



## PUBLIC DISCLOSURE

February 10, 2014

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Citizens National Bank  
Charter Number 4677

2601 4th Street SW  
Mason City, Iowa 50401

Office of the Comptroller of the Currency  
Des Moines Field Office  
1089 Jordan Creek Parkway, Suite 230  
West Des Moines, Iowa 50266

**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 Lending Test is rated: Satisfactory.**

- The average loan-to-deposit ratio is reasonable at 69.96 percent for the 13 quarters ending December 31, 2013.
- A substantial majority of business and farm loans originated or purchased during this evaluation period were inside the Mason City assessment area (AA).
- The distribution of commercial borrowers reflects an excellent penetration among businesses of different sizes, and the distribution of agricultural borrowers reflects a reasonable penetration among farms of different sizes.
- The geographic distribution of commercial borrowers reflects a reasonable dispersion of business loans throughout the Mason City AA, and the geographic distribution of agricultural borrowers reflects an excellent dispersion of farm loans throughout the Mason City AA.
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

**The Community Development Test is rated: Outstanding.**

- First Citizens National Bank (FCNB) originated \$7 million in community development (CD) loans and donated \$156 thousand to qualified organizations and geographies during this evaluation period.
- Bank employees and directors provided 3,900 hours of financial expertise to qualified organizations and individuals during this evaluation period.
- FCNB has one branch in a moderate-income census tract and participates in several federal loan programs that support small businesses, small farms, rural development, and first-time homebuyers.

## **Scope of Examination**

This performance evaluation outlines FCNB's record of meeting the credit needs of its AA from January 3, 2011 to January 13, 2014. We evaluated FCNB using the Intermediate Small Bank procedures, which include both a lending test and a CD test.

Our lending test evaluated FCNB's record of meeting the credit needs of the Mason City AA through its lending activities. We reviewed 20 loans from each of the bank's primary products, business loans and farm loans. All of the loans in our sample were originated or purchased between January 1, 2012 and December 31, 2013. Our primary objective

was to determine whether the bank reinvested a sufficient portion of its deposits locally, with a specific focus on loans to small businesses, loans to small farms, and loans to farms and businesses located or operating in low- and moderate-income census tracts.

Our CD test evaluated the bank’s record of meeting the needs of its AA through its CD lending activities, qualified donations and investments, and CD services. We considered all CD activities the bank participated or engaged in between January 3, 2011 and January 13, 2014. We also considered all CD activities the First Citizens National Bank Charitable Foundation, an affiliate of First Citizens Financial Corp., participated or engaged in between January 3, 2011 and January 13, 2014. Our primary objective was to determine FCNB’s responsiveness to the CD needs of its AA.

## Description of Institution

FCNB’s Community Reinvestment Act (CRA) performance was rated satisfactory on January 3, 2011, and there were no legal, financial, or other barriers present during this evaluation period that would impede the bank’s ability to meet the needs of its AA. FCNB is a full-service financial institution that operates nine branches and ten automated teller machines throughout north-central Iowa. As of December 31, 2013, the bank reported \$1.02 billion in total assets and \$554 million in gross loans. Primary products include business loans and farm loans. Residential lending is also sizeable; however, we placed a greater emphasis on new loan activity by dollar when determining the bank’s primary products.

| Loan Type | % by Dollars of Loans Originated or Purchased During the Evaluation Period | % by Number of Loans Originated or Purchased During the Evaluation Period |
|-----------|----------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Farm      | 46%                                                                        | 33%                                                                       |
| Business  | 30%                                                                        | 17%                                                                       |
| Home      | 20%                                                                        | 23%                                                                       |
| Consumer  | 4%                                                                         | 27%                                                                       |
| Totals    | 100%                                                                       | 100%                                                                      |

*Source: Bank records from January 3, 2011 to January 13, 2014.*

Competition is considerable with 38 financial institutions operating in the bank’s AA, per the June 30, 2013 FDIC Deposit Market Share Report. Still, FCNB ranks first with 17.11 percent market share, or \$755 million in AA deposits, versus the second place financial institution with 8.20 percent market share or \$362 million in AA deposits.

FCNB is a subsidiary of the two-bank holding company, First Citizens Financial Corp. and an affiliate of Kanabec State Bank. These entities do not affect the bank’s ability or capacity to meet the needs of its community.

## **Description of Assessment Area**

The Mason City AA consists of 39 contiguous census tracts in Butler, Cerro Gordo, Chickasaw, Floyd, Franklin, Hancock, Howard, Mitchell, Worth, and Wright Counties. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income tracts. There is one moderate-income tract in Charles City, which contains one FCNB branch, 251 businesses, 18 farms, and 1,448 households. There are no low-income tracts in or contiguous to the AA. 2010 Census data states there are 55,439 households residing in the AA, 40 percent of which report low- or moderate-income.

Per the Bureau of Labor Statistics, annualized 2012 unemployment rates for individual counties within the Mason City AA are as follows:

- Butler County – 4.4 percent
- Cerro Gordo County – 5.7 percent
- Chickasaw County – 5.2 percent
- Floyd County – 6.4 percent
- Franklin County – 4.9 percent
- Hancock County – 4.6 percent
- Howard County – 5.0 percent
- Mitchell County – 4.8 percent
- Worth County – 5.2 percent
- Wright County – 5.2 percent

All are comparable to the annualized statewide 2012 unemployment rate of 5.2 percent. The most notable outlier is Floyd County, which contains one FCNB branch and the AA's sole moderate-income census tract. Major AA employers include Cargill Kitchen Solutions, Kraft Foods, Mercy Medical Center, and Woodharbor Custom Cabinetry.

We interviewed one community contact on February 12, 2014. The contact observed "upbeat" economic conditions, steady employment figures, and a considerable number of financial institutions competing for local business. The contact indicated FCNB is particularly active in the community and acknowledged no unmet or underserved needs.

## **Conclusions with Respect to Performance Tests**

The bank's collective performance is outstanding, with outstanding performance demonstrated under the CD test and portions of the lending test.

### **LENDING TEST**

FCNB's collective performance under the lending test is satisfactory.

## Loan-to-Deposit Ratio

FCNB's average loan-to-deposit ratio is reasonable at 69.96 percent for the 13 quarters ending December 31, 2013. While this is below the average loan-to-deposit ratio of four similarly situated institutions, at 81.55 percent, the difference is mitigated by FCNB's high volume of secondary market lending, at \$174 million for this evaluation period. If these loans are considered, the bank's average loan-to-deposit ratio increases to 77.47 percent. This meets the standard for satisfactory performance.

## Lending in Assessment Area

A substantial majority of business and farm loans originated or purchased during this evaluation period were inside the Mason City AA. In our sample, 95 percent of the loans by number and 99 percent of the loans by dollar were to businesses and farms located or operating inside the AA. This exceeds the standard for satisfactory performance.

| Table 1 - Lending in the Mason City Assessment Area |                 |     |         |    |       |                          |     |         |    |         |
|-----------------------------------------------------|-----------------|-----|---------|----|-------|--------------------------|-----|---------|----|---------|
| Loan Type                                           | Number of Loans |     |         |    |       | Dollars of Loans (000's) |     |         |    |         |
|                                                     | Inside          |     | Outside |    | Total | Inside                   |     | Outside |    | Total   |
|                                                     | #               | %   | #       | %  |       | \$                       | %   | \$      | %  |         |
| Business                                            | 19              | 95% | 1       | 5% | 20    | \$1,427                  | 98% | \$25    | 2% | \$1,452 |
| Farm                                                | 19              | 95% | 1       | 5% | 20    | \$3,818                  | 99% | \$45    | 1% | \$3,863 |
| Totals                                              | 38              | 95% | 2       | 5% | 40    | \$5,245                  | 99% | \$70    | 1% | \$5,315 |

Source: Loan sample.

## Lending to Businesses of Different Sizes

FCNB's collective performance under the borrower distribution test is reasonable. We placed a greater emphasis on the distribution of agricultural borrowers, as farm loans represented a larger share of the bank's loan activity during this evaluation period.

The distribution of commercial borrowers in our sample reflects an excellent penetration among businesses of different sizes. In our sample, 90 percent of the loans by number were to small businesses, or businesses with gross revenues of less than \$1 million. This compares favorably to 2010 Census data, which states 73 percent of businesses within the bank's AA report gross revenues of less than \$1 million. This exceeds the standard for satisfactory performance. We placed minimal weight on the distribution of loans by dollar, as these figures are naturally skewed. Small businesses are more likely to originate small loans and large businesses are more likely to originate large loans.

| <b>Table 2A - Borrower Distribution of Loans to Businesses in the Mason City Assessment Area</b> |               |               |                        |       |
|--------------------------------------------------------------------------------------------------|---------------|---------------|------------------------|-------|
| Business Revenues (or Sales)                                                                     | ≤ \$1,000,000 | > \$1,000,000 | Unavailable or Unknown | Total |
| % of AA Businesses                                                                               | 73%           | 4%            | 23%                    | 100%  |
| % of Bank Loans in AA by #                                                                       | 90%           | 10%           | 0%                     | 100%  |
| % of Bank Loans in AA by \$ (000's)                                                              | 63%           | 37%           | 0%                     | 100%  |

Source: 2010 US Census data; Loan sample.

The distribution of agricultural borrowers in our sample reflects a reasonable penetration among farms of different sizes. FCNB's performance is below the AA demographics, but remains adequate. In our sample, 71 percent of the loans by number were to small farms, or farms with gross revenues of less than \$1 million. This meets the standard for satisfactory performance. We placed minimal weight on the distribution of loans by dollar, as these figures are naturally skewed. Small farms are more likely to originate small loans and large farms are more likely to originate large loans.

| <b>Table 2B - Borrower Distribution of Loans to Farms in the Mason City Assessment Area</b> |               |               |                        |       |
|---------------------------------------------------------------------------------------------|---------------|---------------|------------------------|-------|
| Business Revenues (or Sales)                                                                | ≤ \$1,000,000 | > \$1,000,000 | Unavailable or Unknown | Total |
| % of AA Businesses                                                                          | 99%           | 0.60%         | 0.35%                  | 100%  |
| % of Bank Loans in AA by #                                                                  | 71%           | 21%           | 8%                     | 100%  |
| % of Bank Loans in AA by \$ (000's)                                                         | 52%           | 45%           | 3%                     | 100%  |

Source: 2010 US Census data; Loan sample.

## Geographic Distribution of Loans

FCNB's collective performance under the geographic distribution test is excellent. We placed a greater emphasis on the geographic distribution of farm loans, as farm loans represented a larger share of the bank's loan activity during this evaluation period.

The geographic distribution of commercial borrowers reflects a reasonable dispersion of business loans throughout the bank's AA. There are no low-income census tracts in the AA, and there is only one moderate-income census tract in the AA. Data from the 2010 Census states only 2 percent of businesses are located in the moderate-income census tract, which indicates there is limited opportunity to generate commercial loans in this tract. As shown in the table on the following page, our sample review did not identify any business loans in the moderate-income census tract. However, the bank's verified internal data indicates the bank granted 48 loans to 28 businesses in this census tract during this evaluation period, or approximately 10 percent of the businesses located in this tract per the 2010 Census data. This meets the standard for reasonable performance, considering at least five other financial institutions operate in the moderate-income tract.

| Table 3A - Geographic Distribution of Loans to Businesses in the Mason City Assessment Area |                    |                      |                    |                      |                    |                      |                    |                      |
|---------------------------------------------------------------------------------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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                                                                                    | 0%                 | 0%                   | 2%                 | 0%                   | 87%                | 95%                  | 11%                | 5%                   |

Source: 2010 US Census data; Loan sample.

The geographic distribution of agricultural borrowers reflects an excellent dispersion of farm loans throughout the bank's AA. There are no low-income census tracts in the AA, and there is only one moderate-income census tract in the AA. Data from the 2010 Census states less than 1 percent of farms are located in the moderate-income census tract, which indicates there is limited opportunity to generate agricultural loans in this tract. As shown in the table below, our sample review did not identify any agricultural loans in the moderate-income census tract. However, the bank's verified internal data indicates the bank granted 19 loans to 10 farms during this evaluation period, or approximately 50 percent of the farms located in this tract per the 2010 Census data. This exceeds the standard for reasonable performance, especially considering the high volume of competition with at least five other financial institutions operating in the area.

| Table 3B - Geographic Distribution of Loans to Farms in the Mason City Assessment Area |               |                      |               |                      |               |                      |               |                      |
|----------------------------------------------------------------------------------------|---------------|----------------------|---------------|----------------------|---------------|----------------------|---------------|----------------------|
| Census Tract Income Level                                                              | Low           |                      | Moderate      |                      | Middle        |                      | Upper         |                      |
| Loan Type                                                                              | % of AA Farms | % of Number of Loans | % of AA Farms | % of Number of Loans | % of AA Farms | % of Number of Loans | % of AA Farms | % of Number of Loans |
| Farm                                                                                   | 0%            | 0%                   | 0.52%         | 0%                   | 89%           | 87%                  | 10%           | 13%                  |

Source: 2010 US Census data; Loan Sample.

## Responses to Complaints

The bank did not receive any CRA-related complaints during this evaluation period.

## COMMUNITY DEVELOPMENT TEST

FCNB's collective performance under the CD test is outstanding.

### Number and Amount of Community Development Loans

FCNB's responsiveness to lending in the AA is adequate. The bank originated eight CD loans during this evaluation period. Funds totaling \$7 million benefited four qualified organizations located or operating in the Mason City AA, including a homeless shelter and two low-income housing projects.

### **Number and Amount of Qualified Investments**

FCNB's responsiveness to provide qualified investments in the AA is excellent. The bank donated \$156 thousand to 31 qualified organizations and geographies during this evaluation period. Donations were made both directly and through the First Citizens National Bank Charitable Foundation, an affiliate of FCNB's holding company. This total includes significant contributions to Habitat for Humanity, United Way, and projects used to revitalize or stabilize the AA's sole moderate-income census tract. The bank holds two qualified investments, but both were obtained prior to this evaluation period. Bank management indicated a lack of recent qualified investment opportunities.

### **Extent to Which the Bank Provides Community Development Services**

FCNB's responsiveness to provide CD services in the AA is excellent. FCNB employees and directors provided 3,900 hours of financial expertise to qualified organizations and individuals during this evaluation period. FCNB has one branch in a moderate-income census tract and participates in several federal loan programs that support small businesses, small farms, rural development, and first-time homebuyers.

### **Responsiveness to Community Development Needs**

FCNB's CD performance displays an excellent responsiveness to the needs of its AA.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. § 25.28(c), or 12 CFR § 195.28(c), in determining a bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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