

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 **Security Trust & Savings Bank, Storm Lake, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **March 18, 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 bank has demonstrated a satisfactory effort in meeting the credit needs of its community. The bank's assessment area meets the definition and purpose of CRA and does not arbitrarily exclude any low-income or moderate-income areas, or residents that the institution would reasonably be expected to serve. The majority of the bank's loans are within its assessment area and lending activity appears to be reasonably distributed both geographically, and among businesses of different sizes and borrowers of different income levels. Although the institution's loan-to-deposit ratio is less than 50%, factors such as competition, seasonal fluctuations, and the bank's willingness to extend loans in small dollar amounts, compensate for the low loan-to-deposit ratio. There was no evidence of discriminatory lending practices or policies intended to discourage loan applications.

The following table indicates the performance level of **Security Trust & Savings Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	SECURITY TRUST & SAVINGS 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 have been received since the previous examination.		

DESCRIPTION OF INSTITUTION

Security Trust & Savings Bank, with total assets of \$58.8 million as of December 31, 1995, is a family-owned community bank. The bank's main office, drive-up facility and two 24-hour Automated Teller Machines (ATM) are located in Storm Lake. The bank offers residential real estate, consumer, commercial and agricultural loans. Real estate loans make up the largest portion of the bank's loan portfolio (approximately 52%), but the bank is also a strong agricultural lender. The institution generally promotes economic revitalization and growth, consistent with its size, financial capacity, location and current economic conditions. There are no legal or regulatory impediments that would prevent the bank from meeting its CRA obligations.

The bank's primary competitors include: The Citizens First National Bank of Storm Lake, The Commercial Trust & Savings Bank, Farm Credit Services, First Federal Savings & Loan Association of Storm Lake and Citizens Community Credit Union (Fort Dodge). Additional competition is provided by financial institutions located in the surrounding communities.

DESCRIPTION OF THE BANK-S ASSESSMENT AREA

The bank's assessment area is defined as the southern portion of Buena Vista County and contains the townships of Nokomis, Washington, Grant, Coon, Maple Valley, Hayes, Providence, and Newell. The City of Storm Lake, located in northwestern Iowa in Buena Vista County, is at the center of the assessment area and is approximately 60 miles east of Sioux City, Iowa, and 150 miles northwest of Des Moines, Iowa. The assessment area is comprised of four block numbering areas (BNAs). The current assessment area is smaller than the delineated community in effect during the previous examination (it consists of the southern half of Buena Vista County) and includes the previously excluded towns of Truesdale, Alta and Newell. As encouraged in the previous report of examination, management revised its delineated community so that it consists of the contiguous areas surrounding each office or group of offices.

According to the 1990 U.S. Census data, the population of the assessment area is 15,708 with 8,769 people residing in Storm Lake and 19,965 people residing in Buena Vista County. Minorities comprise approximately 5% of Storm Lake's population, less than 4% of the assessment area's population, and less than 3% of Buena Vista County's population. Individuals of Southeast Asian and Hispanic descent account for the largest sector of the minority population, with the latter being the fastest growing, according to community contacts.

Agriculture and related industries comprise the base of Buena Vista County's economy. Corn, soybeans and hogs are the major crops/products produced in the area. Iowa Beef Processors, Inc. (IBP), a pork processor employing 1400, and Bil-Mar Foods of Iowa, a turkey processor employing 600, are the area's major employers. The local economy is strong, with the March, 1996 unemployment rate at 2.4% according to the Iowa Department of Economic Development. According to the 1990 U.S. Census data, the median household income in the assessment area is \$25,571, while the median family income is \$29,791 for the assessment area and \$29,186 for

Buena Vista County. Discussions with meat processors in the community revealed an increasing demand for labor. Growth in the agricultural and manufacturing industries has depleted the supply of local workers and has caused many companies to hire migrant workers. Community contacts stated that the minority sector of the population is growing and expressed the need for rental and single family housing as a result of this growth.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Review of loans and denied applications revealed no discriminatory lending practices or policies intended to discourage applicants. The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

Loan-to-Deposit Ratio

A review of the bank's consolidated reports of condition for the six quarters since the previous examination revealed an average loan-to-deposit ratio of 48.91%. Overall, total loans increased by \$876,000 or 3.6% since the previous examination. The following chart shows the bank's net loan-to-deposit ratios for each quarter since the previous examination, as well as, the most recent loan-to-deposit ratios of two banks in the community.

Bank/ Assets as of 12/31/1995	Sept. '94	Dec. '94	Mar. '95	Jun. '95	Sept. '95	Dec. '95
Security T&S Bank \$58,841,000	47.59%	47.95%	45.69%	51.61%	52.02%	48.65%
Citizens 1 NB S. Lake \$150,841,000						51.48%
Commercial T&S Bank \$46,849,000						95.74%

Although the bank's loan-to-deposit ratio does not appear reasonable, several factors adversely impact the ratio, supplement the institution's lending performance and support a satisfactory rating under this performance category. The bank's ratio is unfavorably influenced by competition from the two banks mentioned above, three savings banks and a credit union which all serve the City of Storm Lake. There are a relatively large number of financial institutions, offering competitive interest rates, seeking the business of a limited number of borrowers. As the preceding chart indicates, with the exception of Commercial Trust & Savings Bank, the two other banks in the community have loan-to-deposit ratios of approximately 50%.

Seasonal fluctuations also affect the bank's loan-to-deposit ratio. Since agriculture is a major industry in the assessment area, fluctuations in the bank's loan-to-deposit ratio occurs during the year; a surge in the loan-to-deposit generally occurs in June. According to the president, a successful farming season last year had a downward effect on the ratio, prompting many

agricultural-related loans to be paid off ahead of schedule. Competition from Farm Credit Services has negatively affected the volume of farm lending. Agricultural loans decreased by \$232,000 or 3.6% and agricultural real estate loans increased by \$861,000 or 22% since the previous examination. Although the bank's core deposits have remained flat, deposits rise temporarily in March and September when the County Treasurer deposits tax receipts.

A review of the examination loan sample revealed that 45% (9 of 20) of the bank's single payment loans were in amounts less than \$1,000 and 90% (18 of 20) of installment loans were in amounts less than \$5,000. In 1995, the bank extended a total of 452 loans in amounts of \$1,000 or less. The volume of loans in small dollar amounts signifies the bank's efforts to meet the community's credit needs and supplements its lending performance as reflected in its loan-to-deposit ratio.

The bank is also active in Small Business Administration (SBA) and Farmers Home Administration (FmHA) loans. Two FmHA loans (totaling \$246,119.27) and one SBA loan (\$88,716) have been originated since the previous examination. Fifteen FmHA-related loans have also been originated during the same period, and is an indication of the bank's desire to fill the demand for these products and meet the community's credit needs.

A significant portion of the bank's assets are in securities; however, interviews with community contacts confirm that loans are available and being made throughout the community. Although there are compensating factors to the bank's low loan-to-deposit ratio, the satisfactory rating under this performance criteria is marginal and is dependent on the bank's ongoing role in ensuring, by aggressively offering and making loans, that the community's credit needs are met.

Lending in Assessment Area

The examination loan sample was reviewed to determine the bank's lending activity within its assessment area. The following chart illustrates the distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL DELINEATED COMMUNITY	PERCENT OF TOTAL
Real Estate	10	9	90
Installment	20	18	90
Comm=/Agriculture	20	17	85
Single Payment	20	13	65
Total Approved Loans	70	57	81

As the preceding chart indicates, 81% of the loans in the examination sample were within the assessment area. The bank's analysis of the distribution of outstanding loans revealed that 83% (314 of 378) of real estate loans, 68% (401 of 587) of installment loans, 60% (225 of 373) of agricultural loans and 90% (139 of 154) of commercial loans are made within the assessment area. As these figures indicate, 40% of the outstanding agricultural loans are outside of the assessment

area; however, this is not a concern at this time. According to community contacts, strong demand for agricultural loans in Sac County, which is located south of the assessment area, resulted in approximately 17% of agricultural loans being made in Sac County.

Based upon this review and information provided by management, the bank exceeds the standards for satisfactory performance under this category. Although there is a limited base of deposit/loan customers and a significant number of financial institutions in the bank's assessment area, the bank does not have many borrowers outside of its assessment area and lending performance within the community is strong.

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

A significant number of loan files in the examination sample did not contain borrower income information, as the bank does not routinely record income information. As a result, a limited income analysis was performed. Of the five real estate loans with income information, one was originated to an upper-income borrower, one was extended to a middle-income borrower, and three were made to moderate-income borrowers. Furthermore, as discussed under the loan-to-deposit ratio performance criteria, the bank makes a significant number of small loans. In 1995, the bank extended a total of 452 loans in amounts of \$1,000 or less. In addition, a review of the examination loan sample revealed that 45% of the single payment loans were in amounts less than \$1,000 and 90% of installment loans were in amounts less than \$5,000. These loan sizes may be used as a proxy of the borrowers' income level.

A sample of commercial and agricultural loans was also reviewed; however, there was limited income information in the loan files on the size of the borrowing businesses. Six of twenty or 30% of these loan files contained information on the gross annual revenues of the borrowers. Of these six, four were made to businesses with gross annual revenues of \$500,000 or less. Furthermore, the June 30, 1995 Report of Condition and Income revealed that the majority of the bank's business and farm loans were in amounts of \$100,000 or less. Based upon discussions with management and the limited loan sample review, the distribution of loans reflects a reasonable penetration of borrowers and business/farms of different income levels and sizes.

Geographic Distribution of Loans

The bank is not located in a Metropolitan Statistical Area (MSA) and there are no low-income or moderate-income areas within its assessment area. The bank performs an analysis of the geographic distribution of its loans, by loan type, within the assessment area (which represents approximately 74% of the total number of outstanding loans). Results of this analysis are indicated in the following chart:

Total Number of Loans in the Assessment Area by Product

Block Numbering Area (BNA), number & percentage of loans in BNA				
Product	9603	9604	9605	9606
Real Estate	35 9%	111 29%	90 24%	78 21%
Installment	35 6%	172 29%	109 19%	85 14%
Agriculture	142 38%	6 2%	14 4%	60 16%
Commercial	3 2%	76 49%	36 23%	24 16%
Total	215 20%	365 34%	249 23%	247 23%

As the preceding chart indicates, real estate, installment and commercial loans are concentrated in BNA #9604, the locale of the bank’s facilities, and agricultural loans are concentrated in BNA #9603, a rural area with a number of small farms. As discussed previously, approximately 40% of agricultural loans are outside of the assessment area which affects the distribution within the assessment area. Based on this analysis and the market’s demographics, the geographic distribution of loans is considered reasonable and the bank’s performance in this category is satisfactory.

Response to Complaints

No CRA-related complaints were received by the bank since the previous examination.