



## **PUBLIC DISCLOSURE**

May 20, 2013

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

The First National Bank of Manning  
Charter Number 3455

401 Main Street  
Manning, Iowa 51455

Office of the Comptroller of the Currency

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 First National Bank of Manning's (FNB) lending performance reflects a satisfactory response to the needs of its assessment area (AA). This conclusion is based on the following results of our review:

- FNB's loan-to-deposit (LTD) ratio is reasonable given the strong liquidity positions of agricultural borrowers in the AA and the volume of loans originated by FNB and sold to other institutions;
- A substantial majority of FNB's loans are originated within its AA;
- FNB's distribution of loans among farms of different sizes reflects reasonable penetration; and
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

**SCOPE OF EXAMINATION**

We evaluated FNB using small bank examination procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test covers the bank's performance from January 1, 2012 to May 1, 2013. This period is representative of the bank's lending strategy since the previous Community Reinvestment Act (CRA) examination.

FNB's primary product is agricultural loans. The following table shows the percentage of loan originations by loan type from January 1, 2012 to May 1, 2013.

<b>Table 1: Loan Originations</b>		
<b>Loan Type</b>	<b>% by Dollar</b>	<b>% by Number</b>
Agricultural	71%	46%
Commercial	24%	21%
Residential RE	3%	3%
Consumer	3%	30%

*Source: Bank-provided loan origination reports (2012-YTD 2013).*

FNB does not maintain revenue information on agricultural loan customers outside individual credit files. To evaluate FNB's lending performance we initially selected a random sample of 30 agricultural loans originated between January 1, 2012 and May 1, 2013. We excluded two loans from the initial sample due to bank coding errors and one was excluded due to an insignificant loan amount. The final sample included 27 agricultural loans.

## **DESCRIPTION OF INSTITUTION**

FNB is an \$80 million financial institution headquartered in Manning, Iowa. The Manning location is a full-service office equipped with a drive-up facility and a deposit-taking automated teller machine (ATM). The bank has no other branches or ATMs. FNB has not opened or closed any branch locations since the previous CRA examination. Management removed two bank ATMs since the previous CRA examination. The ATM located in Casey's General Store in Manning was removed in September 2008. The ATM located in Manning's grocery store was removed in March 2013.

FNB is a wholly-owned subsidiary of Manning Financial Services, Inc. (MFS), a one bank holding company that owns no other subsidiaries and is headquartered in Manning, Iowa. As of December 31, 2012 MFS had total assets of \$13 million; \$11 million of those assets consist of FNB equity. There have been no merger or acquisition activities since the previous CRA examination.

FNB offers a full range of deposit and loan products, and services to its customers. FNB operates as a community bank and specializes in agricultural lending. As of March 31, 2013, the bank's loan portfolio totaled \$33 million, or 41 percent of total assets. The March 31, 2013 call report identifies \$6 million in agricultural loans and \$20 million in real estate loans. Agricultural real estate secures the majority of these loans. FNB also originates and services Tax Incremental Financing (TIF) loans for Iowa municipalities. The municipalities use the TIF loans to finance the construction of ethanol plants.

There are no legal or financial impediments to FNB's ability to meet the credit needs of its AA. FNB received a Satisfactory rating at its last CRA examination dated October 1, 2007.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The AA includes five contiguous census tracts (CTs) in four counties. Manning, Iowa is situated in the southwest corner of Carroll County. The AA includes two CTs in Carroll County, one CT in Shelby County, one CT in Crawford County, and one CT in Audubon County. The AA does not include all CTs in each of the four counties. It excludes CTs with larger surrounding communities due to the bank's agricultural focus. According to 2010 United States census data, the AA population is 11,855. Approximately 11 percent of AA households are below the poverty level. A map of the AA can be found in FNB's CRA public file.

Competition within the AA is significant. FNB identifies Farm Credit Services as an aggressive competitor for agricultural borrowers. Other local financial institutions do not compete directly with FNB for agricultural borrowers. Eighteen other deposit-taking

financial institutions serve the Manning AA. Ten of those institutions obtain a substantial majority of their deposits inside the AA. We excluded five of those institutions because they are headquartered in larger surrounding communities and FNB does not target borrowers in those areas. We compared FNB to the remaining five similarly situated institutions for lending test purposes.

The local economy is above average. The AA's unemployment rate is significantly below state and national averages. The AA's 2010 unemployment rate of 2.7 percent is significantly below the 6.2 percent Iowa state average and 9.3 percent national average reported by the Bureau of Labor Statistics. Agriculture drives the local economy, and the primary product at FNB is agricultural loans. Major employers in Manning include the Manning Regional Hospital, Plastico, Ltd., and AGP, a soybean processing plant.

One meeting with a community contact from a local organization was conducted. The contact indicated both institutions in Manning support local fundraisers with monetary donations and volunteers. Both financial institutions meet the credit needs of the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

FNB's performance with regards to the lending test is satisfactory. The bank's LTD ratio is reasonable given the strong liquidity positions of agricultural borrowers and loans originated and sold to other institutions. In addition, FNB originates a substantial majority of its loans inside the AA. The borrower distribution to farms of different sizes reflects reasonable penetration. We did not complete a geographic distribution because the AA does not contain low- or moderate-income CTs. FNB has not received any complaints regarding its CRA performance since the previous examination.

### **Loan-to-Deposit Ratio**

FNB's lending level is reasonable and meets the criteria for satisfactory performance, given the strong liquidity position of agricultural borrowers and the amount of loans originated and sold by FNB. FNB's LTD ratio as of March 31, 2013 was 48 percent. Over the past 22 quarters ending March 31, 2013, FNB's quarterly average LTD ratio was 58 percent. This ratio is below the quarterly average LTD ratio of five similarly situated institutions of 78 percent.

Agricultural borrowers' excess liquidity positions and loans originated by FNB and sold to other financial institutions mitigate the comparatively low LTD ratio. Since October 1, 2007, the bank's total deposits have grown \$16 million and total loans have decreased \$7 million. Increased deposits and declining loan volume have caused the bank's LTD ratio to decrease from 73 percent on December 31, 2007 to 48 percent on March 31, 2013. The decline in total loans is primarily caused by decreased demand for credit by FNB's agricultural borrowers due to their strong liquidity positions.

FNB also originates and services TIF loans that are not captured in the LTD ratio. As of May 22, 2013, TIF loans originated and serviced by FNB totaled \$8.5 million. The amount sold to other institutions totaled \$7.0 million.

FNB also sells loan participations. As of May 22, 2013, other financial institutions hold \$2.3 million of these participations.

### Lending in Assessment Area

FNB originates a substantial majority of agricultural loans within its AA, which meets the standard for outstanding performance. Management originated 85 percent of its loans by number and 77 percent of its loans by dollar amount within the AA.

Loan Type	Number of Loans					Dollars of Loans (\$000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agriculture	23	85	4	15	27	3,002	77	896	23	3,898

Source: Sample of agricultural lending from 2012 and YTD 2013

### Lending to Farms of Different Sizes

The distribution of loans to agricultural borrowers reflects reasonable penetration among farms of different sizes. Our sample of 27 agricultural loans indicated FNB originated 83 percent of its loans by number and 78 percent by dollar volume to small farmers. Small farmers are individuals with \$1 million or less in gross annual farm income.

The percentage of sampled loans to small farmers by number and dollar amount were below 2012 demographic data showing 99 percent of farmers in the AA as small farmers. The borrower distribution was skewed because income could not be verified for three of the 27 loans sampled. Two of the three loans with unverifiable income had loan amounts of \$10 thousand or less. It is reasonable to assume these two borrowers would be small farmers based on the amount of their loans. If you include these two borrowers as small farmers, the percentage of sampled loans originated to small farmers increases to 91 percent by number.

Gross Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	99	1	0	100%
% of Bank Loans in AA by #	83	4	13	100%
% of Bank Loans in AA by \$	78	17	5	100%

Source: 2012 Business Geodemographic Data; Sample of agricultural lending from 2012 and YTD 2013

### **Geographic Distribution of Loans**

We did not perform a geographic distribution of loans at this examination. None of the five CTs in the bank's AA were low- or moderate-income, therefore the analysis would not be meaningful.

### **Responses to Complaints**

FNB has not received any CRA-related complaints since the last CRA examination.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. § 25.28(c) in determining a national bank's CRA rating, 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 lending performance.

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