



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 8, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of West Union
Charter Number 13978**

**115 North Vine Street
West Union, IA 52175**

**Comptroller of the Currency
Minneapolis South Field Office
920 Second Avenue South Suite 800
Minneapolis, MN 55402**

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.

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INSTITUTION'S CRA RATING

This institution is rated Outstanding.

- Average loan-to-deposit ratio is reasonable.
- A substantial majority of loans are in the bank's assessment area.
- First National Bank of West Union has an excellent distribution of credit among consumers of different income levels and a reasonable distribution of credit among farms of different sizes.

DESCRIPTION OF INSTITUTION

First National Bank of West Union (FNB) is an \$85 million institution located in West Union, Iowa, a city of 2,549 people. West Union is the Fayette County seat and is located in the northeast portion of the state. The bank offers a full line of commercial and retail services at the main office located in West Union, a partial line of services at a branch location in St. Lucas, Iowa, and basic deposit/withdrawal services at a drive-in facility located in West Union. Deposit taking ATM services are available at the main office and a local grocery store. The main office and branch facilities are located in middle-income areas. The bank is owned by a one-bank holding company, FNB Banshares, Inc. There have been no mergers or acquisitions and the bank has not opened or closed any offices since the last CRA exam. The bank does not have any affiliate relationships that impact the bank's CRA performance.

FNB offers a wide range of loan products well suited to community credit needs. The bank's primary lending focus is agriculture and residential real estate loans. As of December 31, 2002, net loans made up 62.52% of total assets. The loan portfolio consisted of 37% agriculture loans, 34% residential real estate loans, 20% commercial loans, and 9% consumer loans based on outstanding dollars.

There are no financial, legal or other factors that impede FNB's ability to meet its CRA obligations. The bank's last CRA rating was "Satisfactory" dated November 30, 1998.

DESCRIPTION OF ASSESSMENT AREA

First National Bank's assessment area consists of four Block Numbering Areas (BNAs) in northern and southeastern Fayette County and the two southernmost BNAs of Winneshiek County (BNA numbers 9504, 9505, 9801, 9802, 9806 and 9807.) The bank's assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Key demographic information for this assessment area, using 1990 census data, indicates that all of the BNAs in the bank's assessment area are middle-income. Based on 1990 census information, 19% of the families within the bank's assessment area are low-income, 22% moderate-income, 26% middle-income and 33% upper-income. The 1990 census non-

metropolitan areas of Iowa median family income was \$29,303. Based on the Department of Housing and Urban Development's 2002 estimate, the updated median family income is \$49,400 for non-metropolitan areas in the State of Iowa.

The 2000 census information pursuant to the US Census Bureau indicates the population of Fayette and Winneshiek counties to be 43,318. This same census also indicated that the homeownership rate in 2000 was 75.7% in Fayette County and 73.5% in Winneshiek County. The median value of owner-occupied housing units that same year was \$58,300 in Fayette County and \$86,000 in Winneshiek County.

The economy of the assessment area is dependent on agriculture and agricultural-related services. Dairy, corn and soybeans are the primary agricultural products. The assessment area's economy also relies on hogs and cattle.

Major employers in the assessment area include Dura Automotive, Land's End, Signoid, and H & H Distributing. Unemployment levels are near 3% in Fayette and Winneshiek counties as of the 2002 Census. The 1990 census data indicated the percentage of households below the poverty level for FNB's assessment area is 13%. Based on 1999 information from the U.S. Bureau of the Census, 9.1% of the persons living in the State of Iowa are below the poverty level. That compares to 10.8% in Fayette County and 8.0% in Winneshiek County for the same year.

There are sixteen financial institutions with a presence in Fayette and Winneshiek counties. These institutions range in size from approximately \$19 million to \$34 billion in total assets as of December 31, 2002. Pursuant to 2002 Deposit Data provided by the Federal Deposit Insurance Corporation, FNB is ranked third in deposit share within the two counties with 10.51% of the deposits.

Examiners contacted members of a federally funded farmers assistance agency during the exam. The community contacts revealed that agricultural lending is a primary credit need in the community. FNB offers and originates this type of loan and works well with the farmers assistance agency to offer credit to farmers who may not otherwise qualify under standard underwriting terms.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition and local credit needs. The bank's quarterly average loan-to-deposit ratio for the 17 quarters since the previous CRA exam is 75.10%. Similarly situated banks have quarterly average loan-to-deposit ratios ranging from 64.54% to 94.07% over the same time frame. Similarly situated banks include the banks with a presence in Fayette and Winneshiek counties with total assets between \$35MM and \$100MM million as of December 31, 2002.

Loan to Deposit Ratio		
Institution	Assets (as of 12/31/02)	Average Loan-to-Deposit Ratio 4Q98 – 4Q02
FIRST NATIONAL BANK, Oelwein, IA	\$86MM	64.54
MAYNARD SAVINGS BANK, Maynard, IA	\$39MM	64.21
FIRST NATIONAL BANK OF WEST UNION, IA	\$85MM	75.10
FARMERS SAVINGS BANK, West Union, IA	\$51MM	81.66
COMMUNITY BANK OF OELWIEN, IA	\$42MM	92.55
VIKING STATE BANK & TRUST, Decorah, IA	\$49MM	94.07

Our community contacts indicated that the bank is meeting the credit needs in the community. Other factors to consider when reviewing the loan to deposit ratio is the loan demand in the community. Several of the large businesses in the area have financing through banks located near their corporate headquarters. Other local businesses are well established and have less credit needs.

Lending in Assessment Area

Based on a sample of 20 agriculture and 20 residential real estate loans, FNB originates a substantial majority of its loans to borrowers located within its defined assessment area. On a consolidated basis, the sample determined that of loans originated from November 30, 1998 through December 31, 2002, 92.50% by number and 90.79% by dollar volume were made to borrowers located within the bank's assessment area. The following table shows loans originated inside the assessment area by number and dollar volume based on loan type.

Lending in Assessment Area by Number and Dollar Amount								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
1-4 Family	19	95.00%	1,131	96.17%	1	5.00%	45	3.83%
Farm	18	90.00%	1,727	87.58%	2	10.00%	245	12.42%

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

FNB has an excellent distribution of credit among real estate borrowers of different income levels. The following table compares the actual percentage of families based on income level located within the assessment area to loans made by the bank from the selected loan sample of 20 residential real estate loans, excluding one loan where no income information was available. The sample indicated that 31.58% of the loans were made to moderate-income families. This compares favorably to the 21.56% of families in the area in the moderate-income level. The sample also indicated that 10.53% of loans were made to low-income families. While this is less than the 19.18% in the assessment, this is still a reasonable percentage considering that 8.91% of the families in the assessment area are below poverty level. People living below the poverty level are less likely to qualify for home loans under standard underwriting criteria or to afford the purchase price of a home in a middle-income geography, such as this assessment area. The bank has recently started participating in a state funded program for first-time homebuyers. This program offers state assistance for low-income families to help them be able to afford homes.

Lending Distribution Based on Income Level of Real Estate Borrowers			
Borrower Income Level (per 2002 HUD Estimated Median Family Income for non-metro areas of MN)	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentage of Families in each Income Category (per 1990 Census Information)
Low (\$0 - \$24,699)	10.53%	4.12%	19.18%
Moderate (\$24,700 - \$39,519)	31.58%	22.87%	21.56%
Middle (\$39,520 - \$59,279)	36.84%	40.78%	25.75%
Upper (\$59,280 and over)	21.05%	32.23%	33.51%

First National Bank has a reasonable distribution of credit among farms of different sizes. The majority of the farm loans are to borrowers with less than a million dollars in annual revenues. Our community contacts commented on the bank's willingness to work with potential borrowers and obtain federal guarantees when necessary to be able to make loans to farmers who would not otherwise qualify for a loan under standard underwriting criteria. A random sample of 20 agriculture-related files indicates the following breakdown of annual revenues as compared to the demographics for the bank's assessment area.

Lending Distribution Based on Revenue Size of Farm			
Revenue Size of Business	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar of Loans	Percentages of Businesses/Farms in Each Revenue Category (per 2002 Business Demographic Data)*
Farm < 1 million in annual sales	94.44%	96.92%	98.47%
Farm > 1 million in annual sales	5.56%	3.08%	1.29%

*.24% of farms did not report revenues

Geographic Distribution of Loans

The geographic distribution of loans does not provide a meaningful analysis as none of the BNAs in the bank's assessment area are defined as low or moderate-income BNAs.

Responses to Complaints

FNB has not received any complaints about its performance in helping meet assessment area credit needs during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.