



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 20, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 3105

316 East Bremer Avenue
Waverly, IA 50677-0000

Office of the Comptroller of the Currency

MINNEAPOLIS SOUTH
222 South Ninth Street Suite 800
Minneapolis, MN 55402

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 Outstanding.

- The bank's average loan to deposit ratio is reasonable.
- A majority of the bank's loans were made within the bank's assessment area.
- The bank has reasonable distribution of credit among commercial borrowers of different sizes and excellent distribution of credit among agricultural borrowers of different sizes.
- The bank's storm relief loan program in 2008 demonstrated additional commitment to the community by offering funds to local consumers and businesses at discounted rates to accelerate redevelopment of the local designated disaster area.

SCOPE OF EXAMINATION

We evaluated the Community Reinvestment Act (CRA) performance of First National Bank (FNB) for the period from November 4, 2002 through September 30, 2008. To evaluate the bank's lending performance, we focused on loans originated from January 1, 2006 to September 30, 2008. We specifically focused on commercial and agriculture loans since they represented 52% and 29% of loan originations by dollar amount, respectively during that timeframe.

DESCRIPTION OF INSTITUTION

FNB is a \$248 million bank located in Waverly, IA. Waverly is the county seat of Bremer County. FNB's main office is located in downtown Waverly. The bank has four other full-service branches, including an additional branch in Waverly, a branch in Plainfield, IA, and two branches in Cedar Falls, IA. FNB also provides financial services to nursing home residents at the Bartels Lutheran Home located in Waverly, IA. The bank operates seven ATM's, including four which take deposits. FNB is the oldest financial institution in Northeast IA and the third oldest in the state.

FNB is owned by First Waverly Corporation, a single bank holding company, located in Waverly, IA. Since the previous CRA examination, First Waverly Corporation merged FNB with its other national bank charter, First National Bank of Cedar Fall. The bank does not have any affiliate relationships that impact the bank's CRA performance.

FNB offers a wide range of loan and deposit products designed to meet the needs of the community. The bank's primary lending focus is commercial and agricultural loans. As of September 30, 2008, the bank's loan portfolio totaled \$187 million and was comprised of 47% commercial, 24% agricultural, 23% residential real estate and 6% consumer loans.

There are no financial, legal or other factors that impede FNB's ability to meet CRA obligations. The last CRA examination dated November 4, 2002, resulted in an "Outstanding" rating.

DESCRIPTION OF ASSESSMENT AREA

Since the previous CRA evaluation, Bremer County was added to the Waterloo-Cedar Falls Metropolitan Statistical Area (MSA). The MSA is made up of Bremer, Black Hawk, and Grundy County. FNB's assessment area (AA) includes census tracts (CTs) located in portions of Bremer County (40, 41, 42, 43, 44, 45, and 46), and Blackhawk County (22, 23.01, 23.02, 24, 25, 26.01, 26.03, and 26.04). The AA consists of 13 middle-income and 2 upper-income CTs, and includes the communities of Cedar Falls, Denver, Frederika, Janesville, Plainfield, Readlyn, and Waverly. Based on 2000 U.S. Census data, the total population of the AA is 60,642. The AA includes all of FNB's branches and deposit-taking ATM's, and does not arbitrarily exclude any low- or moderate-income CTs.

Major employers in the AA include the Waverly Health Center, CUNA Mutual Insurance Society, Wartburg College, Nestle Beverage, Viking Pump, Target Distribution, and Northern Iowa University. The local community contact raised concerns regarding local job levels in the future, as the economic downturn will continue to hit local employers and their parent organizations. Currently, unemployment rates in the AA are lower than in the rest of the State. The unemployment rate in IA, as of November 2008, was 4.3% compared to 2.8% in Bremer County and 3.8% in Blackhawk County.

Based on a 2008 estimate from the U.S. Department of Housing and Urban Development, the median family income for the Waterloo-Cedar Falls MSA is \$57,400. Based on 2000 U.S. Census data, 13.25% of families within the AA are low-income, 17.06% are moderate-income, 23.23% are middle-income, and 46.46% are upper-income.

Competition from other financial institutions is strong. There are twenty institutions operating in Bremer and Blackhawk Counties. FNB ranks fourth among these institutions with a 10.95% market share based on the June 30, 2008 deposit information obtained from the Federal Deposit Insurance Corporation. The top three market share banks are large regional banks with more than 1,900 branch locations each.

Credit needs in the Waverly AA are typical of those in small towns across the local area, including small business, small farms, residential, and consumer lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly net loan-to-deposit ratio averaged 80.22% over the 25 quarters since September 30, 2002. FNB's net loan-to-deposit ratio trend is increasing and totaled 87.20% as of September 30, 2008.

FNB's net loan-to-deposit ratio compares similarly with other community banks of similar size in the AA. The average loan to deposit ratio for the three similarly situated banks in the AA is 86.66% with a range from 57.41% to 104.83% from September 30, 2002 to September 30, 2008.

Institution	Assets (as of 09/30/08)	Average Loan-to-Deposit Ratio 3Q02 – 3Q08
STATE BANK AND TRUST, Waverly, IA	\$134 million	57.41
FIRST NATIONAL BANK OF WAVERLY, Waverly, IA	\$248 million	80.22
COMMUNITY NATIONAL BANK, Waterloo, IA	\$ 275 million	97.75
FARMERS STATE BANK, Waterloo, IA	\$ 196 million	104.83

Source: OCC Comparative Analysis Report

Lending in Assessment Area

FNB originated a majority of its loans to borrowers within its defined AA. We reviewed a random sample of 40 loans (20 commercial and 20 agricultural) that originated between January 1, 2006 and September 30, 2008. The majority of those loans, 70% by number and 72% by dollar volume, were made to businesses and farms within the bank's AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	80%	4	20%	20	3,202,252	91%	316,680	9%	3,518,932
Agriculture	12	60%	8	40%	20	1,099,817	45%	1,333,150	55%	2,432,967
Totals	28	70%	12	30%	40	4,302,070	72%	1,649,830	28%	5,951,900

Source: Sample of loans.

Lending to Businesses and Farms of Different Sizes

Commercial lending in the AA is reasonable. Based on a sample of 20 commercial loans, the bank originated 65% of loans by number and 64.54% by dollar amount to borrowers with gross annual revenues of less than \$1 million. The demographic data includes a significant percentage (34.85%) of businesses that have not reported their gross revenues. The local community contact noted that several companies in the area are subsidiaries of firms whose incomes are well in excess of \$1 million. Given this information, the banks lending to businesses of different sizes shows reasonable loan penetration compared to the demographics of the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	59.64%	5.51%	34.85%	100%
% of Bank Loans in AA by #	65.00%	35.00%	0.00%	100%
% of Bank Loans in AA by \$	64.54%	35.46%	0.00%	100%

Source: Loan sample; 2007 Business Geodemographic Data

FNB has an excellent distribution of credit to farms of different sizes. Based on a sample of 20

agricultural loans, 100% of the bank’s loans are originated to borrowers with gross annual revenues of less than \$1 million. The following table summarizes the results:

Table 3 - Borrower Distribution of Loans to Farms in Waverly-Cedar Falls AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.46%	0.18%	0.36%	100%
% of Bank Loans in AA by #	100%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100%	0.00%	0.00%	100%

Source: Loan sample; 2007 Business Geodemographic Data

Other Loan Data

During 2008, communities within the bank’s AA were hit with a major flood and tornado within a two-week period. In response FNB offered a storm relief loan program which offered loans up to \$10,000 per consumer and \$25,000 per business at 3 percent interest for 5 years amortized over 120 months. Individuals and businesses seeking additional funds were offered a blended rate option. As of January 20, 2009, the bank had used this program to originate 68 loans totaling \$1,002,823. In addition, bank customers were offered loan extensions, loans secured by certificates of deposit (CD) bearing an interest rate at the same rate as the CD, free stop payments, and free replacements for checks, ATM cards, and debit cards. The program was specifically designed for the benefit and redevelopment of the community by revitalizing the locally designated disaster area.

Geographic Distribution of Loans

Analysis of lending by geographic distribution is not meaningful. The AA does not contain any low- or moderate-income CTs.

Responses to Complaints

FNB has not received any complaints about its performance in helping meet AA needs during the evaluation period

Fair Lending or Other Illegal Credit Practices Review

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