%
≤\$1,000,000	154	94%	99%	\$ 6,375	77%
>\$1,000,000	10	6%	1%	\$ 1,867	23%
Total	164	100%	100%	\$ 8,242	100%

Source: Bank records on new loans originated from January 1, 2005 to March 31, 2007; 2000 Census Data.

## LENDING IN THE ASSESSMENT AREA

A majority of the loans originated by FNB are to customers within its AA. FNB's lending to customers within the AA for all loan types is reasonable. The following table details the bank's lending within the AA by number of loan originations and dollar volume during the evaluation period.

<b>Table 6 – Loans Originated within the Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Commercial	217	96%	8	4%	225	\$ 7,623	93%	\$ 552	7%	\$ 8,175
Agriculture	164	85%	30	15%	194	\$ 8,242	70%	\$ 3,636	30%	\$ 11,878
Totals	381	91%	38	9%	419	\$ 15,865	80%	\$ 4,188	20%	\$ 20,053

Source: Bank records on new loans originated in 2005, 2006, and through March 31, 2007.

## LOAN-TO-DEPOSIT RATIO

FNB's average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. FNB's quarterly average loan-to-deposit ratio for the period November 18, 2001, to December 31, 2006, was ninety percent. The quarterly average loan-to-deposit ratio for other similarly situated financial institutions over the same time period ranged from eighty-four percent to eighty-eight percent. FNB's average loan-to-deposit ratio is comparable with the other two similarly situated banks, which range in asset size from \$101 million to \$133 million. The similarly situated banks utilized for comparison purposes are community banks located within the AA counties.

## GEOGRAPHIC DISTRIBUTION OF LOANS

A geographic distribution of loans was not performed at this examination. All the geographies are middle-income, thus, the analysis would not be meaningful.

## RESPONSES TO COMPLAINTS

FNB has not received any complaints about its performance in helping to meet the credit needs within its AA during this 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.