



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 24, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Muscatine
Charter 15579**

**300 East Second Street
Muscatine, Iowa**

**Office of the Comptroller of the Currency
Des Moines Duty Station
6200 Aurora Avenue, Suite 300W
Urbandale, Iowa 50322**

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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) 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 Muscatine** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 24, 1997. 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 Outstanding.

The primary factors supporting the bank's rating include:

- An average loan-to-deposit ratio of 71.8% since our prior examination. This bank's current loan-to-deposit ratio is 18 percentage points higher than the next closest competitor.
- A substantial majority of loans originated within the assessment area.
- Lending patterns reflect good dispersion among borrowers of different incomes and businesses of different sizes.

The following table indicates the performance level of First National Bank of Muscatine with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>First National Bank of Muscatine</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	There are no low- or moderate-income BNAs in the assessment area. Analysis of this area is not meaningful.		
Response to Complaints	The bank did not receive any complaints since the prior examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Muscatine is a wholly owned subsidiary of Iowa First Bancshares Corporation, a two-bank holding company. The bank's total assets as of 12/31/96 were 193 million dollars. In addition to the main office, the bank operates two branch offices, two drive-in service locations and nine ATMs located throughout the city of Muscatine. Loan officers are available during Saturday business hours or by appointment after normal business hours.

Our analysis was based on the bank's 12/31/96 financial data. Additionally, we included loan origination data since the previous performance evaluation dated January 27, 1994. The bank's loan portfolio accounts for 63% of total assets. The bank's primary credit product is 1-4 family residential mortgage loans. The following table shows the bank's loan portfolio composition.

Loan Type	Percentage of portfolio as of 12/31/96
1-4 Family Real Estate	37%
Commercial and Industrial Loans	23%
Loans to Individuals	15%
Other Real Estate (includes farmland and commercial)	18%
Agriculture, Municipal, Credit Card and other loans	7%

The credit products offered by the bank are consistent with the community's credit needs. There are no apparent factors relating to the bank's financial condition or size that prevent it from meeting community credit needs.

DESCRIPTION OF *Muscatine County*

The bank has chosen an assessment area consisting of the entire county of Muscatine, Iowa. The area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The county is located in the southeast corner of Iowa along the Mississippi river and has a total population of 39,907 according to 1990 census data. The city of Muscatine is the largest city in the assessment area with 22,281 residents. The city of Muscatine also serves as the county seat.

The county is divided into ten Block Numbering Areas (BNA). According to 1990 census data, three of the BNAs are upper-income and seven designated as middle-income. The county does not have a low- or moderate-income BNA. The following table shows the income distribution of the county.

	Low Income Families (<50% of median* income)	Moderate Income Families (50-80% of median* income)	Middle Income Families (80-120% of median* income)	Upper Income Families (>120% of median* income)
Population %	15.65	14.35	22.26	47.75

* Based on 1990 median family income of \$33,548 for this assessment area.

Manufacturing related business dominates community employment. Two Fortune 500 companies are located in the city of Muscatine (Bandag, Hon Company). The county has 78 manufacturing facilities employing 8,417 people. Service related businesses employ 4,314 people.

As part of our analysis process, we interviewed one group primarily involved in affordable housing issues and one organization focused on businesses development. Both contacts said affordable housing is Muscatine’s primary need. One contact said the city needed to devote more time and resources to solving the problem. The contact also said banks in the area are doing what they can, but could be aided by city or other government funds to help home owners or buyers repair the city’s aging housing stock.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio Analysis

The bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank’s quarterly loan-to-deposit ratio since the last examination averaged 71.8%. This bank’s ratio compares favorably to the average loan-to-deposit ratio of 56.6% for the four commercial banks chartered in the assessment area. The following table shows how this bank’s loan-to-deposit ratio and total assets compare to other bank’s in the area.

Bank Name	Loan-to Deposit Ratio as of 12/31/96	Total Assets (million \$) 12/31/96
First National Bank of Muscatine	77%	193
West Liberty State Bank	59%	60
Community Bank	59%	48
Central State Bank	55%	244
Wilton Savings Bank	56%	55

Muscatine county has three other financial institutions that extend credit. We did not include these institutions in the peer comparison because they are either a branch of a large regional bank, or credit unions associated with local employers. Individual loan information from regional bank branches is not available. Credit unions are prohibited from making commercial loans. Therefore, they were not included in the analysis.

Lending in the Assessment Area

The bank originated a substantial majority of their loans inside the assessment area during 1994-1996. Our analysis included the bank's primary product lines (real estate, commercial and instalment). They originated 8,398 loans inside their assessment area totaling \$176,370,169. These loans accounted for 99% of the number and 88% of the dollar volume of originations over the three-year period reviewed.

The following tables illustrate the bank's record of lending inside their assessment area. We calculated both the number and dollar volume of loan originations. The analysis then shows how many loans they originated as a percentage of both number and dollar volume. The following tables show the results of our analysis for the bank's three major product lines.

Real Estate Loan Originations

\$ (000's)

Year	Total # loans	Total \$ Volume	# Inside	# % Inside	\$ Volume Inside	\$ % Inside
1996	300	\$20,798	286	95%	\$19,631	94%
1995	266	\$17,552	257	97%	\$16,806	96%
1994	282	\$20,129	275	98%	\$19,669	98%
TOTAL	848	\$58,479	818	96%	\$56,106	96%

Commercial Loan Originations

\$ (000's)

Year	Total # loans	Total \$ Volume	# Inside	# % Inside	\$ Volume Inside	\$ % Inside
1996	543	\$38,797	530	98%	\$28,027	72%
1995	432	\$17,131	429	99%	\$15,965	93%
1994	637	\$28,686	627	98%	\$26,470	92%
TOTAL	1,612	\$84,614	1,586	98%	\$70,462	83%

Instalment Loan Originations

\$ (000's)

Year	Total # loans	Total \$ Volume	# Inside	# % Inside	\$ Volume Inside	\$ % Inside
1996	1,931	\$17,827	1,925	100%	\$17,544	98%
1995	1,883	\$19,634	1,846	98%	\$15,049	77%
1994	2,356	\$18,914	2,339	99%	\$17,209	91%
TOTAL	6,170	\$56,375	6,110	99%	\$49,802	88%

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

The bank's performance of lending to individuals and businesses of different incomes and sizes is good. Our analysis concentrated on the bank's major product lines.

The bank has a positive record of real estate lending to all income categories. Our analysis included all residential real estate secured loans originated during 1996 for a total of 142 loans with an average loan size of approximately \$70,000.

Our analysis of consumer lending included a sample of 92 out of 159 loans originated between October 1, 1996 and December 31, 1996. Our sample represented 20% of the number and 20% of the total volume of loans originated, or 4.4 million dollars. As shown in the following table the bank extends real estate and consumer credit to all income categories.

Real Estate and Instalment Lending to Different Income Levels*				
	Low	Moderate	Middle	Upper
Population %	15.65%	14.35%	22.65%	47.75%
Real Estate	6.3%	18.3%	31.7%	43.7%
Instalment	26%	23%	25%	26%

* Income level was based of 1997 HUD data for Iowa Non-MSA median family income of \$39,200. See the table under **Description of Muscatine County** for income definitions.

We noted, as a result of our analysis, that the percentage of real estate originations to low-income families is below the percentage portion of the population. Our contacts within the community said housing that families in the low-income category could afford is in short supply. Additionally, they said those houses that a low-income family could afford to purchase would need significant repairs that the family could not afford.

A 1996 study by The Institute for Social and Economic Development (ISED) found a shortage of 139 housing units at the end of 1995. First National Bank of Muscatine is working with local organizations to build ten moderately priced homes. The new single-family houses will range from \$75-85,000 and will require borrowers to meet low- or moderate-income guidelines.

The ISED also found that approximately 1,300 additional rental units are needed. Their findings also show the city is in need of land zoned for multi-family housing. First National Bank of Muscatine is working with the Department of Housing and Urban Development and other banks in the community to construct 72 new rental units.

The bank's record of lending to different size businesses is good. Our analysis included a sample of business related loans from September 1996 to February 1997. Our sample included loans totaling 8.9 million dollars or 36% of the entire dollar volume and 30% of the number of loans (241) originated during the selected period.

As shown in the table on the following page, our analysis found that First National Bank of Muscatine has a good record of lending to businesses of different sizes. They originated a majority of the number of loans to small businesses with gross revenues of \$250,000 or less.

Lending to Business					
Revenue (000's)	\$250	\$251-500	\$501-750	\$751-1,000	>\$1,001
\$ Originated	\$2,180	\$37	\$176	\$375	\$6,153
% of number	71%	4%	6%	2%	16%
% of volume	24%	.4%	2%	4%	69%

Geographic Distribution of Credit Within the Assessment Area

The bank's assessment area contains three upper-income and seven-middle income BNAs. This area does not have a defined low- or moderate-income BNA. Therefore, an analysis of geographic distribution of loans is not meaningful.

Response to Substantiated Complaints

The bank did not receive any complaints since the previous examination.

We found no substantive violations of fair lending laws and regulations during our examination.