

October 5, 1998

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Farmers Bank of Northern Missouri, National Association  
Charter Number 23007**

**200 West Maple  
Centerville, Iowa 52544**

**Office of the Comptroller of the Currency  
Kansas City Field Office  
6700 Antioch Road, Suite 450  
Merriam, Kansas 66204-1200**

**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.

**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 **Farmers Bank of Northern Missouri, National Association (FBNM)**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 5, 1998. 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**.

CRA RATING FOR THE STATE OF MISSOURI: "Satisfactory"

CRA RATING FOR THE STATE OF IOWA: "Satisfactory"

FBNM's overall and state CRA ratings are based on the following factors:

FBNM has a reasonable record of lending to agricultural borrowers of diverse revenues. The majority of agricultural loans in our sample were made to borrowers with annual gross farm revenues of less than \$250 thousand.

- The bank's lending distribution to low- and moderate-income residential real estate borrowers is reasonable based on area demographics.
- FBNM's consolidated geographic distribution of loans reflects a reasonable dispersion of loans throughout both assessment areas.
- The bank maintains a satisfactory loan-to-deposit ratio given the strong competition for loans from several other financial institutions in the bank's assessment areas.

A majority of FBNM's loan originations benefit borrowers within the assessment areas.

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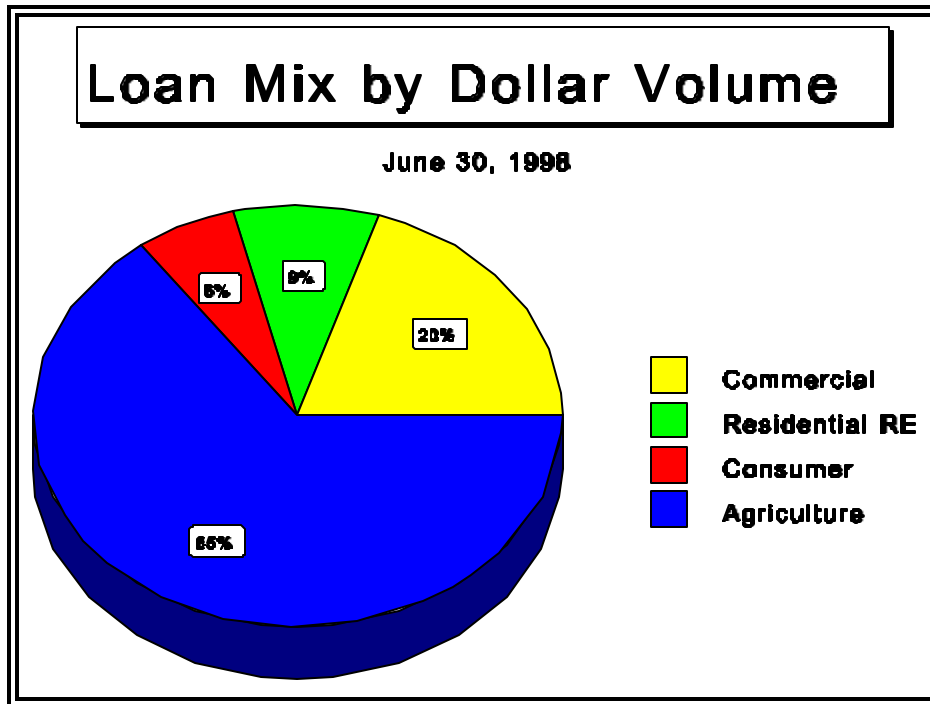
***DESCRIPTION OF INSTITUTION***

FBNM commenced business as a national bank on May 1, 1996. The bank is a \$166 million institution, chartered in Centerville, Iowa. FBNM is wholly owned by Harrison County Bancshares, Inc., which is wholly owned by Northern Missouri Bancshares, Inc., a one bank holding company headquartered in Unionville, Missouri. The bank's Missouri operations include four full service branches located in Bethany, Mercer, Trenton, and Unionville. FBNM's two 24-hour automated teller machines (ATMs) are located at the Centerville, Iowa office and Casey's General Store in Unionville, Missouri.

FBNM's CRA performance is not hampered by legal impediments, local economic conditions, its financial condition, or its size. The institution received a rating of "Satisfactory Record of Meeting Community Credit Needs" at its last CRA examination, dated December 18, 1996. Net loans total \$105 million as of June 30, 1998, and represent 63 percent of total assets. The bank's primary credit products by dollar volume are loans for agricultural purposes. By number, the primary credit products are loans for various consumer purposes. Loan volume has remained stable since the bank's last CRA examination. The following table shows the bank's loan portfolio composition as a percentage of average gross loans:

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***DESCRIPTION OF ASSESSMENT AREA***

FBNM has an assessment area in both Missouri and Iowa. This designation meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies. Eight state banks and three national banks provide strong competition in the Missouri assessment area. FBNM competes with three state banks in the Iowa assessment area.

**Missouri Assessment Area (MAA)** includes the counties of Grundy, Harrison, Mercer, and Putnam, with a combined population of 27,807 as reported in the 1990 U.S. Census. The MAA is divided into eleven block numbering areas (BNAs); one is designated a moderate-income area and the other ten are middle-income areas based on their respective family income levels. The 1990 U.S. Census data reports the median housing value as \$20,740, with 61 percent of the housing units owner occupied. The median year houses in the MAA were built is 1954.

The MAA includes 8,017 families. Approximately 24 percent of the families are designated as low-income, 20 percent are moderate-income, 22 percent are middle-income, and 34 percent are upper-income. Income designations are based on median family income levels as a percentage of the Missouri 1998 non-metropolitan updated median family income figure of \$34,000. The median family income figure is estimated by the Department of Housing and Urban Development on an annual basis. The U.S. Bureau of the Census reports the percentage of the families with incomes below the poverty level for each county in the MAA as follows: Grundy - 16.6%; Harrison - 13.4%; Mercer - 15.3%; Putnam - 15.1%.

**Iowa Assessment Area (IAA)** consists of Appanoose County, which reported 13,743 in population in the 1990 U.S. Census. The IAA is divided into five BNAs; two are designated moderate-income areas, and the other three are middle-income areas, based on their respective family income levels. The 1990 U.S. Census data reports the median housing value as \$23,968, with 65 percent of the housing units owner occupied. The median year houses in the IAA were built is 1957.

The IAA includes 3,872 families. Approximately 29 percent of the families are designated as low-income, 22 percent are moderate-income, 21 percent are middle-income, and 28 percent are upper-income. The 1998 non-metropolitan updated median family income figure for Iowa is \$41,200. The U.S. Bureau of the Census reports 16.5 percent of the families in Appanoose County with incomes below the poverty level.

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Housing and agricultural loans represent the primary credit needs of both assessment areas. Agriculture dominates the local economies, particularly cattle operations. However, several commercial and industrial employers add some diversification to the IAA. Major employers include Viskase, Inc., Rubbermaid, Inc., Wells Manufacturing Co., IES Utilities, Inc., and Young Radiator Company. The Iowa Labor Market Information Bureau reports a 4.1% unemployment rate for Appanoose County as of September, 1998. The Missouri Department of Labor and Industrial Relations reports August, 1998 unemployment rates for each county in the MAA as follows: Grundy - 4%; Harrison - 2%; Mercer - 2.4%; and Putnam - 3.7%.

Community contacts made by examiners from the OCC and other regulatory agencies indicate credit needs are being met by the local financial institutions. We confirmed the primary credit needs of the area as agricultural and housing.

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**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:****Lending to Farms of Different Revenue Sizes and Borrowers of Different Income Levels**

FBNM's primary credit products by dollar volume are loans for agricultural purposes; by number are loans for consumer purposes. This CRA review identified agriculture and housing as the primary credit needs of the assessment areas. Therefore, we focused our review on FBNM's record of lending for these purposes. We placed the greatest emphasis on the bank's agricultural loan performance since this

**Agricultural Lending:**

FBNM has a reasonable record of lending to small farms within its assessment areas. Our loan sample included 62 agricultural borrowers with loan originations between December 18, 1996 and October 5, 1998. Our combined agricultural sample represented 3 percent of total agricultural loan originations by number and 18 percent by dollar volume.

FBNM's proportion of small farm borrowers is reasonable in relation to local agricultural demographics. We approximate 90 percent of the bank's agricultural customers have gross annual revenues of less than \$250 thousand. We compared the revenue distribution of FBNM's agricultural customers to area demographic information obtained from the 1992 Agricultural Census, which was conducted by the U.S. Bureau of the Census. The following table shows a more detailed analysis of the agricultural borrower revenue distribution:

Agricultural Borrower Revenue Distribution								
Revenue Category	Distribution of Borrowers in Sample of FBNM's MO Ag Customers		Distribution of Farms in MAA		Distribution of Borrowers in Sample of FBNM's IA Ag Customers		Distribution of Farms in IAA	
	No.	%	No.	%	No.	%	No.	%
\$0 - \$99,999	17	65%	2268	89%	9	82%	767	93%
\$100,000 - \$249,999	4	15%	208	8%	2	18%	46	6%
\$250,000 - \$499,999	3	12%	44	2%	0	0%	13	1%
\$500,000 and Over	2	8%	24	1%	0	0%	1	0%



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Agricultural Borrower Revenue Distribution								
<b>Total</b>	<b>*26</b>	<b>100%</b>	<b>2544</b>	<b>100%</b>	<b>*11</b>	<b>100%</b>	<b>827</b>	<b>100%</b>

\* Totals exclude loans in our sample outside the bank's assessment areas.

**Residential Real Estate (RRE) Lending:**

The bank's record of lending to low- and moderate-income families for housing is reasonable. Our loan sample included 40 RRE borrowers with loan originations between December 18, 1996 and October 5, 1998. Our combined RRE sample represented 21 percent of total RRE loan originations by number and 23 percent by dollar volume. FBNM's penetration to low-income families is reasonable as 15 percent of the MAA and 16 percent of the IAA families are below the poverty level and would likely not qualify for a home mortgage. The following table shows the breakdown of borrower income levels for our sample:

Borrower Revenue Distribution						
Income Designation	Distribution of Borrowers in Sample of FBNM's MO RRE Customers		Percentage Distribution of Families in MAA	Distribution of Borrowers in Sample of FBNM's IA RRE Customers		Percentage Distribution of Families in IAA
	No.	%	%	No.	%	%
Low	3	15%	24%	4	28%	29%
Moderate	3	15%	20%	6	40%	22%
Middle	9	45%	22%	3	20%	21%
Upper	4	20%	34%	1	6%	28%
Not Available	1	5%	N/A	1	6%	N/A
<b>Total</b>	<b>*20</b>	<b>100%</b>	<b>100%</b>	<b>*15</b>	<b>100%</b>	<b>100%</b>

\* Totals exclude loans in our sample outside the bank's assessment areas.

**Geographic Distribution of Loans**

FBNM's lending in census tracts of all income levels within both assessment areas is reasonable. The geographic distribution of FBNM's agricultural and RRE loans originated within the assessment areas reflects a majority of lending in moderate- and middle-income census tracts. This distribution is

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reasonable as there are no low-income BNAs in the bank's assessment areas.

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We compared our agricultural sample with demographic data for farm distribution and our RRE sample with owner occupied housing units. The following charts summarize our analyses:

Geographic Loan Distribution-Ag						
BNA Income Designation	Distribution of Borrowers in Sample of FBNM's MO Ag Customers		Percentage Distribution of Farms in MAA Tracts	Distribution of Borrowers in Sample of FBNM's IA Ag Customers		Percentage Distribution of Farms in IAA Tracts
	No.	%	%	No.	%	%
Low	0	0%	0%	0	0%	0%
Moderate	10	38%	6%	5	45%	63%
Middle	16	62%	94%	6	55%	37%
Upper	0	0%	0%	0	0%	0%
<b>Total</b>	<b>26</b>	<b>100%</b>	<b>100%</b>	<b>11</b>	<b>100%</b>	<b>100%</b>

Geographic Loan Distribution-RRE						
BNA Income Designation	Distribution of Borrowers in Sample of FBNM's MO RRE Customers		Percentage Distribution of Owner Occupied Housing in MAA Tracts	Distribution of Borrowers in Sample of FBNM's IA RRE Customers		Percentage Distribution of Owner Occupied Housing in IAA Tracts
	No.	%	%	No.	%	%
Low	0	0%	0%	0	0%	0%
Moderate	3	15%	9%	3	20%	40%
Middle	17	85%	91%	12	80%	60%
Upper	0	0%	0%	0	0%	0%
<b>Total</b>	<b>20</b>	<b>100%</b>	<b>100%</b>	<b>15</b>	<b>100%</b>	<b>100%</b>



**Bank***Farmers Bank of Northern Missouri, National Association***Loan-to-Deposit Ratio (LTD)**

The bank's LTD ratio is satisfactory in relation to its size, financial condition, and the credit needs of the assessment areas. We compared FBNM's quarterly average LTD ratio to eight other financial institutions operating in the combined assessment areas. Each of the banks in our comparison had total assets of less than \$200 million and no branches in metropolitan areas. FBNM's quarterly average LTD ratio for the past seven quarters was 70 percent. The overall quarterly average LTD ratio for all nine banks in our comparison was 70 percent. Quarterly average LTD ratios ranged from 58 percent to 80 percent. FBNM's quarterly average LTD ratio ranked sixth highest.

**Lending in the Assessment Area**

A majority of the bank's loan originations are extended to borrowers living within the assessment areas. Bank personnel generated reports during the examination which showed agricultural and residential real estate loan originations for 1997 and 1998. We analyzed these reports to determine which of these borrowers were located within the bank's assessment areas. Our loan sample consisted of 62 agricultural loans and 40 RRE loans from this time period. We determined 60 percent of agricultural loan originations and 88 percent of RRE originations, by number, were to borrowers located within the assessment areas. The table below details our analysis of the bank's record of lending in the assessment areas:

Lending in the Assessment Areas				
	Inside the AA		Outside the AA	
Assessment Area	No. of Loans	% of Loans	No. of Loans	% of Loans
<b>Distribution of Agricultural Loans</b>				
<b>Missouri</b>	27	53%	24	47%
<b>Iowa</b>	10	91%	1	9%
<b>Total</b>	<b>37</b>	<b>60%</b>	<b>25</b>	<b>40%</b>
<b>Distribution of Residential Real Estate Loans</b>				
<b>Missouri</b>	20	87%	3	13%
<b>Iowa</b>	15	88%	2	12%

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Lending in the Assessment Areas				
<b>Total</b>	<b>35</b>	<b>88%</b>	<b>5</b>	<b>12%</b>

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**Other services**

The bank established a savings program called “Dollars and Cents” with elementary school third graders. The bank allows all participating students to open a savings account. The bank waives the service fee, contributes a dollar to each account, and pays interest on the accounts. Bank personnel meet with the class once a month to discuss their savings statements and general banking topics.

**Compliance with Antidiscrimination Laws and Regulations**

FBNM has a satisfactory record of compliance with antidiscrimination laws and regulations. During our consumer compliance examination, we found no substantive violations of fair lending laws and no evidence of discriminatory practices.

**Response to Complaints**

FBNM has not received any written complaints regarding its CRA performance since the previous examination dated December 18, 1996.