



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**August 26, 2002**

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

**First Newton National Bank  
Charter Number 13609**

**100 North 2nd Avenue West  
Newton, IA 50208**

**Comptroller of the Currency  
Omaha North Field Office  
13710 FNB Parkway, Suite 110  
Omaha, NE 68154**

**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.**

First Newton National Bank (FNNB) actively meets the credit needs of its assessment area (AA). The primary lending activities are residential, consumer, and commercial loans.

- FNNB has taken a leadership role in addressing the credit needs of the AA. First Newton National Development Corporation (FNNDC), a wholly owned community development corporation (CDC) has constructed eight houses targeted to low- and moderate-income families. The activity of the CDC has greatly enhances the bank's overall CRA performance.
- A substantial majority of the bank's loans are within the AA.
- The bank's lending efforts result in excellent penetration of borrowers of different income levels and businesses of different sizes.

## DESCRIPTION OF INSTITUTION

FNNB is a \$60 million bank located in Newton, Iowa, in Jasper County. Newton is located approximately 40 miles east of Des Moines, in central Iowa. The bank has two offices in Newton, and five deposit taking automated teller machines (ATMs) located throughout the city. The bank also owns 100% of FNNDC, a community development corporation set up to create affordable housing for low- and moderate-income families. The bank is 100% owned by United Iowa Bancshares, a one-bank holding company headquartered in Newton. There are no legal or financial impediments limiting the bank's ability to help meet community credit needs. FNNB was rated "Satisfactory" at the last CRA examination dated January 8, 1998.

As of March 31, 2002, FNNB's loan portfolio comprised 40.4% of total assets. The bank's primary credit products are residential, consumer and commercial loans. The following table shows the percentage of each loan type originated by dollar and number since the last CRA examination.

	<b>% of Originated Dollars</b>	<b>% of Originated # of Loans</b>
Residential RE Loans	51%	23%
Commercial Loans	29%	17%
Consumer Loans	11%	41%
Agricultural Loans	5%	11%
Home Equity Loans	4%	8%

Source: Monthly New Loan Report from 1/1/98 to 7/31/02.

## DESCRIPTION OF ASSESSMENT AREA

FNNB's assessment area (AA) includes all of Jasper County. The AA includes Block Numbering Areas (BNAs) 0401 through 0409. The AA consists of seven middle- (78%) and 2 upper-income BNAs (22%), there are no low- or moderate-income BNAs. The bank's AA meets the requirements set forth in the Community Reinvestment Act. A map of the AA can be obtained from the bank's CRA public file.

According to the 1990 U.S. Census, the population of the AA is 34,795. The Housing and Urban Development (HUD) 2001 weighted average updated median family income for the statewide non-metropolitan statistical areas in Iowa is \$48,400. The distribution of family incomes within the AA are 11.9% low-income, 16.4% moderate-income, 25.8% middle-income, and 45.9% upper-income. Only 7.4% of the households in the AA are below the poverty level. Based on Census data, the median housing value is \$48,400 and 70.9% of the housing stock is owner-occupied.

The local economy is stable. Major employers include Maytag, Iowa TeleCom, Skiff Medical Center, area schools, county government, and several retail and manufacturing businesses located throughout the AA.

The AA is served by six state banks, one national bank, and one federal savings bank with assets ranging from \$20 million to \$497 million. In addition, larger regional banks serve the AA. This examination includes comparisons to similarly situated banks in the AA. Therefore, FNNB's performance was compared to only five banks of similar size.

Examiners made two community contacts during this CRA examination. The contacts were community leaders with a good understanding of area credit needs and knowledge of the efforts undertaken by area banks to meet those needs. Both contacts identified affordable housing as a need in the community. FNNB offers loan products to address housing needs and has also created the CDC to facilitate the construction of housing targeted to low- and moderate-income families.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

FNNB's loan-to-deposit (LTD) ratio is reasonable, given its size, financial condition, and AA credit needs. The LTD average for the past seventeen quarters is 50%. This is lower than the 76% average of the five similar sized banks in the AA. The LTD ratios of these banks range from 47% to 118%. However, FNNB generates a significant volume of secondary market residential real estate loans. Since 1998, the bank has originated 189 secondary market real estate loans totaling over \$18 million. If these loans were included in the LTD ratio, it would be approximately 71%, which is comparable to the other banks in the AA.

### **Lending in Assessment Area**

FNNB originates a substantial majority of its loans within the AA. We reviewed a sample of

residential real estate, consumer, and commercial borrowers to assess the bank’s lending within the AA. All loans were originated since the last CRA examination. The following table details the findings of our sample.

<b>ASSESSMENT AREA CONCENTRATION</b>				
	<b># of Loans</b>	<b>% of total #</b>	<b>\$ of Loans</b>	<b>% of total \$</b>
Inside AA	16	80%	\$2,623,970	62%
Outside AA	4	20%	\$1,634,160	38%
<b>Totals</b>	<b>20</b>	<b>100%</b>	<b>\$4,258,130</b>	<b>100%</b>

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

The bank has an excellent record of providing loans to borrowers of different incomes and businesses of different sizes. We sampled the three primary loan products to assess the bank’s performance. The following is information on each sample.

#### Residential Real Estate Loans

The bank has an excellent record of providing residential real estate loans to borrowers of different income levels. Our sample included 20 residential real estate loans made since January 1, 2000. We sampled home purchase and home mortgaged refinance loans together because the bank reports did not separate the different loan products. Only borrowers within the bank’s designated AA were included in this sample. The following table indicates that the bank exceeded low- and moderate-income demographics using the number of loans, but is under the demographics using total dollar volume. This is reasonable because loans to middle- and upper-income borrowers are typically larger loans, which can significantly skew the dollar volume percentages. The table below compares the income levels of the borrowers in our sample to the income demographics of families in the AA.

<b>RESIDENTIAL LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS</b>					
<b>Income Level</b>	<b># of loans</b>	<b>% of total #</b>	<b>\$ of loans</b>	<b>% of total \$</b>	<b>% of Families in the AA</b>
Low	3	15%	\$126,496	7%	12%
Moderate	4	20%	\$170,555	9%	16%
Middle	4	20%	\$317,417	18%	26%
Upper	9	45%	\$1,194,513	66%	46%
<b>Totals</b>	<b>20</b>	<b>100%</b>	<b>\$1,808,981</b>	<b>100%</b>	<b>100%</b>

Source: Loan sample & U.S. Census data.

#### Consumer Loans

FNNB has an excellent record of providing consumer loans to borrowers of different income levels. Our sample included 20 consumer loans originated since January 1, 2000 to borrowers located inside the AA. The following table indicates that the bank significantly exceeded the low- and moderate-income demographics using both number and dollar volume of the sample.

<b>CONSUMER LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS</b>					
<b>Income Level</b>	<b># of loans</b>	<b>% of total #</b>	<b>\$ of loans</b>	<b>% of total \$</b>	<b>% of Households in the AA</b>
Low	7	35%	\$38,240	24%	16%
Moderate	5	25%	\$42,560	27%	16%
Middle	6	30%	\$57,864	37%	19%
Upper	2	10%	\$19,000	12%	49%
<b>Totals</b>	<b>20</b>	<b>100%</b>	<b>\$157,664</b>	<b>100%</b>	<b>100%</b>

Source: Loan sample & U.S. Census data.

### Commercial Loans

FNNB has a satisfactory record of lending to businesses of different sizes. Our sample included 20 loans within the AA that were originated since January 1, 2000. The following table indicates that 17 of the loans in the sample or 85% were to businesses with annual revenues less than \$1 million. This is comparable to the U.S. Census data. The dollar volume percentage is not as favorable, with the percentages differing significantly from the U.S. Census data. However, using the percentage from the dollar amount of loans originated is not a good comparison, as borrowers with higher revenues tend to require significantly larger loans. In our sample, there were two borrowers with revenues over \$1 million that had significant loan balances.

<b>LOANS TO BUSINESSES OF DIFFERENT SIZES</b>					
<b>Gross Revenue of Businesses</b>	<b># of loans</b>	<b>% of total #</b>	<b>\$ of loans</b>	<b>% of total \$</b>	<b>% of Businesses in AA</b>
\$0 - \$1 Million	17	85%	\$2,674,458	55%	88%
> \$1 Million	3	15%	\$2,178,000	45%	6%
<b>Totals</b>	<b>20</b>	<b>100%</b>	<b>\$4,852,458</b>	<b>100%</b>	<b>94%*</b>

Source: Loan sample & U.S. Census data.

\* 6% of AA businesses did not report revenue data.

### **Community Development Loans**

FNNB originated two community development loans totaling \$158,490 during the assessment period. The loans were to an organization with a focus on providing affordable housing to low- and moderate-income families. One loan provided below market rate financing for the construction a single-family dwelling. The other loan provided short-term 0% interest financing for the purchase of lots to be used for the future construction of low- and moderate-income housing.

### **Geographic Distribution of Loans**

All BNAs in the AA are middle- or upper-income. Therefore, a specific analysis of geographic distribution is not meaningful.

### **Qualified Investments and CD Services**

FNNB has taken a leadership role in addressing the credit needs of the AA. FNNB created FNNDC, a CDC to address the low- and moderate-income housing shortage in Newton. The creation of a CDC for a \$60 million bank indicates a strong commitment to the community. The bank's \$270,000 equity investment in the CDC, along with the CDC's activity, has greatly enhanced the bank's overall CRA performance. During the assessment period, FNNDC constructed and sold eight single-family dwellings totaling \$809,951. Six homes were purchased by low-income families, one by a moderate-income family and one by a middle-income family that met the U.S. Department of Agriculture 502 loan program income limits.

In addition to building homes, FNNDC also donated \$1,000 to Newton Housing and Development Corporation for closing costs on a home constructed for a low- or moderate-income family and donated an additional \$5,000 for future projects. FNNB has donated \$18,500 to Newton Development Corporation. This organization has added three apartment building projects for low- and moderate-income families. FNNB also donated \$1,000 to Habitat for Humanity, which provides housing to low-income families.

FNNB's level of community development service is excellent. FNNB executives actively participate on the Board of Directors for Newton Housing and Development Corporation, Newton Development Corporation, and Jasper County Alliance. All three organizations work to improve the availability of low- and moderate-income housing.

### **Responses to Complaints**

The Office of the Comptroller of the Currency and the bank have not received any complaints regarding the bank's CRA performance since the last CRA examination dated January 7, 1998.

### **Fair Lending Review**

An analysis of 1998, 1999, 2000, and 2001 public comments and consumer complaints was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997.