



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 21, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Muscatine
Charter Number: 15579

300 East Second Street
Muscatine, IA 52761-4106

Office of the Comptroller of the Currency

NORTH CENTRAL ILLINOIS & EASTERN IOWA FIELD OFFICE
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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

First National Bank of Muscatine (FNB) is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- FNB's lending to borrowers of different income levels regarding residential real estate and businesses of different sizes is reasonable.
- FNB's quarterly average loan-to-deposit ratio is more than reasonable.
- A majority of FNB's loan originations are to customers within the Assessment Area (AA).
- FNB's community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

SCOPE OF EXAMINATION

This Performance Evaluation assesses FNB's record of meeting the credit needs of the communities in which it operates. We evaluated FNB under the Intermediate Small Bank Community Reinvestment Act examination procedures, which include a lending test and a community development test. The lending test evaluates a bank's record of helping to meet the credit needs of its AA through its lending activities. The community development test evaluates a bank's community development lending, qualified investment, and community development service activities.

The evaluation period for this examination is from August 21, 2006 through July 21, 2009. We evaluated loans originated or purchased from January 1, 2007 through June 30, 2009. The lending test is based on FNB's primary loan products (small business and residential real estate loans).

Since FNB is not located in a Metropolitan Statistical Area and is not subject to the requirements of the Home Mortgage Disclosure Act, the income data on residential home loan borrowers is not maintained outside of the individual mortgage files. Therefore, a sample of 20 residential mortgage products originated during the evaluation period was used to evaluate the bank's loan performance. We also sampled 20 business loans as part of the lending test.

The evaluation period for the community development test is from August 21, 2006 through July 21, 2009. We reviewed community development activities to ensure they met the regulatory definitions.

FNB has one AA, which generates the majority of the bank's loans and deposits.

DESCRIPTION OF INSTITUTION

FNB is a \$289 million intrastate financial institution located on U.S. Highway 61, along the Mississippi River in Muscatine County in East Central Iowa. The main office is located in downtown Muscatine, which includes a drive-up facility and an Automated Teller Machine (ATM). FNB has four additional offices in Muscatine: three full-service locations and one limited-service location inside Wal-Mart. Each full-service office is equipped with a drive-up facility and ATM. The bank has three additional ATMs: the student center at Muscatine Community College, Muscatine High School, and Petro & More convenience store in Grandview, Iowa.

Customers may also access their accounts through telephone banking or by the Internet. Internet and telephone banking services include transfers between FNB accounts, review of account balances or transactions, and access to loan account information. Customers utilizing Internet banking also have bill pay capabilities. In addition, customers can take advantage of bank debit cards to access funds.

The bank is a wholly owned subsidiary of Iowa First Bancshares Corporation, a two-bank holding company headquartered in Muscatine, Iowa. As of March 31, 2009, the holding company had total assets of \$401 million. The holding company also owns First National Bank of Fairfield in Fairfield, Iowa. In addition, the holding company has one statutory business trust that is an unconsolidated subsidiary. The bank's affiliates do not negatively impact FNB's ability to meet the credit needs of the community.

FNB has not opened or closed any facilities since the previous CRA examination. FNB's branching network is well positioned to provide financial products and services to all areas of the City of Muscatine and Muscatine County. FNB's strategy of providing high quality financial products and services through personal and convenient multi-channel delivery systems to meet the needs of the customers in the communities they serve has not changed.

FNB's two primary lending products, used during the evaluation, are residential real estate and commercial loans. These two categories account for 72 percent of all loans originated from January 1, 2007, to June 30, 2009, and make up 89 percent of the total dollar amount of the loan portfolio.

Loan Originations by Loan Type		
Loan Category	\$ (000)	%
Commercial Loans	\$177,681	49%
Residential Loans	\$145,080	40%
Consumer Loans	\$ 22,090	6%
Agricultural Loans	\$ 18,341	5%
Total Originations	\$363,192	100%

Source: Bank records from January 1, 2007 to June 30, 2009

As of June 30, 2009, the bank reported \$231 million in outstanding loans and had a net loans and leases to total assets ratio of 76 percent. The loan portfolio consists of the following:

Loan Portfolio Summary by Loan Type		
June 30, 2009		
Loan Category	\$ (000)	%
Commercial Loans	\$115,121	50%
Residential Loans	\$ 84,731	37%
Consumer Loans	\$ 11,435	5%
Agricultural Loans	\$ 14,838	6%
Other	\$ 4,095	2%
Total Originations	\$230,220	100%

Source: Call Report June 30, 2009

There are no financial conditions, legal constraints, or other factors that would hinder the bank's ability to meet the credit and community needs of its AA. The bank's previous CRA rating as of August 21, 2006 was satisfactory.

DESCRIPTION OF ASSESSMENT AREA

FNB's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate- income areas. The AA includes all 10 census tracts (CT's) in Muscatine County, representing no change from the prior evaluation.

Muscatine is the principal city and serves as the county seat of Muscatine County. The 2000 U.S. Census data indicates this AA does not contain any low- or moderate-income CTs. All CTs in the AA are designated as middle- or upper- income. Per the Federal Financial Institution's Examination Council (FFIEC), Muscatine County is considered a distressed area in seven of the ten CTs due to population loss for 2009.

Competition within the AA is primarily from two state banks (Central State Bank and Community Bank) serving the same county and having a similar focus on business. Other competitors consist of two smaller community banks and a large national bank, with branches in the AA. Per the Federal Deposit Insurance Corporation (FDIC) market share report dated June 30, 2008, FNB serves 33 percent of the market share, which is the highest percentage when compared to similarly situated financial institutions in the same market area.

The following is demographic information for the AA:

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	10	0%	0%	70%	30%
Population by Geography	41,722	0%	0%	72%	28%
Owner-Occupied Housing by Geography	11,946	0%	0%	70%	30%
Business by Geography	2,995	0%	0%	74%	26%
Farms by Geography	367	0%	0%	53%	47%
Family Distribution by Income Level	11,353	15%	17%	23%	45%
Distribution of Low and Moderate Income Families throughout AA Geographies	3,611	0%	0%	82%	18%
Median Family Income		43,887	Median Housing Value		85,230
HUD Adjusted Median Family Income for 2009		56,600	Median Year Built		1959
Households below the poverty level		8%	Average Monthly Gross Rent		\$456

Source: 2000 US Census and 2009 HUD updated MFI

Economic Data

As a result of the national economic environment, Muscatine County’s local economy has experienced some negative trends, particularly in unemployment rates. As of June 2009, Muscatine County had an unemployment rate of 8.3 percent, which is up 4.4 percent from June 2008. This compares favorably to the national unemployment rate (9.4 percent) but is higher than the State of Iowa unemployment rate (6.1 percent). The economy of the AA is concentrated in the healthcare, education, manufacturing, and agricultural industries. Major employers include: HNI Corp., Heinz Company, Bandag, Inc., Muscatine Foods Corporation, Monsanto Company, and the city and county government.

We contacted a community representative during the examination. The representative indicated there have been a number of lay-offs, mostly by larger employers, due to the current economic environment. The representative indicated there were no direct credit needs not being met by banks in the community. He felt FNB and the other financial institutions continue to actively meet the credit needs of the community, including low and moderate income individuals and families, through appropriate products and services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

FNB meets the standards for satisfactory performance.

- The distribution of loans to individuals of different income levels and businesses of different sizes is satisfactory.
- FNB's average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs.
- A majority of the loans originated by FNB are to customers from within its AA.

LOAN-TO-DEPOSIT RATIO

FNB's average loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. FNB's quarterly average LTD ratio for the evaluation period (July 1, 2006 through March 31, 2009) is 104 percent. The quarterly average LTD ratio for other similarly situated financial institutions over the same time period ranged from 63 percent to 94 percent. Asset sizes for these similarly situated financial institutions range from \$105 million to \$270 million. The similarly situated banks utilized for comparison purposes are community banks located in Muscatine County in the State of Iowa.

LENDING IN THE ASSESSMENT AREA

FNB originates a majority of its loans to borrowers located within the AA. FNB's lending to customers within the AA for commercial and residential loans is reasonable. The following table details the bank's lending within the AA by the number of loan originations and dollar volume during the evaluation period.

Loans Originated within the AA					
Loan Type	Number of Loans				Total
	Inside		Outside		
	#	%	#	%	
Commercial	11	55%	9	45%	20
Residential	18	90%	2	10%	20
Totals	29	73%	11	27%	40

Source: Bank records loans sampled from January 1, 2007 through June 30, 2009.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of borrowers, given the demographics of the AA, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

Residential Real Estate Loans

The distribution of borrowers, given the demographics of the AA, reflects reasonable penetration among individuals of different income levels. Based on our sample, lending to low-income borrowers is equal to the percentage of low-income families in the AA. This is excellent considering that six percent of the families in the AA are below the poverty level. Lending to moderate-income borrowers is well below the percentage of moderate-income families in the AA.

Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number	% of Families	% of Number	% of Families	% of Number	% of Families	% of Number
Residential	15%	15%	17%	5%	23%	40%	45%	40%

Source: Bank records on new loans originated from January 1, 2007 through June 30, 2009; 2000 Census Data

Commercial Loans

The distribution of loans to businesses, given the demographics of the AA, reflects reasonable penetration among businesses of different sizes. Based on the number of commercial loan originations from our sample, eighty-five percent on the loans in the AA were originated to small businesses. Small businesses are those with annual gross revenues equal to or less than one million dollars. The demographic data for the AA shows fifty-eight percent on the businesses reporting revenue data have annual gross revenues equal to or less than one million dollars.

Borrower Distribution of Loans to Businesses of Different Sizes					
Business Revenues	Number of Loans		% of Businesses in AA*	Dollars of Loans	
	#	%		\$(000)	%
≤ \$1,000,000	17	85%	58%	\$898,644	59%
> \$1,000,000	3	15%	5%	\$620,000	41%
Total	20	100%	63%	\$1,518,644	100%

*37 percent of AA businesses did not report revenue data.

Source: Bank records on new loans originated from January 1, 2007 through June 30, 2009; 2000 Census Data

GEOGRAPHIC DISTRIBUTION OF LOANS

A geographic distribution of loans is not applicable to this institution because there are no low- or moderate- income tracts located in this AA.

RESPONSES TO COMPLAINTS

FNB has not received any complaints regarding performance in helping to meet the credit needs within the AA during this 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.

COMMUNITY DEVELOPMENT TEST

FNB's community development performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services.

Number and Amount of Community Development Loans

FNB has two qualifying loans, both with Happy Home Daycare, which totaled \$88,000. The funds were to purchase and expand a commercial building, which is used as the daycare center. The majority of the children attending the daycare are low- or moderate- income families.

Number and Amount of Qualified Investments

FNB has made contributions of \$91,245 to various community service organizations assisting low and moderate-income individuals and families within the AA.

Extent to Which the Bank Provides Community Development Services

The bank did not provide us with any community development services to review.

Responsiveness to Community Development Needs

FNB continues to be responsive to the needs of the community.