

PUBLIC DISCLOSURE

June 21, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Sioux Center
Charter Number 7369
242 North Main Avenue
Sioux Center, Iowa 51250

**Office of the Comptroller of the Currency
Sioux Falls Field Office
300 North Dakota Avenue, Suite 504
Sioux Falls, South Dakota 57101**

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.

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation:

Assessment Area - The geographic area in which an institution's CRA performance is assessed. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.

Block Numbering Area (BNA) - A small, statistical area within a nonmetropolitan county (also known as a "geography").

Income Levels - The regulation prescribes various income levels, relating to individuals, families and geographies: low-income = less than 50% of the median family income; moderate-income = at least 50%, but less than 80% of the median; middle-income = at least 80%, but less than 120% of the median; and, upper-income = 120% or more of the median.

Median Family Income - The median family income is determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.

Small Business or Small Farm - A business or farm with gross annual revenues of \$1 million or less.

Small Loan to a Business or Farm - A loan of \$1 million or less to any business and a loan of \$500 thousand or less to any farm.

GENERAL INFORMATION

The Community Reinvestment Act 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 Community Reinvestment Act (CRA) performance of **First National Bank of Sioux Center, Sioux Center, Iowa**, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of **June 21, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

- C First National Bank of Sioux Center meets the credit needs of the community, as demonstrated by its average loan-to-deposit ratio of 93% since the prior CRA examination.
- C A majority of agricultural and consumer loans by both number (89%) and dollar volume (68%) are located within the bank's defined assessment area.
- C The bank lends to farms of various sizes and to individuals of different income levels, including low- and moderate-income borrowers.
- C Geographic distribution of agricultural and consumer loans is reasonable.

DESCRIPTION OF INSTITUTION

First National Bank of Sioux Center (FNB) is a commercial bank with total assets of \$81 million. The bank is located on the main street of Sioux Center, Iowa. The main office is a full-service facility which includes a proprietary automated teller machine (ATM). The bank also has a separate drive-through facility and an ATM in a local grocery store.

The bank's business focus is agricultural lending, which includes farm real estate. Loans represent 89% of total assets. The Report of Condition (Call Report) shows the following outstanding loans by dollar volume on March 31, 1999: agricultural (69 percent), commercial (15 percent), residential (10 percent), and consumer (6 percent).

The bank is wholly-owned by First Heartland Bancorp, a \$146 million two-bank holding company headquartered in Sioux Center, Iowa. An affiliate bank is located in Pender, Nebraska.

FNB received a "Satisfactory" rating at its June 4, 1996, CRA examination. This Performance Evaluation assesses the bank's CRA activities from June 5, 1996, through June 16, 1999. There are no legal impediments or other factors, including the financial condition of the bank, which limit its ability to perform in accordance with CRA regulations.

DESCRIPTION OF ASSESSMENT AREA

FNB defines its assessment area as Sioux, Plymouth, and Lyon Counties in Northwest Iowa. The population of the assessment area is 65,243 according to 1990 U.S. Census Data. The assessment area includes the cities of Sioux Center, Orange City, Hawarden, LeMars, Remsen, Kingsley, Rock Rapids, George, Hull, Rock Valley, Larchwood, Alton, and Akron. No part of the assessment area is located in a Metropolitan Statistical Area (MSA).

The Department of Housing and Urban Development's 1998 updated statewide non-MSA median family income (MFI) estimate is \$41,200. The following summarizes the income levels of individual census tracts and families located within the bank's assessment area:

INCOME DISTRIBUTION OF GEOGRAPHIES AND FAMILIES								
Assessment Area	Number of BNAs				Percentage of Families			
	Low	Moderate	Middle	Upper	Low	Moderate	Middle	Upper
Sioux, Plymouth, and Lyon Counties	0	1	15	0	16%	20%	28%	36%

Source: U.S. Census Data (1990)

FNB's assessment area meets all regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

DESCRIPTION OF ASSESSMENT AREA (Continued)

Housing in the assessment area is affordable for persons of most income levels. Median housing value is \$43,003 according to 1990 U.S. Census Data. Average monthly rent is \$276. Owner-occupied housing comprises 73 percent of all housing units, with 22 percent rental-occupied. Only 7 percent of families have income below the poverty level (< 30 percent of MFI).

Economic conditions in the area are good. Unemployment is low in Sioux (2.2 percent), Plymouth (1.8 percent), and Lyon (1.3 percent) counties and is below the state average of 2.6 percent as of May 1999. Major industries include agriculture, services, and light manufacturing. Large employers in Sioux Center and the surrounding area include Interstate Electric and Engineering (206 employees), EMW Grosschopp, Inc., (200 employees), Georges Quik-to-Fix Foods (248 employees), and Sioux Preme Packing Company (152 employees).

Competition from other area financial institutions is strong. Including FNB, there are twenty financial institutions chartered in the assessment area. The bank ranks sixth among those twenty banks based on asset size. FNB ranks second among thirteen banks with offices in Sioux County with deposit share of 12 percent.

As part of our review, we contacted Kroese & Kroese, P.C., successor of Farm Agricultural Consulting Services. This community contact indicated that overall the local economy is strong. The farm economy is generally good but farmers are contending with depressed farm prices due to decreased foreign exports and imports. We did not identify any unmet credit needs in FNB's assessment area. Our community contact and other information indicate a relatively stable economy with financial institutions willing and able to provide all types of credit.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly net loan-to-deposit ratio averaged 93 percent over the twelve quarters from June 30, 1996, to March 31, 1999. FNB's net loan-to-deposit ratio trend is increasing and totals 97 percent on March 31, 1999.

FNB's net loan-to-deposit ratio compares favorably with other community banks of similar size (total assets between \$35 and \$135 million) in the assessment area. FNB ranks first among a total of thirteen similarly-situated banks chartered in the assessment area. The twelve other similarly-situated banks had quarterly average net loan-to-deposit ratios ranging from 47 percent to 93 percent and averaging 75 percent over the same time period.

Lending in Assessment Area

FNB originates a majority of its loans to borrowers located within its assessment area. Of loans originated from June 5, 1996, through June 16, 1999, about 89 percent by number and 68 percent by dollar volume were made to farms, businesses, and individuals located within the bank's assessment area. The following table shows loans originated inside the assessment areas by number and dollar volume:

LENDING IN ASSESSMENT AREA BY NUMBER AND DOLLAR AMOUNT (000S)				
Type of Loan	Number	Percent of Number	Dollars	Percent of Dollars
Agricultural	1,594	86%	\$110,646	64%
Commercial	299	90%	\$20,189	71%
Consumer	1,662	93%	\$11,595	93%
Residential	244	90%	\$16,248	92%
Total	3,799	89%	\$158,678	68%

Source: Bank records (verified by examiners)

We used bank-generated zip code reports to determine the location of loan customers. We verified this data for accuracy using geocoding software and county plat maps.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

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

Overall, the distribution of borrowers reflects reasonable penetration among farms of different sizes and individuals of different income levels. Lending to farms meets community demographics; lending to low- and moderate-income individuals exceeds community demographics.

Agricultural lending activity in the assessment area meets community demographics. FNB originated 1,862 agricultural loans totaling nearly \$174 million during the assessment period. The largest number of loans in the assessment area were originated to small farms with less than \$250 thousand in annual revenues. Examiners sampled thirty agricultural and agricultural real estate borrowers representing 12 percent of agricultural borrowers with loans originated in the assessment area. The following table compares the bank's agricultural lending activity by revenue size to community demographics:

BORROWER DISTRIBUTION OF AGRICULTURAL LOANS BY REVENUE SIZE			
Revenue	Number	Percent of Number	Agriculture Census Demographics (1997)
<\$ 50,000	8	27%	36%
\$ 50,000-\$100,000	4	13%	17%
\$100,000-\$250,000	9	30%	25%
\$250,000-\$500,000	6	20%	12%
>\$500,000	3	10%	10%
Totals	30	100%	100%

Source: Bank records (verified by examiners) and U.S. Agricultural Census Data (1997)

Consumer lending activity in the assessment area substantially exceeds the community demographics for both low- and moderate-income borrowers. FNB originated 1,788 consumer loans totaling \$12.5 million during the assessment period. The average consumer loan size is affordable for low- and moderate-income individuals at \$7 thousand. Examiners sampled forty consumer loans representing 1 percent of consumer loan originations in the assessment area. We sampled the same loans used for assessing the bank's compliance with fair lending laws. This sample consisted exclusively of single male and female applicants, which is the reason for income levels being somewhat lower than the median family income demographics. The following table compares the bank's consumer lending activity by borrower income level to community demographics:

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

BORROWER DISTRIBUTION OF CONSUMER LOANS BY INCOME LEVEL			
Borrower Income Level	Number	Percent of Number	Percent of Families
Low	17	42%	16%
Moderate	11	28%	20%
Middle	11	28%	28%
Upper	1	2%	36%
Totals	40	100%	100%

Source: Bank records (verified by examiners) and U.S. Census Data (1990)

Geographic Distribution of Loans:

Geographic distribution of agricultural and consumer loans in the assessment area is reasonable. As noted above, fifteen of the sixteen BNAs in the assessment area are middle-income. The remaining BNA is moderate-income and is located in Lyon County.

Agricultural loan distribution is adequate. Examiners sampled thirty agricultural and agricultural real estate borrowers representing 12 percent of agricultural borrowers with loans originated in the assessment area. Based on this limited sample, we found that most loans originated in Sioux County (80 percent), which contains only middle-income BNAs but is the area closest to the bank. The remaining loans were located in Plymouth and Lyon Counties, but none were originated in the moderate-income tract. This is reasonable given the distance from the bank to the BNA (twenty five miles), the number of banks in the area (thirteen in Sioux County and another nine in Lyon County), and only 4 percent of the farms in the assessment area are located in the one moderate-income BNA.

Consumer loan distribution is also adequate. Examiners sampled forty consumer loans representing 1 percent of consumer loan originations in the assessment area. Based on this limited sample, we found that all but one loan originated in Sioux County, and 63 percent of the loans originated in Sioux Center. None of the consumer loans in our sample originated in the moderate-income BNA. This distribution is reasonable given the competition provided by the high number of banks in Sioux Center (three), Sioux County (thirteen), and the assessment area (twenty). In addition, less than 5 percent of the population resides in the moderate-income BNA.

Response to Complaints

The bank has not received any CRA-related complaints since the last CRA exam.

FAIR LENDING REVIEW

Our review of automobile loan terms did not identify any substantive violations of antidiscrimination laws and regulations based on gender. Fair lending policies, practices, and training are adequate.