



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

PUBLIC DISCLOSURE

August 10, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**First Citizens National Bank
Charter Number 4677
2601 Fourth Street Southwest
Mason City, Iowa 50401**

**Supervisory Agency: Office of the Comptroller of the Currency
Midwestern District
2345 Grand Avenue, Suite 700
Kansas City, Missouri 64108**

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.

Table of Contents

Glossary of Terms and Common Abbreviations	3
General Information	4-5
Description of the Institution	6
Description of the Assessment Area	6-8
Examination Scope	9
Conclusions with Respect to Performance Tests	
<i>Lending Test</i>	10-13
<i>Investment Test</i>	14
<i>Service Test</i>	15-16
Fair Lending Review	16

GLOSSARY OF TERMS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation.

Assessment Area - *The geographic area in which an institution's CRA performance is assessed. Generally, an urban assessment area will not extend beyond the boundaries of a metropolitan statistical area (MSA). A rural assessment area may contain one or more neighboring counties.*

Block Numbering Area (BNA) - *A small, statistical area within a nonmetropolitan county (also known as a "geography").*

Community Development Loan - *A loan with a primary purpose of community development. With one exception community development loans specifically exclude loans reported in Home Mortgage Disclosure Act (HMDA) or CRA Disclosure Statements (small loans to businesses and farms). Multi-family rental housing loans can be reported under HMDA and count as a community development loan.*

Community Development Purpose - *Affordable housing (including multifamily rental housing) for low and moderate income (LMI) individuals; community services targeted for LMI individuals; activities that promote economic development by financing businesses or farms that meet certain size and revenue standards prescribed by regulation; and, activities that vitalize or stabilize LMI geographies.*

Community Development Service - *A service, related to the provision of financial services, with a primary purpose of community development.*

Income Levels - *The regulation prescribes various income levels, relating to individuals, families and geographies: poverty level = less than 30% of the median; low income = less than 50% of the median; moderate income = at least 50%, but less than 80% of the median; middle income = at least 80%, but less than 120% of the median; and, upper income = 120% or more of the median.*

Large Bank - *A financial institution with total assets of \$250 million or more, or an institution of any size that is an affiliate of a bank holding company with banking and thrift assets of \$1 billion or more.*

Median Family Income - *The median family income is determined by the United States Census Bureau. The Department of Housing and Urban Development updates this figure annually using an estimated inflation factor.*

Qualified Investment - *A lawful investment with a primary purpose of community development.*

Small Business - *A business with gross annual revenues of \$1 million or less.*

Small Farm - *A farm with gross annual revenues of \$500,000 or less.*

Small Loan to a Business or Farm - *A loan of \$1 million or less to any business and a loan of \$500,000 or less to any farm.*

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 CRA performance of **First Citizens National Bank, Mason City, Iowa, (FCNB)** prepared by the **Office of the Comptroller of the Currency (OCC)** as of **August 10, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **"Satisfactory."**

The strengths of FCNB's performance that contributed to the "Satisfactory" rating were:

- o FCNB originated a very good volume of reportable farm loans - 6,297 loans totaling \$178.5 million since January 1, 1996. In 1996, the bank made 69% (by number) of all reported farm loans. In 1997, this ratio was 78%.
- o FCNB originated a very good volume of reportable business loans - 2,252 loans totaling \$88.6 million since January 1, 1996. In 1996, the bank made 50% (by number) of all reported business loans. In 1997, this ratio was 53%.
- o A substantial majority of the bank's reported farm loans were to small farms (97%). This level of performance is consistent with market demographics and stronger than other reporting banks (85% in 1996 and 84% in 1997).
- o A substantial majority of the bank's reported business loans were to small businesses (94%). This level of performance is better than market demographics and excellent in relation to other reporting banks (68% in 1996 and 46% in 1997).
- o A substantial majority (94%) of the bank's small farm loans had origination amounts of \$100,000 or less. And 50% of the bank's small farm loans had origination amounts of \$10,000 or less.
- o A substantial majority (95%) of the bank's small business loans had origination amounts of \$100,000 or less. And 55% of the bank's small business loans had origination amounts of \$10,000 or less.

- o FCNB had an adequate level of community development investments, including an innovative investment in a limited partnership to attract small businesses and create jobs.
- o Retail delivery systems are accessible to all portions of the assessment area.

The following table indicates the bank’s performance level with respect to the lending, investment and service tests.

Community First National Bank CRA Performance Tests*			
Performance Levels	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		X	X
Needs To Improve			
Substantial Noncompliance			

***Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.**

DESCRIPTION OF THE INSTITUTION

First Citizens National Bank (FCNB) is a \$528 million, independent commercial bank in northern Iowa. FCNB is owned by First Citizens Financial Corporation, a one bank holding company. FCNB was formed when the holding company merged four affiliate banks, changed the name and relocated the head office in 1994. The resulting bank, FCNB, is headquartered in Mason City, Iowa. It has branches in ten communities - Mason City, Charles City, Clarion, Osage, New Hampton, Kanawha, Latimer, Alexander, Coulter and Alta Vista.

FCNB offers a full-range of credit products and financial services. The bank's market niche has historically been agricultural and residential lending. The company consolidation and move to Mason City, however, has provided the bank additional commercial loan opportunities. As of June 30, 1998, FCNB's loan portfolio totaled \$329 million and represented 80% of bank deposits. By outstanding dollars, the loan portfolio consisted of agricultural (29%), residential (29%), commercial (27%), consumer (12%) and other loans (3%). The loan-to-deposit ratio and loan mix ratios do not reflect loans originated, and subsequently sold, by the bank. As of June 30, 1998, FCNB serviced a portfolio of residential loans (with an outstanding balance of \$20 million) that it originated and sold. In addition, the bank originated and sold to the secondary market (with no servicing retained) another \$8.8 million residential loans since 1996.

There are no financial, legal or other factors which impede the bank's ability to meet its CRA obligations. In 1997, FCNB had net income of \$5.3 million. As of March 31, 1998, the bank had net income of \$1.8 million and \$44.7 million Tier 1 capital.

DESCRIPTION OF THE ASSESSMENT AREA

FCNB has one rural assessment area in northern Iowa with a population of 138,724. It consists of seven whole counties (Cerro Gordo, Chickasaw, Floyd, Franklin, Hancock, Mitchell, Wright) and portions of three others (Butler, Howard, Worth). The assessment area complies with regulatory requirements. It includes all FCNB offices and deposit-taking ATMs, as well as a substantial majority of its loans. The area does not arbitrarily exclude any low or moderate income block numbering areas (BNAs).

FCNB serves a predominantly middle and upper income market. Thirty-seven of the 38 BNAs in the bank's assessment area (or 97%) are middle income; the remaining BNA is upper income. More than 60% both of the 38,599 families and 55,221 households in this area are also middle or upper income. The Department of Housing and Urban Development's 1998 statewide median family income estimate is \$41,200. In 1990, the statewide median family income was \$29,303.

The following table summarizes various demographic data for FCNB's assessment area, including BNAs and families by income level. It also shows the distribution of businesses by BNA income level.

ASSESSMENT AREA PROFILE					
First Citizens National Bank					
DEMOGRAPHIC CHARACTERISTICS	#	Income Level			
		Low % of #	Moderate % of #	Middle % of #	Upper % of #
Block Numbering Areas (BNAs)	38	0%	0%	97%	3%
Population	138,724	n/a	n/a	94%	6%
Family By Income Level (8% below poverty)	38,599	16%	20%	27%	37%
Families By BNA Income	38,599	n/a	n/a	95%	5%
Households By Income Level (11% below poverty)	55,221	23%	16%	21%	40%
Households By BNA Income	55,221	n/a	n/a	95%	5%
Owner Occupied Housing By BNA Income	40,031	n/a	n/a	95%	5%
Farms By BNA Income	951	n/a	n/a	98%	2%
Revenues <= \$1 million:	917 (96%)				
Revenues > \$1 million:	8 (1%)				
Unreported Revenues:	26 (3%)				
Businesses By BNA Income	5,248	n/a	n/a	97%	3%
Revenues <= \$1 million:	3,856 (73%)				
Revenues > \$1 million:	366 (7%)				
Unreported Revenues:	1,026 (20%)				
Median Housing Value = 37,965					
Median Family Income = \$29,303					
HUD Adjusted Median Family Income for 1998 = \$41,200					

Data Source: U. S. Bureau of the Census (1990); Dun and Bradstreet (1996)

The local economy is stable and fairly diversified. While the economy depends heavily on agriculture, diversification is provided by manufacturing, government and service industries. Unemployment rates typically run lower than national average. Floyd County's unemployment levels, however, are higher than state average (which was 3.5% in 1995 per the US. Bureau of Labor Statistics). Floyd County recently lost a company that employed 3,600 skilled workers. Many of the displaced workers left the area or accepted lesser skilled jobs at lower wages.

Competition among financial institutions in the assessment area is strong. There are more than 45 competing banks, savings institutions and credit unions in the assessment area. Small, independent community banks flourish under Iowa legislation which limits the amount of assets outside banking organizations can purchase.

FCNB has the largest deposit market share (15%) in the ten county region covered by its assessment area, according to 1997 FDIC Deposit Summary Information. Institutions with the next highest market shares are significantly larger institutions that serve much larger geographic areas - Norwest 9%, Boatmen's 5% (acquired by NationsBank, which recently joined with BankAmerica), and First Bank 5% (now US Bancorp). Other competitors have less than 5% market share each and primarily consist of small, independent community banks.

The most pressing credit needs include agricultural credit and affordable housing. Community contacts also expressed a need for credit counseling and affordable child care. We determined these needs from two community contacts made during the examination, as well as four recent contacts conducted by other regulators.

EXAMINATION SCOPE

We examined FCNB using the Lending, Investment and Service Tests for large banks pursuant to the revised CRA regulations. These tests were used to assess the bank's record of helping to meet community credit needs. We analyzed FCNB's residential mortgage, small business and community development lending; the number and types of qualified investments; branch distribution and accessibility; as well as retail and community development services.

The current evaluation covers lending, investment and service activities since the previous examination (December 13, 1995), with the following exceptions/notations:

- o The evaluation does not include geographic distribution analysis. This analysis was not meaningful given the homogeneity of the bank's assessment area, which consists entirely of middle and upper income block numbering areas.
- o Our analysis of small farm and business lending focused on originations since January 1996. Under the revised CRA regulation, this was the first year banks collected CRA loan data. We adjusted FCNB's business loan origination numbers to omit individual extensions under lines of credit.
- o We also adjusted the aggregate business loan data released by the Federal Financial Institutions Examination Council (FFIEC) for the bank reporting error noted in the previous paragraph.
- o Our analysis of residential loans did not include home improvement loans. Bank systems do not separately code this product.
- o After validating FCNB's geocode system for residential loans, we used bank data to analyze the percentage of residential lending inside the assessment area.
- o To analyze the borrower income distribution of residential loans, we sampled 60 home purchase loans and 60 refinance loans in the assessment area. FCNB is not required to report data under the Home Mortgage Disclosure Act. And the bank does not internally analyze borrower income distribution.
- o In the lending test, we gave the most weight to agricultural loans. Agricultural loans account for 61% (by number) of loan originations considered in this evaluation period.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Lending Activity -

FCNB showed very good responsiveness to agricultural and small business credit needs, and adequate responsiveness to residential mortgage credit needs over the evaluation period.

- o FCNB originated 6,297 small loans to farms totaling \$178.5 million since January 1, 1996. Essentially all of these loans were in the assessment area - 6,223 loans totaling \$175.7 million. The percentage of loans inside the assessment area was 99% by number and 98% by dollar volume.

According to FFIEC information*, FCNB was the top producer of farm loans in the ten county region covered by the bank's assessment area. In 1996, FCNB originated 68% of all reported farm loans by number and 52% by dollar volume. In 1997, FCNB originated 78% of all reported farm loans by number and 64% by dollar volume. In both years, no other lender exceeded 12% market share by number.

- o FCNB originated 2,252 small loans to businesses totaling \$88.6 million since January 1, 1996. Essentially all of these loans were in the assessment area - 2,220 loans totaling \$82.6 million. The percentage of loans inside the assessment area was 99% by number and 93% by dollar volume.

According to FFIEC information*, FCNB was the top producer of business loans in the ten county region covered by the bank's assessment area. In 1996, FCNB originated 50% of all reported business loans by number and 34% by dollar volume. All other lenders had market shares less than 17% by number. In 1997, FCNB originated 53% of all reported business loans by number and 38% by dollar volume. No other lender exceeded 14% market share by number in 1997.

- o FCNB originated 1,828 residential loans totaling \$101.9 million since January 1, 1996. A majority of these loans were in the assessment area - 1,525 loans totaling \$85 million. The percentage of loans inside the assessment area was 83% by number and dollar volume. Public information about residential loan originations is not readily available as the bank's assessment area contains no metropolitan statistical areas.

The distribution of loans by borrower income (discussed in the next section) was excellent for business loans, very good for farm loans and reasonable for residential loans.

* FFIEC information is based on data supplied by lenders subject to CRA reporting requirements (i.e. financial institutions with assets of \$250 million or more, or affiliated with a bank holding company that has assets of \$1 billion or more). The data do not represent all lenders who provide small loans to businesses in the assessment area. FFIEC information is not available for areas smaller than entire counties.

Borrower Distribution - Farm Loans

A substantial majority (6,036 or 97%) of FCNB's reported farm loans in the assessment area were to small farms. A small farm has gross annual revenues of \$500,000 or less. Bank performance is consistent with market demographics - 96% of the 951 farms in the assessment area reported annual revenues of \$500,000 or less, 1% reported annual revenues exceeding that amount, 3% did not report.

Of all banks subject to CRA data reporting, FCNB originated the most small farm loans in the ten county region covered by its assessment area. In 1996, the bank made 2,422 (or 69%) of the 3,494 reported loans to small farms. In 1997, the bank made 2,354 (or 78%) of 3,007 such loans. In both years, about 97% of the bank's farm loans were to small farms. This ratio was 93% for other reporting banks.

FCNB also originated more farm loans in amounts of \$100,000 or less (in the ten county region covered by its assessment area) than any other bank subject to CRA data reporting. In 1996, the bank made 2,385 (or 71%) of 3,364 such loans. Approximately 96% of the bank's reported farm loans had origination amounts of \$100,000 or less, compared to 85% for other reporting banks. In 1997, FCNB made 2,258 (or 79%) of 2,846 such loans. Approximately 93% of the bank's farm loans had origination amounts of \$100,000 or less in 1997, compared to 84% for other reporting banks.

FCNB's willingness to make small farm loans is further evidenced by an excellent loan size distribution of its loans to small farms. More than 94% had origination amounts of \$100,000 or less, and 50% had origination amounts of \$10,000 or less. The following table details the size distribution of small farm loans over the evaluation period.

DISTRIBUTION OF SMALL FARM LOANS IN THE ASSESSMENT AREA		
January 1, 1996 through June 30, 1998		
	Number	Percent of Number
\$0 to \$10,000	3,000	50%
\$10,001 to \$25,000	1,360	22%
\$25,001 to \$50,000	795	13%
\$50,001 to \$100,000	555	9%
\$100,001 to \$250,000	292	5%
\$250,001 to \$500,000	34	1%
Total	6,036	100%

Source: Bank Records

Borrower Distribution - Business Loans

A substantial majority (2,086 or 94%) of FCNB's reported business loans in the assessment area were to small businesses. A small business has gross annual revenues of \$1 million or less. In this product too, bank performance is better than market demographics - of the 5,248 businesses in the assessment area, 73% reported annual revenues of \$1 million or less, 7% reported annual revenues exceeding that amount, and 20% did not report.

Of all banks subject to CRA data reporting, FCNB originated the most loans to small businesses in the ten county region covered by its assessment area. In 1996, the bank made 851 (or 59%) of the 1,450 reported small business loans. Approximately 98% of the bank's reported business loans were to small businesses in 1996, compared to 68% for other reporting banks. In 1997, the bank made 852 (or 69%) of 1,228 such loans. Approximately 95% of the bank's reported business loans were to small businesses, compared to 46% for other reporting banks.

FCNB also originated more business loans in amounts of \$100,000 or less (in the ten county region covered by its assessment area) than any other bank subject to CRA data reporting. In 1996, the bank made 804 (or 52%) of 1,555 such loans. Approximately 92% of the bank's reported business loans had origination amounts of \$100,000 or less in 1996, compared to 85% for other reporting banks. In 1997, FCNB made 833 (or 54%) of 1,536 such loans. Approximately 93% of the bank's reported business loans had origination amounts of \$100,000 or less in 1997, compared to 87% for other reporting banks.

FCNB's willingness to make small business loans is further evidenced by an excellent loan size distribution. A full 95% had origination amounts of \$100,000 or less, and 55% had origination amounts of \$10,000 or less. The following table details the size distribution of small business loans.

DISTRIBUTION OF SMALL BUSINESS LOANS IN THE ASSESSMENT AREA		
January 1, 1996 through June 30, 1998		
Loan Size	Small Business Loans	
	Number	Percent of Number
\$0 to \$10,000	1,147	55%
\$10,001 to \$25,000	471	23%
\$25,001 to \$50,000	223	11%
\$50,001 to \$100,000	136	6%
\$100,001 to \$250,000	79	4%
\$250,001 to \$500,000	28	1%
\$500,001 to \$1,000,000	2	0%
Total	2,086	100%

Source: Bank Records

Borrower Distribution - Residential Loans

FCNB’s overall distribution of residential loans by borrower income level was reasonable. Performance in the low income sector for home purchase loans (13% of originations compared to 16% of families) and the moderate income sector for refinance loans (18% of originations compared to 20% of families) was particularly good.

Performance in the moderate income sector for home purchase loans was not as strong, but still deemed adequate (14% of originations compared to 20% of families). Some consideration was given to the level of families living below poverty. Eleven percent of the families in the assessment area are below poverty level (annual incomes less than \$12,360 per year). At this income level, it can be difficult to afford a home at the assessment area’s median value of \$37,965. Community contacts also expressed a need for affordable housing in the area.

Performance in the low income sector for refinance loans is weak (7% of originations compared to 16% of families). Bank management attributes the disparity to the fact that many refinance costs do not vary based on loan amount. Therefore, it generally takes longer to recoup refinance costs (through interest savings) on smaller dollar loans. And it is likely the low income sector has a higher proportion of small dollar mortgages given the direct correlation between income and debt service ability.

The next table details the borrower distribution results of our residential loan sample.

BORROWER INCOME DISTRIBUTION OF RESIDENTIAL LOANS IN THE ASSESSMENT AREA					
Borrower Income Level	Sample of Originations January 1996 through June 1998				Percent of Families in Income Category
	Home Purchase Loans		Refinance Loans		
	Number	Percent	Number	Percent	
Low Income	8	13%	4	7%	16%
Moderate Income	8	14%	11	18%	20%
Middle Income	23	38%	22	37%	27%
Upper Income	19	32%	23	38%	37%
Income Not Available	2	3%	0	0%	0%
Total	60	100%	60	100%	100%

Source: Bank Records

Community Development Lending -

FCNB did not have any reportable community development loans during the evaluation period.

INVESTMENT TEST

FCNB had an adequate level of qualified community development investments and grants over the evaluation period. The lack of LMI BNAs within the assessment area limits opportunities for traditional investments that support community development. Qualified investments totaled \$194,000 and consisted of:

- A \$125,000 equity investment in a limited partnership to attract small businesses and create jobs for LMI individuals in Charles City and Floyd County, Iowa. As previously mentioned, Floyd County's unemployment levels are higher than state average.

The partnership constructed a 50,000 square foot speculative commercial building as an incentive for prospective employers to locate in the community. A manufacturer has since purchased the building, creating over 100 jobs. At least 51% of these jobs are for LMI individuals.

FCNB was one of six original investors when the partnership formed in 1995. The bank's investment represented 25% of total equity for the project. Although FCNB made the investment before the previous CRA examination, it remains outstanding. This investment is considered an innovative way to attract businesses and create jobs in a rural market.

- \$69,000 in grants and donations to organizations whose primary purpose supports community development. This includes providing community services to LMI individuals and promoting economic development by financing small businesses.

SERVICE TEST

Retail Banking Services -

FCNB’s banking facilities are accessible to essentially all portions of its assessment area. The bank has a main office, eleven branches and eight automated teller machines (ATMs). The main office and nine branches are full service facilities; two locations are primarily depository branches (Alexander and Coulter). Four ATMs are located in grocery or convenience stores; and four ATMs are located at branch sites. All ATMs provide cash dispensing and deposit services.

The distribution of branches is reasonable. The percentage of branches in middle and upper income BNAs is consistent with the percentage of households by BNA income level. The branch in the upper income geography is located in downtown Mason City. FCNB opened this branch in December 1996, as part of a city-wide plan to retain downtown businesses. The following table details the distribution of bank facilities by BNA income level.

DISTRIBUTION OF FCNB BRANCHES & ATMS						
BNA INCOME LEVEL	Branches		ATMs		Percent of Households by BNA Income Level	Percent of BNAs in Assessment Area
	Number	Percent	Number	Percent		
Middle-Income	11	92%	7	88%	95%	97%
Upper-Income	1	8%	1	12%	5%	3%
Total	12	100%	8	100%	100%	100%

Source: Bank Records, U.S. Bureau of Census (1990)

Banking hours are reasonable and tailored to community needs. Most offices provide extended hours on Friday. The main office and eight branches offer Saturday banking. Loan officers are also willing to make after-hour appointments with customers. The depository branches (Alexander and Coulter) are open weekday mornings only. A bank officer stated there is a limited need for bank services in these areas. FCNB is the only bank that directly serves these communities.

There are few differences in products and services between FCNB branches. All locations offer the same deposit products with no material differences in fees. The full-service locations offer basically the same loan products. For depository branch customers (Alexander and Coulter), a loan officer from the Latimer branch is available by appointment. Both depository branches are within 10 miles of the Latimer office so customers still receive loan services in a timely manner.

Alternate delivery systems include a 24-hour toll-free telephone banking service and bank-by-mail, for which the bank provides stamped envelopes.

Community Development Services -

FCNB's community development services are limited. Services consist of providing technical expertise and serving on Boards of Directors of organizations that address affordable housing and small business needs. Some specific examples follow:

- A bank officer assisted the Cerro Gordo Area Habitat for Humanity in applying for a federally-funded housing project for LMI individuals.
- Another bank officer serves on the Board of Directors of the Franklin County Development Board. The Board strives to enhance economic development by encouraging small businesses to locate in Franklin County. In addition, the organization obtained a grant to fund home improvements for LMI individuals in Hampton.
- A bank officer serves on the Board of Directors and the finance committee of Kanawha 2001, Inc. This nonprofit organization operates a revolving loan fund for business startups, business expansions, and down payment assistance for home purchases. The finance committee reviews applications and makes loan recommendations to the Board.

FAIR LENDING REVIEW

Examiners did not identify any instances of illegal discrimination or discouragement in the concurrent fair lending review. The review compared loan terms, using gender as the prohibited basis, on new automobile loan originations between January 1, 1998, and June 30, 1998.