



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**June 11, 2007**

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

**First National Bank Midwest  
Charter Number 24267**

**302 South Market Street  
Oskaloosa, IA 52577**

**Comptroller of the Currency  
Omaha Field Office  
13710 FNB Parkway, Suite 110  
Omaha, NE 68154**

**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). The bank's primary lending activities are agricultural loans and commercial real estate loans.

- A majority of the bank's loans are within its AAs.
- The bank's lending efforts result in reasonable penetration of farms and businesses of different sizes, and borrowers of different income levels.

## **DESCRIPTION OF INSTITUTION**

FNB is a \$151 million bank located in southeast Iowa. The bank has a presence in the Iowa counties of Dallas, Keokuk, Madison, Mehaska, Polk, and Warren. The bank operates out of its main branch in Oskaloosa, Iowa and from its Iowa branch locations in West Des Moines, What Cheer, and Ankeny. FNB opened the West Des Moines branch on May 5, 2005 and its Ankeny branch on February 1, 2006. 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.

FNB converted from a state charter to a national charter in January 2002. IT & S, Inc., a one-bank holding company located in Oskaloosa, owns one-hundred percent of FNB. As of March 31, 2006, the holding company had total assets of \$151 million. There are no legal or financial barriers limiting the bank's ability to meet community credit needs.

As of March 31, 2006, FNB's loan portfolio accounted for 83% of total assets. The bank's primary credit products are agricultural loans and commercial real estate loans. Bank management has developed a niche for commercial real estate financing since the previous Community Reinvestment Act (CRA) examination, primarily due to its penetration of the West Des Moines market. This concentration in commercial real estate lending is the main driver behind the bank's growing loan portfolio. FNB's loan portfolio increased from \$69 million at the last CRA examination to \$122 million at March 31, 2007. The following table breaks down loan originations by outstanding dollars and number of loans originated from April 16, 2002 to April 30, 2007.

<b>Loan Originations</b>				
<b>Loan Product</b>	<b>Number Originated</b>	<b>By Number</b>	<b>Dollars Originated</b>	<b>By Dollar</b>
Commercial R/E Loans	314	13.08%	\$83,723,710	39.85%
Aircraft Loans	327	13.63%	\$51,543,228	24.53%
Real Estate Loans	286	11.92%	\$27,148,896	12.92%
Agricultural Loans	528	22.00%	\$22,264,314	10.60%
Commercial Loans	572	23.83%	\$18,838,446	8.97%
Consumer Loans	368	15.33%	\$3,586,265	1.70%
Other Loans	5	0.21%	\$3,017,100	1.43%
<b>TOTALS</b>	<b>2,400</b>	<b>100%</b>	<b>\$210,121,959</b>	<b>100%</b>

As noted in the table above, management has also developed a niche for aircraft lending. The aircraft loans are made to commercial and individual borrowers from all over the United States, rather than solely from the bank's AAs. Additionally, this niche is concentrated at the Oskaloosa branch of FNB. The West Des Moines, What Cheer, and Ankeny branches do not make aircraft loans, which is why aircraft lending is not considered a primary product of the bank.

Although agricultural and commercial real estate loans were identified as the FNB's primary products, examiners found limited agricultural lending in the West Des Moines AA. Additional analysis was completed to identify any additional primary products in the West Des Moines AA. The analysis identified Commercial Real Estate loans dominate the West Des Moines AA. By number, 58% of the loans, and by dollar 85% of the loans originated in the West Des Moines AA were for commercial real estate.

FNB was rated "Satisfactory Record of Meeting Community Credit Needs" at the previous CRA examination dated April 16, 2002.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNB has two AAs. The AAs consist of census tracts located in the Dallas, Keokuk, Madison, Mehaska, Polk, and Warren counties of 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.

The Oskaloosa AA includes the entire counties of Keokuk and Mahaska. Twenty-six towns are located in these two counties; including the towns of Oskaloosa and What Cheer, where FNB has branches. According to the 2000 United States Census, the population of the Oskaloosa AA is 33,735. All eleven tracts in the Oskaloosa AA are middle income. The 2006 weighted average updated median family income is \$43,054 for the Oskaloosa AA. The median household income in the Oskaloosa AA is \$36,497. Sixty-eight percent of housing in the Oskaloosa AA is owner-occupied. The weighted average median housing cost for the Oskaloosa AA is \$64,196.

Oskaloosa, Iowa is the largest city in the Oskaloosa AA with a population of 10,938 (according to the 2000 United States Census). The local economy is comprised of retail, industrial, and agricultural sectors. The area's largest employers include Cargill, CLOW Corporation, Oskaloosa Community Schools, Mahaska Health Partnership, and Pepsi-Cola Bottling. There are two four-year colleges located in Oskaloosa.

The primary competition within the Oskaloosa AA includes four state banks and one national bank with total deposits between \$41 million and \$212 million. Additionally, a large regional savings bank operates a branch in an Oskaloosa grocery store.

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 the towns of Ankeny, West Des Moines, Des Moines, Altoona, Urbandale, Clive, Norwalk, and many others. According to the 2006 Business Geodemographic Data, the population of the West Des Moines AA is 412,213. The West Des Moines AA contains eighty-seven tracts. Seven percent of the tracts are low income, 23% are moderate income, 49% are middle income, and 21% are upper income. The 2006 weighted average median family income is \$59,425 for the West Des Moines AA. The median household income in the West Des Moines 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 West Des Moines AA is \$106,618.

Des Moines, Iowa is the largest city in the West Des Moines AA with a population of 196,917 (according to the 2000 United States Census). The local economy is comprised of the financial services, retail, and industrial sectors. The area's largest employers are Principal Life Insurance, Wells Fargo Bank, Iowa Health, Mercy Medical Centers, MidAmerica Energy Company, Nationwide Insurance Company, and Pioneer Hi-Bred International. There are two four-year colleges located in Des Moines.

Competition in the West Des Moines AA is stiff. The West Des Moines area is home to a number of banks. While some of these are locally chartered, 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 that the West Des Moines area is booming right now. Economic conditions are very positive as new retail businesses in the Jordan Creek area continue to enter the market. Retail businesses attract additional service businesses and restaurants in the area. The contact noted that residential construction and commercial loans are the area's primary credit needs. FNB offers and originates these types of loans.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB meets the standards for the loan-to-deposit ratio. FNB's average loan-to-deposit ratio is reasonable given the institution's size, financial condition, and the credit needs of both AAs. FNB's ratio averaged 99.2% over the past eighteen quarters and was 94.7% at March 31, 2007. The eighteen-quarter average for banks with similar products and services ranged from 94.8% to 110.4%, with an average of 105.4%.

### Lending in Assessment Areas

FNB meets the standards for lending within their AAs. FNB originates a majority of its loans within both of the AAs. We reviewed a random sample of twenty primary product loans to determine the bank's lending performance within the AAs. The bank's primary products were identified as agricultural and commercial real estate loans. The majority were made within the AA, 75% by number and 59% by dollar. The following table shows the findings of our sample:

Lending in FNB Midwest Assessment Areas										
	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Total	15	75%	5	25%	20	1,208,116	59%	832,815	41%	2,040,931

*Source: Loan sample and 2006 Business Geodemographic Data*

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

FNB meets the standards for lending to borrowers of different income levels and businesses of different sizes. The volume of lending to businesses and farms of different sizes is good. The sample included twenty agricultural loans from the Oskaloosa AA, twenty commercial real estate loans from the Oskaloosa AA, and twenty commercial real estate loans from the West Des Moines AA.

The sample did not include agricultural loans in the West Des Moines AA. Agricultural loans are not a primary product in the West Des Moines AA; therefore specific analysis of borrower distribution is not meaningful.

The bank's lending to farms of different sizes is excellent. The agricultural loan sample noted 100% of the number and dollar amount of loans granted in the Oskaloosa AA were to farms with revenues less than one million dollars. The demographic information shows 98% of the AA farms have revenues of less than one million dollars.

<b>Borrower Distribution of Loans to Farms in Oskaloosa AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	98%	2%	0%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

*Source: Loan sample and 2006 Business Geodemographic Data*

The volume of lending to businesses of different sizes in the Oskaloosa AA is good. The commercial real estate loan sample had 95% by number, and 98% by dollar of loans granted in the AA, to businesses with revenues less than one million dollars. The AA demographics show 55% of the businesses have gross annual revenues of less than one million dollars.

<b>Borrower Distribution of Loans to Businesses in Oskaloosa AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	55%	4%	41%	100%
% of Bank Loans in AA by #	95%	0%	5%	100%
% of Bank Loans in AA by \$	98%	0%	2%	100%

*Source: Loan sample and 2006 Business Geodemographic Data*

Lending to businesses of different sizes in the West Des Moines AA is adequate. This sample had 100% of the number and 100% of the dollar amount of loans granted in the AA to businesses with revenues less than one million dollars. The business AA demographics show that 61% of the businesses have revenues less than one million, and 33% of the businesses have unknown or unavailable revenues. The bank had 0% by number and 0% by dollar amount of loans with unknown or unavailable revenues.

<b>Borrower Distribution of Loans to Businesses in West Des Moines AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	61%	6%	33%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

*Source: Loan sample and 2006 Business Geodemographic Data*

## Geographic Distribution of Loans

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

FNB meets the standards for geographical distribution of loans in the West Des Moines AA. The geographic distribution indicates the branches are servicing the portion of the AA nearest to the branch offices. The West Des Moines AA, as defined by the bank, is much larger than can be serviced by the location of the bank's offices. After entering into the Des Moines market, FNB is now more familiar with the Des Moines area and bank management is considering realigning the AA to better represent the MSA areas they service.

FNB opened the West Des Moines branch in May 2005 and the Ankeny branch in February 2006, so the branches located in the West Des Moines AA have been open for less than half of the assessment period. Other financial institutions in the Des Moines MSA are servicing the credit needs of the community not serviced by FNB branch locations. The West Des Moines and Ankeny branches are heavily concentrated in Commercial Real Estate lending, and the majority of the credit needs are for commercial borrowers. As indicated in the chart below, 78% of the businesses are located with the middle and upper tracts.

Geographic Distribution of Loans to Businesses in West Des Moines AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial RE	13%	0%	10%	0%	47%	70%	31%	30%

*Source: Loan sample and 2006 Business Geodemographic 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

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