

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 operations 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 State Bank, Manchester, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **February 12, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated **Satisfactory**.

The institution's rating was assigned based on performance which meets or exceeds standards relative to performance criteria outlined in this document. Major factors considered in assigning the rating, were economic and demographic data, lending opportunities within the assessment area, the examination loan sample, bank generated reports, and information provided by community contacts.

The following table indicates the performance level of **First State Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No Complaints were Received Since the Previous Examination		

DESCRIPTION OF INSTITUTION

First State Bank, with \$73.6 million in assets as of December 31, 1995, is a subsidiary of Delaware Service Company, Inc. The bank operates one office in Manchester, Iowa and functions as a full-service institution offering retail, commercial, and agricultural loan products. Agricultural-related loans dominate the portfolio. The bank's primary competition comes from two institutions located in Manchester; Farmers & Merchants Savings Bank and a branch of Community Savings Bank whose main office is located in Edgewood Iowa.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank defines its assessment area as Delaware County, located in northeast Iowa. According to 1990 U.S. census data, the population of the assessment area is 18,035. Minorities comprise less than 1% of the total population. There are four block numbering areas (BNAs) within the bank's assessment area. All four BNAs are designated as middle income areas. There are 7,408 housing units within the bank's assessment area with 4,838 or 65.3% of these units being owner occupied. The median family income for the assessment area is \$29,685. This compares to \$29,303 reported by the State of Iowa for non-metropolitan areas. Of the 4,838 families in the assessment area 488 or 10.1% are below the poverty level, 817 or 16.9% are low-income, and 862 or 17.8% are moderate income.

According to community contacts, the local economy is highly reliant on the agricultural sector; however, industry, construction, and small business contribute to economic diversification. Community contacts also indicate that steady economic growth has occurred over the past five years, primarily in non-farm industries. Analysis of information obtained through the Federal Reserve Board of Governors' Community Lending Analysis System (CLAS) reveals a decline in the agricultural sector and advances in manufacturing and retail and wholesale trade during the period from 1990 to 1993. CLAS data further indicates a 2.06% decline in per capita personal income for the same period. According to the Iowa Department of Employment Services, the preliminary 1995 average unemployment percentage for Delaware County is 4.60% as compared to the actual 1994 percentage of 5.30%. Overall, the assessment area's economy appears relatively stable and offers local financial institutions opportunities to pursue a wide-range of lending activities.

Overall, the assessment area meets the requirements of the regulation and does not arbitrarily exclude any low-income, moderate-income or minority areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio since the last examination is 72.42% and was calculated using 1995 Call Report data.

The bank's average loan-to-deposit ratio is higher and compares favorably to its peer group's loan-to-deposit ratio of 62.76% (as reported in the September 1995 UBPR). Considering the bank's performance when compared to peer, its financial condition, demographic and economic factors present in the assessment area, and lending opportunities within the institution's assessment area, the ratio is considered reasonable and meets standards for a satisfactory performance.

Lending in Assessment Area

A sample of the bank's loans for December, 1995 along with the bank's self-analysis of the geographic distribution of credit, since the previous examination, was reviewed.

The following table summarizes the geographic distribution of the examination loan sample:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Installment	20	18	90
Single Payment	10	9	90
Real Estate	10	10	100
Home Equity Line	2	2	100
Over-Draft Protection	10	9	90
Credit Card	10	9	90
Commercial/AG	20	18	90
TOTAL APPROVED	82	75	91
Denied Loans	29	22	76

Results of the bank's self-analysis of all loans made since the previous examination is summarized in the following table:

LOAN TYPE	TOTAL	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Consumer	497	425	86
Consumer Real Estate	78	73	94
Agricultural (operating)	280	270	96
Agricultural (real estate)	5	5	100
Commercial	273	261	96
Commercial Real Estate	9	8	89
TOTAL	1,142	1,042	91

The figures provided by the bank's self-analysis were tested for accuracy against the examination loan sample and proved to be a reliable and valid analysis of the bank's lending in the assessment area. As the previous tables indicate, both the examination loan sample and the bank's analysis reveal that a substantial majority of loans are in the bank's assessment area. Based on this strong lending penetration, the bank's performance exceeds standards for satisfactory performance.

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

A sample of loans made in December, 1995, call report data from June 30, 1995, and information provided by the bank, detailing originations by average loan size, were reviewed to determine the bank's level of lending to borrowers and businesses of different incomes.

LENDING TO INDIVIDUALS

In order to analyze loan distribution to individuals of different income levels, average loan size was used as a proxy for income of the borrower. The examination loan sample and the bank's data revealed that loans are made to borrower's of different income levels in accordance with the demographics in the assessment

LENDING TO BUSINESSES AND FARMS OF DIFFERENT SIZES

Data obtained in the June 30, 1995 Call Report was analyzed to determine the bank's level of lending to businesses and farms of different sizes. The Call Report defines small business and small farm loans as those loans with amounts of \$1 million or less for small business and \$500 thousand or less for small farms. Analysis of this data reveals that \$27.7 million or 61% of the

bank's entire loan portfolio was originally extended to small businesses and small farms. (The figures are \$19.4 million and 43% if only small farm loans are considered). Based on the examination loan sample, Call Report data, and demographics of the assessment area, the distribution of lending to businesses and farms of different sizes is considered reasonable.

The bank's overall lending to individuals and businesses of different incomes is considered reasonable and meets standards for satisfactory performance.

Geographic Distribution of Loans

The bank's assessment area was reviewed to determine compliance with regulatory guidelines. In addition, the bank's self-analysis, which plots the geographic distribution of loans within the assessment area, was reviewed and community contacts were interviewed regarding the bank's level of lending within its entire assessment area.

A review of the bank's self-analysis, which entails plotting all loans on a map of the assessment area, reflects reasonable dispersion of loans considering the area's demographics. Finally, community contacts indicate that all geographies within the assessment area experience reasonable access to credit.

Based upon the bank's assessment area, results of its self-analysis, and comments made by community contacts, the bank's geographic distribution of loans meets the standards for satisfactory performance.

Response to Complaints

No complaints were received since the previous examination.