



PUBLIC DISCLOSURE

January 26, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Clinton National Bank
Charter Number 994

235 Sixth Avenue, South Clinton, IA 52732

Office of the Comptroller of the Currency

1089 Jordan Creek Parkway Suite 230 West Des Moines, IA 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 Satisfactory.

The Lending Test is rated: Satisfactory.

- The average loan-to-deposit ratio since the previous examination as of March 31, 2012, is 57.19 percent. This is reasonable when considering if loans sold were included in this analysis, the resulting loan-to-deposit ratio would exceed 70 percent.
- A substantial majority of loans originated during this evaluation period were within the Clinton-Jackson assessment area (AA).
- Commercial borrower distribution reflects adequate penetration among businesses of different sizes and different income tracts within the AA.
- There were no complaints regarding the bank's Community Reinvestment Act (CRA) activities.

The Community Development Test is rated: Outstanding.

- Qualified investments, donations, and loans for the evaluation period totaled \$2.8 million.
- Bank employees and directors provided 1,814 hours of financial expertise to qualified organizations and individuals during the evaluation period.
- CNB is headquartered in a moderate income census tract (CT) and participates in the Federal Home Loan Bank's grant program for low income borrowers.

Scope of Examination

We completed a full scope CRA examination, including a review of CNB's one AA, Clinton-Jackson. The evaluation period is March 31, 2012 through December 31, 2013. We evaluated the bank using Intermediate Small Bank procedures, which include a lending test and a community development test. The lending test included a review of commercial loans.

Our primary objective was to determine whether the bank reinvested a significant portion of its deposits locally, with a focus on lending to small businesses, small farms, and homeowners located in low and moderate income CTs.

Our primary objective for the CD review was to determine CNB's responsiveness to the CD needs of the community. 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 during the evaluation period.

Description of Institution

CNB is a \$374 million institution headquartered in Clinton, Iowa. The previous CRA examination rated the institution as Satisfactory. CNB is a subsidiary of W.J. Young & Co. The holding company does not affect the bank’s ability or capacity to meet the needs of the community. The bank is able to meet the needs of its community, including commercial and community development loans, qualified investments, and community service needs. CNB’s financial position, legal circumstances, product offerings, or prior performance do not negatively affect the ability to serve the community. CNB’s performance is restrained by considerable competition in the market area and low demand for credit.

Loan Type	% by Dollars of Loans Originated or Purchased During the Evaluation Period
Commercial	60%
Agriculture	23%
Residential	13%
Consumer	4%
Totals	100%

Source: Bank data for 2012-2013

As commercial loans are CNB’s largest loan product, we selected commercial loans for our primary product.

Competition is considerable as there are 12 institutions in the area. CNB has the largest market share at 20.54 percent, or \$294 million, according to the FDIC Deposit Market Share Report. The next highest is Maquoketa State Bank, at 16.06 percent market share.

Description of Assessment Area

CNB’s assessment area is comprised of 12 contiguous census tracts (CTs), one in Jackson County, Iowa, and 11 in Clinton County, Iowa. There is one moderate CT, nine middle income CTs, and two upper CTs. The AA complies with regulatory requirements and does not arbitrarily exclude any low or moderate income tracts. The AA is not part of a metropolitan statistical area or metropolitan division, and does not include any distressed or underserved tracts. Major employers include Archer-Daniels-Midland Corporation, Lyondell Chemical Company, Bemis Clysar, Nestle-Purina, local school districts, and city and county governments. The local economy is stable yet growing.

The AA population totals 48,645, with 19,957 households. The weighted average median family income is \$60 thousand. 37.71 percent of the households are classified as low to moderate income. 3.18 percent of households are on public assistance.

Unemployment is 4.46 percent, lower than the national and Iowa averages. 3,271 businesses in the AA, or 86.51 percent, had revenues below \$500 thousand.

We conducted one community contact interview on January 30, 2015. The contact stated that CNB is highly involved in the community through economic and business development, donations, and volunteer hours. The contact stated the local economy is growing, unemployment continues to decrease, and banks are assisting the community wherever possible.

Conclusions with Respect to Performance Tests

CNB’s collective CRA performance is satisfactory. Lending activities are satisfactory and community development activities are outstanding.

LENDING TEST

CNB meets the standard for satisfactory performance under the Lending Test.. The loan-to-deposit ratio is reasonable, borrower distribution is satisfactory, and the majority of loans were originated within the assessment area. We used commercial loans as the primary product for the examination.

Loan-to-Deposit Ratio

CNB’s loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance. The quarterly average loan-to-deposit ratio since the last examination was 57.19 percent, but CNB sells loans to the secondary market and participates out portions of loans originated. When considering all originated loans, the average loan-to-deposit ratio improves to 70.24 percent, comparable with similarly situated banks’ average loan-to-deposit ratios of 72.47 percent (Maquoketa State Bank) and 82.93 percent (Gateway State Bank). Factors contributing to CNB’s lower loan-to-deposit ratio include significant competition within the marketplace, the practice of selling loans on the secondary market and participating out loans, and low credit demand.

Lending in Assessment Area

A substantial majority of commercial loans are originated within the AA. By dollar amount, 91.47 percent, and by number, 86.96 percent of loans were originated in the AA. This exceeds the standard for satisfactory performance. Our sample was comprised of 23 commercial loans.

Number of Loans				Dollars of Loans (000s)				Total	
Inside		Outside		Inside		Outside			
#	%	#	%	\$	%	\$	%		
20	86.96%	3	13.04%	23	\$56,647	91.47%	\$5,281	8.53%	\$61,928

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

CNB’s lending to businesses with different levels of revenue reflects reasonable penetration and meets the standard for satisfactory performance. It should be noted that a number of loans in our sample were small dollar loans to businesses with revenues under \$1 million. Considering this factor, the bank’s performance by number is more representative of performance under this criterion. As Table 2 shows, CNB originated 80 percent of commercial loans during the evaluation period to businesses with revenues of less than \$1 million. In our sample, the average loan amount to businesses with revenues over \$1 million was \$17 million, whereas the average loan amount to businesses with revenues under \$1 million was \$500 thousand. The differences between loan amounts to the two types of businesses significantly skewed the results, therefore we relied more on the number of loans to conclude on performance.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	73.78%	3.79%	22.42%	100%
% of Bank Loans in AA by #	80%	15%	5%	100%
% of Bank Loans in AA by \$	8%	92%	0%	100%

Source: 2010 U.S. Census data

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion of lending and meets the standard for satisfactory performance. CNB’s commercial lending meets the demographic comparator for each loan product in the moderate income CT. The analysis reflects lending in all tracts.

CNB originated 15 percent of loans in the moderate income CT, determined by a sample of 20 business loans, comparable to the 18 percent of AA businesses located in that tract. Lending to businesses in the middle income CT also meets the comparator for the combined volume of businesses in the middle and upper income tracts.

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 Loans	0%	0%	18.49%	15%	53.43%	75%	28.09%	10%

Source: 2010 U.S. Census data

Responses to Complaints

CNB has not received any CRA related complaints.

COMMUNITY DEVELOPMENT TEST

CNB's performance under the Community Development (CD) Test is outstanding, considering the varying restraints in the area. CD activities were centered in volunteer hours, CD loans, and donations addressing community service and economic development needs. CNB's activities demonstrate excellent responsiveness to the CD needs of the AA community.

Number and Amount of Community Development Loans

CNB originated 14 CD loans during the evaluation period totaling \$2.7 million. This is a marked increase from the previous examination, where no CD loans were originated, demonstrating an excellent responsiveness to community needs. The CD loans ranged from small dollar loans (\$500) to larger loans (\$1.2 million). 50 percent of the CD loans were granted to businesses located in the moderate income CT. The largest CD loans were granted to Gateway Leasing, a small business, to construct a new urgent care clinic targeted at low to moderate income individuals, and Burmeister Properties, a small business involved in housing in the AA. The Burmeister Properties loan is SBA guaranteed.

Number and Amount of Qualified Investments

CNB made a total of \$19 thousand in donations during the evaluation period, and one investment of \$42 thousand in the City of Clinton General Obligation Bond. This represents an adequate responsiveness to community needs. The City of Clinton Bond financed various improvements to streets, parks, city buildings, site improvements, and land acquisition and construction of a recreational trail. The bond will improve areas in the moderate income CT.

Extent to Which the Bank Provides Community Development Services

CNB employees completed 1,814 hours of qualified volunteer participation during the evaluation period. This demonstrates an excellent responsiveness and dedication to the community. Volunteer positions include treasurers, finance/fiscal committee members, and board members for organizations providing support and development activities targeting low to moderate income individuals.

Responsiveness to Community Development Needs

CNB has demonstrated outstanding responsiveness to CD needs in the AA. There are some CD restraints in the AA with only one moderate income CT, and no lower income CTs. Growing businesses have been purchasing areas where moderate income individuals live, and a large number of other banks and agencies provide community assistance and support. Considering these restraints, CNB's community involvement is excellent. CNB offers a free checking account with no required minimum balance and

no cost for debit cards. This product was developed after the bank learned low to moderate individuals in the area needed checking accounts without fees. CNB is headquartered in the AA's only moderate income CT, increasing access to financial services for low to moderate income individuals, and helping revitalize and stabilize the moderate income CT. CNB actively seeks out opportunities to assist community and economic development. CNB completed over 30 community contact interviews to determine where assistance is needed, whether financially or through volunteerism. The suggestions are reviewed by the CRA Committee, and action plans have been developed. All community contacts indicated CNB does a good job of meeting needs in the community, similar to our findings from the community contact interview we completed.

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.