



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 17, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Fairfield
Charter Number 13991

100 East Burlington Avenue
Fairfield, Iowa 52556

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

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

- The loan-to-deposit (LTD) ratio is reasonable compared to similarly situated banks in the AA;
- A majority of the bank's loans are originated or purchased within its AA;
- The bank's distribution of loans among businesses and farms of different sizes is reasonable; and
- There were no complaints regarding the bank's performance in meeting the credit needs of the AA.

SCOPE OF EXAMINATION

FNB was evaluated under the 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, 2010 to December 31, 2011, as this period is representative of the bank's lending strategy since the previous Community Reinvestment Act (CRA) examination.

FNB's primary loan products are business loans and agriculture loans. FNB does not maintain revenue information on business and agriculture loan customers outside of the individual credit files. As such, to evaluate FNB's business and agriculture lending performance, we selected a random sample of 20 business and 20 agriculture loans originated between January 1, 2010 and December 31, 2011.

DESCRIPTION OF INSTITUTION

FNB is a \$133 million full-service financial institution located in downtown Fairfield, Iowa. In addition to the main office, the bank has one branch located in Fairfield. Both locations are full-service offices equipped with drive-up facilities and automated teller machines (ATMs). FNB has three additional ATMs in Fairfield. Since the previous CRA examination, FNB has not opened or closed any branch locations.

FNB is a wholly owned subsidiary of Iowa First Bancshares Corporation, a two-bank holding company headquartered in Muscatine, Iowa. The holding company has one statutory business trust that is an unconsolidated subsidiary. There have not been any significant changes in FNB's corporate structure, including merger or acquisition

activities, since the previous CRA examination. The bank’s affiliates do not negatively impact FNB’s ability to meet the credit needs of the community.

FNB offers a full range of deposit and loan products and services to its customers. FNB’s strategy is community banking, specializing in business and agricultural lending. In-house and secondary market residential real estate loans also help fulfill the needs of the community. As of September 30, 2012, the bank’s LTD and loan-to-total asset ratios were 79 percent and 70 percent, respectively.

The following table summarizes the percentage of each loan type outstanding at September 30, 2012.

Table 1 – Loan Portfolio Summary by Loan Type		
Loan Category	\$(000)	%
Business Loans	\$35,942	38%
Agriculture Loans	\$32,181	34%
Residential Loans	\$24,276	25%
Consumer Loans	\$2,522	3%
Total	\$94,921	100%

Source: September 2012 Call Report

There are no legal or financial impediments to FNB’s ability to meet the credit needs of its AA. FNB was rated “Satisfactory” at its last CRA examination dated April 16, 2007.

DESCRIPTION OF ASSESSMENT AREA

The Fairfield AA includes the all of Jefferson County in Iowa. There are four contiguous census tracts (CTs) in Jefferson County, which includes the city of Fairfield. All four CTs are middle-income tracts. This AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

According to the 2000 United States Census Data, the population of the AA was 16,181. The 2011 weighted average median family income was \$44,381, and the median household income was \$33,713. Approximately 23 percent of the households in the AA are low-income, 20 percent moderate-income, 20 percent middle-income, and 37 percent upper income. The weighted average median housing cost for the Fairfield AA is \$75,652. Nearly 12 percent of the households in the Fairfield AA are below the poverty level; however, these households mainly consists of students attending the Maharishi University.

The local economy in the Fairfield AA is stable. The local economy is comprised of several types of industry with the largest being agriculture, services, durable goods, transportation, and public utilities. Major employers include Dexter Company, Cambridge Investment Research, Inc., Harper Brush Works, Inc., Jefferson County

Hospital, Maharishi University, the local school districts, and city, county, and state governmental entities. Unemployment is low at 6 percent based on September 2012 data from the Bureau of Labor Statistics.

Competition from other financial institutions in the AA is moderate. The FDIC market share information as of June 30, 2012 indicates there were five deposit-taking financial institutions in the AA. FNB ranked first in the market share with 33 percent, or \$118 million, of the deposits in the AA. Primary competitors include two local banks.

We performed one community contact in the Fairfield AA. The contact indicated that the local economy is improving and is diverse. Employers are hiring or maintaining current employment levels. There have been recognizable businesses move to the area in recent years. Projects are currently underway which allow for financing opportunities. The contact indicated credit opportunities in the AA include agriculture, small business, and new housing. FNB offers and originates these types of loans. The contact also stated that the local financial institutions are involved in the community and contribute to economic development, affordable housing, and community services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

FNB's performance with regards to the lending test is satisfactory. The bank's LTD ratio is reasonable given the business strategy and corporate culture. This indicates effort of making credit available. In addition, FNB originates or purchases a majority of its loans inside the AA. There were no complaints regarding the bank's CRA performance.

The borrower distribution reflects reasonable penetration. The AA does not contain any census tracts that are low- or moderate-income, but the AA does have a large number of low- and moderate-income borrowers.

Loan-to-Deposit Ratio

FNB's lending level is reasonable and meets the criteria for satisfactory performance given its size, financial condition, and credit needs of the AA. FNB's LTD ratio as of September 30, 2012 was 79 percent. Over the past 22 quarters ending September 30, 2012, FNB's average LTD ratio was 86 percent. The quarterly average LTD ratio for two similarly situated banks in the AA was 90 percent.

FNB's high percentage of market share deposits, reduced opportunities for credit customers due to the strong agricultural economy, and cautious commercial sector contributed to the recent decline in the LTD ratio. The average LTD remains comparable to the two similarly situated banks, which range in asset size from \$83 million to \$194 million.

Lending in Assessment Area

A majority of FNB’s loans are originated within its AA, which meets the standard for satisfactory performance. Management originated 80 percent of its loans by number and 75 percent of its loans by dollar within the AA.

The following table details FNB’s lending within the AA by number and dollar amount of loans:

Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	16	80.0	4	20.0	20	2,803	74.3	969	25.7	3,772
Agriculture	16	80.0	4	20.0	20	2,160	75.8	690	24.2	2,850
Total	32	80.0	8	20.0	40	4,963	74.9	1,659	25.1	6,622

Source: A sample of business and agriculture lending from 2010-2011.

Lending to Businesses of Different Sizes

The distribution of loans reflects a reasonable penetration among businesses and farms of different sizes when considering the local demographics and credit needs.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Our sample of 20 business loans indicated FNB originated or purchased 63 percent of the loans by number and 57 percent of its loans by dollar to small businesses. Small businesses are businesses with gross annual revenue of \$1 million or less. This is considered reasonable compared to demographic data that shows 71 percent of the area’s businesses are considered small businesses. Noted is that the demographic data and loan sample data lacked revenue information on 27 percent and 6 percent of the businesses, respectively.

The following table shows the distribution of commercial loans among businesses of different sizes within the AA:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	70.6%	2.4%	27.0%	100%
% of Bank Loans in AA by #	62.5%	31.3%	6.2%	100%
% of Bank Loans in AA by \$	56.7%	42.8%	0.5%	100%

Source: 2000 U.S. Census Data and a sample of business loans from 2010-2011.

Agriculture Loans

The distribution of loans to farm related businesses reflects reasonable penetration among farms of different sizes. Our sample of 20 loans made to farms indicated FNB originated or purchased 63 percent of the loans by number and 58 percent of its loans by dollar to small farms. Small farms are farms with gross annual revenue of \$1 million or less. The percentage of loans to small farms is below the demographic comparator; however, the distribution remains reasonable as the loan sample data lacked revenue information on 25 percent of the farms. Because we lacked revenue data on 25 percent of the agriculture loans originated or purchased by the bank, we also assessed the distribution of loans by dollar amount. We found that 85 percent of the agricultural loans in our sample were loans under \$200 thousand; and the average loan amount was \$143 thousand, which provides additional support for a reasonable distribution of loans to small farms. The sampled loans lacking revenue information were made in accordance with the bank’s lending standards.

The following table shows the distribution of agricultural loans to farms of different sizes within the AA:

Table 2B - Borrower Distribution of Loans to Farms in Fairfield AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.6%	0.4%	0.0%	100%
% of Bank Loans in AA by #	62.5%	12.5%	25.0%	100%
% of Bank Loans in AA by \$	58.0%	27.6%	14.4%	100%

Source: 2000 U.S. Census Data and a sample of farm loans from 2010-2011.

Geographic Distribution of Loans

A geographic distribution of loans was not performed at this examination. All of the geographies are middle-income, thus, 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), or 12 C.F.R. § 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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

