



Public Disclosure

November 15, 1999

Community Reinvestment Act Performance Evaluation

**The First National Bank of Primghar
Charter Number 4155**

**180 South Hayes
Post Office Box 68
Primghar, Iowa 51245**

**Office of the Comptroller of the Currency
Omaha North Field Office
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Note: 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.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The First National Bank of Primghar**, Primghar, Iowa prepared by The Office of the Comptroller of the Currency, as of November 15, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated Needs to Improve.

- The bank's lending level needs to improve, given the institution's size, financial condition, and assessment area credit needs.
- A significant majority of the bank's loans are within the bank's assessment area.
- The bank is lending to individuals of different income levels and does an effective job of lending to farms of different sizes.
- The bank has no written complaints related to its CRA performance.
- The bank is in compliance with fair lending laws and regulations.

Description of Institution

The First National Bank of Primghar (FNB) is a \$20 million bank located in O'Brien County in northwest Iowa. The bank has one main location in Primghar, Iowa, with no branches or automated teller machines. The bank has no legal or financial impediments limiting its ability to meet the credit needs of the assessment area.

On September 30, 1999, the bank's loan portfolio was 33.3% of total assets. The bank's primary loan product is agricultural loans. Consumer, residential, and commercial loans are a much smaller part of the bank's loan portfolio. Our conclusions are based on an analysis of the bank's agricultural lending and its primary consumer products, installment and residential lending. The table below details the percentages of the portfolio by dollar volume and number of loans.

Loan Portfolio Mix				
(Loans outstanding as of 9/30/99)				
Loan Type	Loans by \$ (\$000)	% of Loans by \$	Loans by Number	% Loans by Number
Agriculture	\$4,680	68%	177	51%
Residential RE	\$858	13%	21	6%
Commercial	\$506	7%	23	7%
Consumer	\$801	12%	125	36%
Other	\$6	0%	1	%
Total	\$6,851	100%	347	100%

The First National Bank of Primghar was rated "Needs to Improve Record of Meeting Community Credit Needs" at the last CRA examination dated September 12, 1996.

Description of The First National Bank of Primghar's Assessment Area

FNB's assessment area (AA) meets the requirements of CRA. The AA includes Block Numbering Areas (BNAs) 9901, 9902, and 9904 in O'Brien County Iowa. The population of the AA is 10,471. The AA is primarily agricultural. Most farms in the AA are small or moderate in size. The AA has eleven small communities, with Primghar being the fourth largest community in the AA.

The median family income of the area is \$26,448, or 62.8% of the 1999 Iowa statewide non-metropolitan median family income of \$42,100. The income from the 1990 U.S. Census is used to determine the income level of each BNA or census tract (low, moderate, middle, or upper). The 1990 U.S. Census indicates the statewide median family income was \$29,303. All the BNAs in the AA are middle income tracts. Family incomes in the area are: 17.66% low-income; 24.40% moderate-income; 26.19% middle-income; and 31.74% upper-income. The local economy is stable, but poor agricultural prices could negatively impact the area in the long term. Agriculture, a hospital, the local school district, and county government services provide the main sources of employment for the AA.

The banking environment in the AA is competitive. Seven banks are located within the bank's AA. Also, Farm Credit Services has an office located in Sheldon, Iowa. First Federal Savings Bank of Siouxland has three branches in the area. These banks, along with other institutions located outside the AA, provide competition for loans and deposits. The primary credit need in the AA is agriculture loans. Secondary credit needs are residential real estate and small business loans. We determined the credit needs of the AA through community contacts. We contacted a member of the Primghar Advancement Corporation and the Primghar City Council during the examination and used a previous contact made during a CRA review at another local institution.

Conclusions with Respect to Performance Criteria

The bank's lending level needs to improve.

FNB's loan-to-deposit ratio is improving, but remains below the satisfactory standard, given the institution's size, financial condition, and AA credit needs. The bank's loan-to-deposit ratio averaged 40.47% over the past twelve quarters compared to 33% for the prior evaluation period. The bank's loan-to-deposit ratio was 43.07% on June 30, 1999. This compares to the twelve-quarter average of 74.26% for the other six community banks in the area. The loan-to-deposit ratios for other banks in the AA range from 57.8% to 82.5% for the last twelve quarters.

The bank has historically been a conservative lender which has resulted in a low loan-to-deposit ratio. However, FNB has improved its lending levels. The bank's volume and total number of loans has increased in all lending products since the September 1996 evaluation. As of September 30, 1999, the total number of bank loans is up 15% from the last evaluation. The bank's total loan volume is up 19.5% over the same time frame. The number of commercial and real estate loans are up 50% and

3%, respectively. The volume of agricultural and consumer loans are up 24% and 33% since the last evaluation.

Members of the community contacted by examiners stated the bank has historically been a conservative lender. However, the bank is becoming more active. Contacts cited the bank’s involvement with the Primghar Advancement Corporation as an example.

The bank is lending in the Assessment Area.

FNB originates a substantial majority of its loans within the AA. The table below summarizes the degree of the bank’s lending within its AA.

In/ Out Ratio for Loan Sample				
	Number of Loans	% of Total Number	\$ of Loans (\$000)	% of Total \$
Inside Assessment Area	46	92%	\$1,162	86%
Outside Assessment Area	4	8%	\$188	14%
Total	50	100%	\$1,350	100%

FNB originates a substantial majority of its loans inside the AA. Of the 30 agricultural and 20 personal loans we sampled, 92% of the number of loans, and 86% of the dollar volume, were inside the AA.

The bank does an effective job of lending to farms of different sizes.

The table below demonstrates the bank's willingness to make loans to farms of all sizes. Over 53% of the loans we sampled were to small and moderate sized farmers. The bank's lending performance was compared to the 1997 Agricultural Census Data prepared by the U.S. Bureau of the Census. The census data shows 49% of farms in O'Brien County had sales between \$0 and \$100,000 and 30% had sales from \$100,000 to \$250,000.

Sample of Loans to Farms of Different Sizes					
Gross Revenue of Farms H	\$ of Loans (\$000)	% of Total \$ Loans	Number of Loans	% of Total Number	% of Farms in Area**
\$0 - \$100,000	\$204	18%	8	27%	49%
\$100,001 - \$250,000	\$404	35%	9	30%	30%
\$250,001-\$500,000	\$72	6%	4	13%	14%
over \$500,000	\$0	0%	0	0%	7%
Not Available(*)	\$462	41%	9	30%	0%
Total	\$1,142	100%	30	100%	95%

H Revenue information was taken from the last tax return or cash flow in the credit file.

* No information available in the credit file.

** Information is from the 1997 U.S. Agriculture Census for O'Brien County.

The bank is using government-sponsored programs to provide interest rate assistance to some moderate sized farms. The bank originated four Lift Traditional Livestock Loans for \$83,000 during the evaluation period.

The bank is lending to individuals of different income levels.

FNB is making residential loans to low- and moderate-income families. The following table shows the results of our sample and compares the bank's lending to 1990 census data. Our sample indicated that FNB originated 10% of its residential loans by number to low-income families. This is below the 17.7% of low-income families in the AA, but is reasonable. The bank also originated 10% by number to moderate-income families. This is below the 24.4% of moderate-income families in the AA.

As the bank does not always collect income data on consumer installment loans, loan size was used as a proxy to determine if the bank is lending to consumer borrowers of different income levels. The assumption is small loans are more likely to be made to low- and moderate-income individuals. As of September 30, 1999, the bank's records show 51% of all current consumer loans were under \$5,000 when originated.

Sample of Residential Lending by Borrower Income					
Family Income Category	\$ of Loans	% of Loans by \$	Number of Loans	% of Loans By Number	Families in Assessment Area (%)
Low-Income	\$33,500	11%	1	10%	18%
Moderate-Income	\$12,500	4%	1	10%	24%
Middle-Income	\$72,800	25%	3	30%	26%
Upper-Income	\$95,082	32%	4	40%	32%
Not Available	\$83,000	28%	1	10%	0%
Total	\$296,882	100%	10	100%	100%

Geographic distribution of loans.

A geographic distribution of loans was not performed since all the BNAs in the AA are middle-income.

Response to Complaints

FNB received no written complaints relating to CRA performance during the evaluation period.

We did not detect violations of any substantive provisions of anti-discrimination laws or the disparate treatment of applicants during our fair lending examination. FNB has satisfactory fair lending policies, procedures, and training programs in place.