



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 15, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Liberty National Bank
Charter Number: 24378

4425 Singing Hills Boulevard
Sioux City, IA 51106-9707

Office of the Comptroller of the Currency

Sioux Falls Field Office
4900 South Minnesota Avenue Suite 300
Sioux Falls, SD. 57108-2865

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.

State Name: South Dakota Rating: Excellent

Multistate Metropolitan Statistical Area Name: Sioux City Rating: Satisfactory

The bank's overall rating is a blend of the multistate metropolitan statistical area ratings and state ratings.

The Lending Test is rated: Satisfactory.

- The bank's lending in the assessment area (AA) is reasonable given its size, financial condition, and the credit needs of the AA.
- A substantial majority of the bank's loans by number (75 percent) and by dollar amount (92 percent) are located within its AA.
- The distribution of loans reflects reasonable penetration to individuals of different incomes and businesses of different sizes.
- Liberty National Bank's (LNB) geographic distribution of loans reflects a reasonable dispersion throughout census tracts of different income levels.
- The bank has not received any formal complaints related to its Community Reinvestment Act (CRA) performance.

Scope of Examination

LNB was evaluated under the Small Bank examination procedures, which includes 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 for LNB covers its performance from January 1, 2009 through June 30, 2011. LNB's primary loan products are business and consumer loans. To evaluate the bank's lending performance, examiners selected a sample of business and consumer loans originated and purchased from January 1, 2009 through June 30, 2011. The bank's previous CRA rating as of January 25, 2006 was "Satisfactory."

Description of Institution

LNB is a \$223 million bank serving the Sioux City Multi-State Metropolitan Statistical Area (MMSA) and the Sioux Falls Metropolitan Statistical Area (MSA). LNB is wholly owned by Liberty Financial Services, Inc., a one-bank holding company.

LNB is an interstate bank with offices located in South Dakota and Iowa. The bank has seven office locations and nine automated teller machines (ATMs). The Sioux City MMSA has five office locations and seven ATMs. The Sioux Falls MSA has two office locations and two ATMs.

None of the ATMs accept deposits. There are no nonmetropolitan areas in the AA. LNB has no subsidiaries.

LNB offers traditional banking products with commercial and consumer lending as the primary products. Net loans represent 57 percent of total bank assets. LNB's Tier One Leverage Capital is \$15.8 million, or 7 percent of average assets as of June 30, 2011. The table below shows the bank's loan portfolio composition.

Loan Portfolio Composition	\$ (000)	%
Commercial Loans	94,350	72.37
Farm Loans	17,028	13.06
1-4 Family Residential Loans	17,063	13.09
Consumer Loans	1,924	1.48
Total	\$130,265	100%

Source: June 30, 2011 Call Report.

There are no legal impediments that would restrict the bank's ability to meet the credit needs of the AA.

Description of Assessment Areas

LNB's AA includes the Sioux City MMSA in Iowa, South Dakota, and Nebraska and the Sioux Falls MSA in South Dakota.

The Sioux City MMSA includes 29 census tracts located in Woodbury County, Iowa, Dakota County, Nebraska, and Union County, South Dakota. The Sioux Falls MSA includes 26 census tracts located in Minnehaha and Lincoln County, South Dakota. The main bank is located on the southern edge of Sioux City. The bank merged with Valley Bank in October 2008. The merger resulted in five additional branches in the following locations: North Sioux City, Elk Point, Jefferson, East Sioux Falls, and West Sioux Falls. The bank closed the downtown Sioux City location when it opened the Dakota Dunes location in May 2010.

The AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income areas.

The bank's AA is dependent primarily on commercial operations. The largest employment sectors in both the Sioux City MMSA and the Sioux Falls MSA are in services and retail trade. Competition in surrounding areas is high. The local economy is considered stable.

According to the Bureau of Labor Statistics, South Dakota and Iowa unemployment rates rank below the national average. As of July 2011, South Dakota ranks third lowest nationally with an unemployment rate of 4.7 percent and Iowa ranks eighth nationally with an unemployment rate of 6 percent.

During our evaluation we contacted local community organizations to better understand the AA demographics and to determine the primary credit needs of the AAs. We also relied on previous community contacts made by this and other governmental agencies. The top credit needs of the AAs remain commercial and consumer lending.

Conclusions with Respect to Performance Criteria

Loan-to-Deposit Ratio

LNB's net loan-to-deposit ratio is reasonable given the AA credit needs, area population, and local economic conditions. The bank's loan-to-deposit ratio has decreased since the last CRA examination. During the past 22 quarters ending March 31, 2011 the average quarterly net loan-to-deposit ratio was 91 percent.

LNB's net loan-to-deposit ratio is reasonable when compared with other community banks of similar size (total assets between \$225 million and \$235 million). The other 8 banks had quarterly average net loan-to-deposit ratios averaging 92 percent and ranging from 73 percent to 103 percent over the 22 quarters from December 31, 2005 through March 31, 2011.

Although LNB sells nearly 15 percent of its loans on the secondary market, LNB's LTD ratio compares to the similarly situated banks.

Lending in Assessment Area

LNB originates a substantial majority of its loans to borrowers within its defined AA. Examiners sampled 20 loans of each primary product from both the Sioux Falls MSA and the Sioux City MMSA. LNB originated 75 percent of its loans by number and 92 percent of its loans by dollar volume within the bank's AA.

Lending in Liberty National Bank's AAs										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	28	70	12	30	40	11,141	93	900	7	12,041
Consumer	17	85	3	15	20	360	92	33	8	393
Totals	45	75	15	25	60	11,501	92	933	8	12,434

Source: Business and Consumer loan data sampled from 2009-2011.

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.

Multistate Metropolitan Statistical Area Rating

Sioux City Multistate Metropolitan Statistical Area

**CRA Rating for the Sioux City MMSA-Iowa, South Dakota, and Nebraska:
Satisfactory**

The Lending test is rated: Satisfactory

- The distribution of loans reflects reasonable penetration to individuals of different incomes and businesses of different sizes.
- The bank's geographic distribution of loans reflects a reasonable dispersion throughout census tracts of different income levels.
- The bank's lending level is reasonable given its size, financial condition, and the credit needs of the AA.
- A substantial majority of the bank's loans by number (75 percent) and by dollar amount (92 percent) are located within its AA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE SIOUX CITY MMSA

During the evaluation period, LNB had one AA comprised of a portion of the Sioux City, IA-SD-NE MMSA. As of the date of this evaluation, LNB had five office locations and seven ATMS in the AA; four of the branches are located in middle- and upper-income census tracts and one branch is located in a moderate-income census tract. The bank's portion of the MMSA included in the AA consists of 29 census tracts of which 1 is a low-income tract, 7 are moderate-income tracts, 14 are middle-income tracts, and 7 are upper-income tracts.

According to 2000 Census demographic data, the portion of the Sioux City MMSA in LNB's AA has a population of 120 thousand persons and approximately 45 thousand families. The Housing and Urban Development 2010 weighted average updated median family income is \$58,400 for the Sioux City MMSA.

Loan origination volume is relatively similar in each AA. The Sioux City MMSA accounted for approximately 55 percent of all reported loans in the evaluation period.

LNB reported \$123 million in deposits in the Sioux City MMSA as of June 30, 2010. According to the FDIC deposit market share information as of that date, this ranked LNB as fifth in the AA with a deposit market share of nearly five percent.

Throughout the Sioux City MMSA AA, LNB offered a full range of credit products including consumer, commercial, and real estate loans.

In conducting the assessment of the bank's performance, we reviewed a May 2011 contact with a local organization. The contact indicated the community's largest needs are affordable housing loans and small business loans. This contact indicated community lending needs were being met. The contact specifically said LNB is active in the community and community organizations.

LENDING TEST

LNB's performance under the lending test is satisfactory. The borrower distribution portion of the test received the majority of the weight. LNB has reasonable penetration among borrowers of different income levels and businesses of different sizes. LNB's geographical distribution of loans is reasonable but did not receive as much weight given the Sioux City MMSA has a low number of low- and moderate-income census tracts.

LNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

LNB's primary loan products in the Sioux City MMSA are business and consumer loans. To evaluate the bank's lending performance, we selected a sample of loans from each primary product. We evaluated loans originated between January 1, 2009 and June 30, 2011.

The following table shows the breakdown of loans originated and purchased from January 1, 2009 through June 30, 2011.

Loan Portfolio Summary by Loan Product-Sioux City MMSA				
Loan Type	#	Origination Amount	# as % of total	\$ as % of total
Business	307	\$ 66,831,914	29%	49%
Consumer	398	\$ 5,627,524	38%	4%
Agriculture	124	\$ 29,622,436	12%	22%
Mortgage	226	\$ 33,213,081	21%	25%
Totals:	1,055	135,294,955	100.00%	100.00%

Source: Loan report submitted by LNB of loans originated from January 1, 2009 through June 30, 2011.

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

The distribution of loans reflects reasonable penetration to individuals of different incomes and businesses of different sizes.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Sixty percent of the bank’s loans to businesses originated and purchased during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered reasonable compared to demographic data that show 73% of the area’s businesses are considered small businesses.

The following table shows the distribution of business loans among different sized businesses in the AA.

Borrower Distribution of Loans to Businesses in the Sioux City MMSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73%	5%	22%	100%
% of Bank Loans in AA by #	60%	40%	0	100%
% of Bank Loans in AA by \$	39%	61%	0	100%

Source: Business loan data sampled from 2009-2011 and 2010 U.S. Census Demographic Data.

Consumer Loans

The distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels. The bank’s level of lending to low- and moderate-income borrowers exceeds the demographic comparator. The bank originated/ purchased 307 consumer loans in this AA since January 1, 2009, including 200 loans to low and moderate income borrowers.

The following table shows the distribution of consumer loans among borrowers of different income levels for the period of January 1, 2009 through June 30, 2011 as compared to the percent of families in each income category.

Borrower Distribution of Consumer Loans			
Borrower Income Level	Sioux City MMSA		
	% of	% of Dollar	% of Households
	Number	Volume	
Low	40%	3%	21%
Moderate	25%	13%	17%
Middle	10%	3%	21%
Upper	25%	81%	41%
Total	100%	100%	100%

Source: Consumer loan data sampled from 2009-2011 and 2000 U.S. Census Demographic Data.

Geographic Distribution of Loans

The bank’s geographic distribution of loans reflects a reasonable dispersion throughout census tracts of different income levels.

Business Loans

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout the census tracts of different income levels. The bank is comparative to demographic comparators for low- and moderate-income census tracts. Twenty-eight percent of the businesses in the AA are located within low- and moderate-income census tracts. The bank originated 25 percent of its business loans to businesses located in low- and moderate- income tracts.

The following table details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Commercial Loans in Sioux City MMSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	2%	0%	26%	25%	38%	50%	34%	25%

Source: Business loan data sampled from 2009-2011 and 2010 U.S. Census Demographic Data.

Consumer Loans

The geographic distribution of consumer loans reflects poor dispersion throughout the census tracts of different income levels. While 21 percent of households are in low- and moderate-income level census tracts, the bank originated only 5 percent by number of loans in these tracts. However, four out of the five branches in the Sioux City MMSA are located in middle- and upper-income census tracts. The low- and moderate-income census tracts are few and concentrated downtown.

The following table shows the distribution of consumer loan products among census tracts of different income levels.

Geographic Distribution of Consumer Loans in Sioux City MMSA			
Tract Income Level	Sioux City MSA		
	% of Number	% of Dollar Volume	% of Households
Low	0%	0%	0%
Moderate	5%	1%	20%
Middle	45%	29%	50%
Upper	50%	70%	30%
Total	100%	100%	100%

Source: Consumer loan data sampled from 2009-2011 and 2000 U.S. Census Demographic Data.

Responses to Complaints

LNB did not receive any CRA complaints during this evaluation period for this AA.

State Rating

State of South Dakota

CRA Rating for South Dakota: Excellent.

The Lending test is rated: Excellent.

- The distribution of loans reflects excellent penetration to businesses of different sizes.
- The bank’s geographic distribution of loans reflects an excellent dispersion throughout census tracts of different income levels.
- The bank’s lending level is reasonable given its size, financial condition, and the credit needs of the AA.
- A substantial majority of the bank’s loans by number (75 percent) and by dollar amount (92 percent) are located within its AA.

DESCRIPTION OF INSTITUTION’S OPERATIONS IN SOUTH DAKOTA

During the evaluation period, LNB had one AA comprised of a portion of Sioux Falls. As of the date of this evaluation, LNB had two office locations and two ATMS in the AA. The bank’s portion of the MSA included in the AA consists of 26 census tracts, of which there are zero low-income tracts, 5 moderate-income tracts, 16 middle-income tracts, and 5 upper-income tracts.

According to 2000 Census demographic data, the portion of the Sioux Falls MSA in LNB’s AA had a population of 135 thousand persons and approximately 34 thousand families. The Housing and Urban Development 2010 weighted average updated median family income is \$69,100 for the Sioux Falls MSA.

Loan origination volume is relatively similar in each AA. The Sioux Falls MSA accounted for approximately 45 percent of all reported loans in the evaluation period.

LNB reported \$27 million in deposits in the Sioux Falls MSA as of June 30, 2010. According to the FDIC deposit market share information as of that date, this ranked LNB as twenty-first in the AA with a deposit market share of 0.03 percent. Wells Fargo and Citibank make up 95 percent of market share due to their credit card programs.

Throughout the Sioux Falls MSA AA, LNB offered a full range of credit products including consumer, commercial, and real estate loans.

In conducting the assessment of the bank's performance, we reviewed a May 2011 contact with a local organization. The contact indicated that the community's largest needs are affordable housing loans and small business loans. This contact indicated community lending needs were being met.

LENDING TEST

LNB's performance under the lending test is excellent. The borrower distribution portion of the test received the majority of the weight. LNB has excellent penetration among businesses of different sizes. LNB's geographical distribution of loans is excellent but did not receive as much weight given the Sioux Falls MSA has a low number of low- or moderate-income census tracts.

LNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

LNB's primary loan product in the Sioux Falls MSA is business loans. To evaluate the bank's lending performance, we selected a sample of loans from the primary product. We evaluated loans originated and purchased between January 1, 2009 and June 30, 2011.

The following table shows the breakdown of loans originated and purchased from January 1, 2009 through June 30, 2011.

Loan Portfolio Summary by Loan Product-Sioux Falls MSA				
Loan Type	#	Origination Amount	# as % of total	\$ as % of total
Business	333	\$ 80,257,895	56%	73%
Consumer	118	\$ 4,145,885	20%	4%
Mortgage	91	\$ 15,347,645	15%	14%
Agriculture	54	\$ 9,715,960	9%	9%
Totals:	596	\$ 109,467,385	100.00%	100.00%

Source: Loan report submitted by LNB of loans originated from January 1, 2009 through June 30, 2011.

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

The distribution of loans reflects excellent penetration to businesses of different sizes.

Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Seventy-seven percent of the bank’s loans to businesses originated and purchased during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered excellent compared to demographic data that shows 72 percent of the area’s businesses are considered small businesses.

The following table shows the distribution of business loans among different sized businesses in the AA.

Borrower Distribution of Loans to Businesses in the Sioux Falls MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72%	6%	22%	100%
% of Bank Loans in AA by #	77%	23%	0	100%
% of Bank Loans in AA by \$	57%	43%	0	100%

Source: Business loan data sampled from 2009-2011 and 2010 U.S. Census Demographic Data.

Geographic Distribution of Loans

Business Loans

The bank’s geographic distribution of business loans reflects excellent dispersion throughout the census tracts of different income levels. The bank is comparative to or exceeds the demographic comparators for low- and moderate-income census tracts, respectively. Twenty-three percent of the businesses in the AA are located within low- and moderate-income census tracts, the bank originated 25 percent of its business loans to businesses located in low- and moderate- income tracts.

The following table details the bank’s performance compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Commercial Loans in Sioux Falls MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	0%	0%	23%	25%	64%	50%	13%	25%

Source: Business loan data sampled from 2009-2011 and 2010 U.S. Census Demographic Data.

Responses to Complaints

LNB did not receive any CRA complaints during this evaluation period for this AA.