



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 10, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Grundy National Bank of Grundy Center
Charter Number 14066**

**603 Seventh Street
Grundy Center, IA 50638**

**Comptroller of the Currency
Minneapolis South Field Office
1310 West Clairemont Avenue, Suite 100
Eau Claire, WI 54701**

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 Satisfactory.

The major factors that support this rating are:

- Bank lending activity reflects adequate responsiveness to assessment area credit needs.
- The bank has not been the subject of any CRA complaints over the evaluation period.
- A majority of the bank's agricultural and residential loans are in the assessment area.
- The distribution of loans to farms of different revenue size is excellent.
- The distribution of residential loans to borrowers of different income levels is good.
- The distribution of loans to businesses of different revenue size is adequate.

DESCRIPTION OF INSTITUTION

The Grundy National Bank of Grundy Center (GNB) is a \$120 million community bank located in north central Iowa, approximately 30 miles southwest of Waterloo, Iowa. GNB is a wholly-owned subsidiary of GNB Bancorporation, which is also the parent company for a state-chartered institution in Ackley, Iowa and a leasing company.

The bank's main office and a branch facility are located in Grundy Center, the county seat. Both facilities have automated teller machines (ATMs). GNB also has a limited service (deposit-taking) branch facility in Holland, Iowa, approximately three miles northwest of Grundy Center.

GNB is a full-service bank offering a variety of loan and deposit products. Loans and leases account for \$73 million (or 61%) of total bank assets as of September 30, 2001. The bank's lending focus is commercial, agricultural and residential loans. This is reflected by the bank's distribution of outstanding loans, as well as the distribution of loan originations considered in this review. At September 30, 2001, GNB's loan portfolio consisted of commercial loans and leases (41%), agricultural loans (29%), residential loans (19%), and consumer and other loans (11%).

Due to somewhat limited growth opportunities in the bank's market, GNB has implemented a commercial loan strategy to develop and cultivate business relationships regardless of location. Since 1996, the bank's commercial loan portfolio has doubled to \$30 million. Some of this growth has been funded with non-local, brokered deposits.

There are no financial, legal or other factors that impede the bank's ability to meet its CRA obligations. GNB was rated "Satisfactory" at its last CRA evaluation dated June 1996.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area is comprised of Grundy County, Iowa. The area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas. Based on 1990 census data, all four geographies in the county are middle-income.

The 2000 census population of this assessment area (12,369) remains relatively unchanged from the 1990 census (12,029). By population, Grundy County ranks 65th of 99 counties in Iowa. Of the 3,551 families in the assessment area, 14% are low-income, 18% are moderate-income, 28% are middle-income, and 39% are upper-income. The Department of Housing and Urban Development's most recent (2001) estimate of median family income is \$48,400.

Based on 1999 information from the U.S. Department of Commerce, the assessment area generally has an older and wealthier population than state average. Grundy County's median age is 40.8 years, compared to a state median of 36.6 years (the national median is 35.9 years). Grundy County's per capita personal income (\$25,655) ranks 15th, and compares to a state average of \$25,598. According to a recent article in *The Des Moines Register*, Grundy County ranks 2nd for the percentage of senior citizen households with incomes greater than \$100,000.

Grundy County's economy is predominantly agricultural. According to 2001 Dunn and Bradstreet Geodemographic Data, the agricultural sector provides the most jobs (39%), followed by services (24%), and retail trade (12%). The largest industries per 1999 earnings information from the U.S. Department of Commerce are farm (18%) and services (16%) as well. Unemployment levels are typically lower than state and national averages.

The general economy is characterized as stable despite low commodity prices. Good quality agricultural land, the availability of federal assistance programs, and off-farm employment (aided by recently improved highway access to larger cities) are contributing factors.

Bank competition in the assessment area is healthy. GNB has the largest share of deposits (34%) in the county according to June 30, 2001, deposit information from the Federal Deposit Insurance Corporation. Five community banks and one savings bank each have an office in Grundy County. A local Farm Credit Services Office provides significant competition for agricultural real estate loans.

We made two community contacts during the examination, a local government contact and an agricultural representative. Both contacts stated area banks meet community credit needs. One contact credited the banks' willingness to work with federal guaranty farm loan programs. Another contact credited area banks for maintaining the vitality of the downtown district and for assisting with local housing projects. In the last couple years, there have been two housing projects completed in Grundy Center - an 18 unit, low-income apartment building and a senior-assisted housing project. GNB assisted with both of these projects.

We also reviewed three, more regional, recent contacts by other regulators with small business and housing representatives. These contacts expressed a need for start-up business financing, affordable housing stock, and consumer credit counseling.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

GNB's loan to deposit ratio is adequate. Since the previous CRA examination (dated June 30, 1996), the bank's average quarterly loan to deposit ratio was 74%.

There are several performance context factors that affect GNB's loan-to-deposit ratio:

- The generally older and wealthier population of the assessment area increases the bank's deposit base and reduces the demand for loans.
- A significant volume of bank deposits (31%) come from outside assessment area. Management stated this is partly due to brokered deposit funding and customer loyalty (people who grow up in the area, move away but retain deposits at the bank).
- GNB's commercial loan growth strategy has generated a significant volume of bank loans outside the assessment area (44% of outstanding loan dollars).

There are no good comparisons for "similarly-situated" banks. Other community banks with offices in Grundy County (Lincoln Savings Bank, First State Bank, Farmers Savings Bank, Peoples Savings Bank, Iowa Savings Bank) do not have their operations located exclusively in the county like GNB. This group of banks had an average quarterly loan to deposit ratio of 72%, with individual ratios ranging between 43% and 86%.

Of the aforementioned competing banks, only three obtain a majority of their deposits from Grundy County (Farmers Savings Bank, Peoples Savings Bank, and Iowa Savings Bank). These institutions, however, are significantly smaller than GNB (total assets less than \$55 million). The average quarterly loan to deposit ratio for these banks was 64%, with individual ratios ranging between 81% and 43%.

In our assessment of the adequacy of bank lending activity, we also considered the bank's level of "local loans" to "local deposits" (approximately 63%), favorable comments received from community contacts, and the lack of CRA complaints in the bank's public CRA file.

Lending in Assessment Area

Our analysis of lending inside the assessment area is based on GNB's geo-distribution reports. We sampled 60 of the bank's primary loan types (commercial, agricultural and residential loans) to test the data and found it reliable.

Over the evaluation period, GNB originated a majority of its agricultural and residential loans inside its assessment area. Not surprisingly (given the bank's performance context and strategy), most commercial loans are outside the bank's assessment area. The following table details the distribution of loan originations over the evaluation period.

| <i>In/Out Distribution of GNB Loan Originations*</i> | | | | | | | | | | | | |
|--|------------------|-----|-----------|-----|--------------------|-----|-----------|-----|-------------------|-----|-----------|-----|
| <i>October 1997 through November 2001</i> | | | | | | | | | | | | |
| Geo-Distribution | Commercial Loans | | | | Agricultural Loans | | | | Residential Loans | | | |
| | # | % | \$ (000s) | % | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Inside AA | 325 | 41% | 16,803 | 43% | 639 | 88% | 16,601 | 76% | 560 | 89% | 19,377 | 87% |
| Outside AA | 463 | 59% | 22,047 | 57% | 90 | 12% | 5,269 | 24% | 68 | 11% | 2,856 | 13% |
| TOTAL | 788 | | 38,850 | | 729 | | 21,870 | | 628 | | 22,233 | |

*Due to GNB report limitations:

- information for loans originated prior to October 1997 was not available;
- loan originations do not include paid-off loans;
- credit line commitment amounts are not included in dollar totals (likely understates the percent of loans inside); and,
- multiple draws on the same credit line are included in number totals (likely overstates the percent of loans inside).

The distribution of loan originations is consistent with the distribution of outstanding loans. As of September 30, 2001:

- a majority of agricultural loans are inside the assessment area (81% by dollar, 86% by number);
- a majority of residential loans are inside the assessment area (84% by dollar, 89% by number); and,
- a minority of commercial loans is inside the assessment area (31% by dollar, 34% by number).

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

Our conclusions regarding borrower income and business/farm size are based on loan samples. We sampled 20 commercial, 20 agricultural, and 20 residential loans for analysis (from originations in the bank's assessment area between January 1, 1999, and November 30, 2001). Performance conclusions weigh the bank's primary loan products fairly equally given the distribution of loan originations in the assessment area over the evaluation period (refer to the table in the "Lending in Assessment Area" section above).

GNB's overall distribution of loans to borrowers of different income levels and businesses/farms of different sizes is very good.

The distribution of agricultural loans to small farms (i.e. farms with annual gross revenues less than \$1 million) is excellent. All sampled loans were made to small farms. This ratio exceeds the demographic comparator (98% of the farms in the assessment area are small).

The distribution of residential loans to borrowers of different income levels is good. The following table reflects the distribution of loans sampled - 3 loans (15%) are to low-income borrowers and 3 loans (15%) are to moderate-income borrowers. In the low-income sector, GNB exceeds the demographic comparator (14% of the families in the assessment area are low-income). In the moderate-income sector, bank performance is slightly less than the demographic comparator (18% of the families are moderate-income). Overall, we still considered this good performance given the percentage of families living below poverty level (6%).

| <i>Distribution of Residential Loans by Income Level of Borrower</i> | | | | | |
|--|-----------------|---|------------|-----------|------------|
| Borrower Income Level | AA Demographics | Sample of Loans Originated between 1/01/1999 - 11/30/2001 | | | |
| | | # | % | \$ | % |
| Low Income | 14% | 3 | 15% | \$113,190 | 17% |
| Moderate Income | 18% | 3 | 15% | \$138,500 | 21% |
| Middle Income | 28% | 1 | 5% | \$20,000 | 3% |
| Upper Income | 39% | 4 | 20% | \$267,360 | 40% |
| Unknown Income | 0% | 9 | 45% | \$127,971 | 19% |
| TOTAL | 100% | 20 | 100% | \$667,021 | 100% |

The distribution of commercial loans is adequate. As the following table illustrates, 17 of 20 loans sampled (85%) were originated to small businesses (i.e. businesses with annual gross revenues less than \$1 million). This ratio approximates the demographic comparator (89% of businesses in the area are small).

| <i>Distribution of Commercial Loans by Revenue Size of Business</i> | | | | | |
|---|-----------------|---|------------|-------------|------|
| Business Size | AA Demographics | Sample of Loans Originated between 1/01/1999 - 11/30/2001 | | | |
| | | # | % | \$ | % |
| Small Business | 89% | 17 | 85% | \$280,520 | 19% |
| Large Business | 6% | 3 | 15% | \$1,200,000 | 81% |
| Unknown | 5% | 0 | 0% | \$0 | 0% |
| TOTAL | 100% | 20 | 100% | \$1,480,520 | 100% |

Geographic Distribution of Loans

The geographic distribution of loans is not a meaningful analysis for the bank. All geographies in GNB's assessment area are middle income.

Responses to Complaints

GNB has not been the subject of any CRA complaints over the evaluation period.

Fair Lending Review

An analysis of public comments and consumer complaint information over the evaluation period 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 exam was performed in 1996.