

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 **Iowa State Bank, Fairfield, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 29, 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's lending activity promotes economic growth, consistent with its size, financial capacity, location, and assessment area's current economic conditions. The bank's lending is concentrated in consumer loans, with strong activity also noted in real estate, commercial and agricultural lending. The bank's loan-to-deposit ratio evidences these efforts. The majority of the bank's loans are originated within its assessment area and are reasonably distributed geographically, among applicants of different income levels and businesses of different sizes. Management has developed adequate policies and procedures to comply with fair lending laws and regulations. The board of directors and senior management are advised to review the comments under each performance criterion.

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

| SMALL INSTITUTION ASSESSMENT CRITERIA | IOWA 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

Iowa State Bank, with approximately \$74 million in assets as of March 30, 1996, operates its main facility in downtown Fairfield, Iowa, the seat of government for Jefferson County, and maintains a full-service branch four blocks west of downtown. The bank operates an automated teller machine (ATM) at its branch location, and two cash-dispensing ATMs at retail locations in both Fairfield and Batavia.

The bank's primary competitors include a local branch of Central Valley Bank in Ottumwa, IA, First National Bank in Fairfield, Libertyville Savings Bank in Libertyville, IA and Farmers Savings Bank in Packwood, IA.

The bank is primarily an agricultural and consumer lender. Although the bank does not originate 30-year consumer mortgages, it has been endorsed by GE Capital to provide mortgage insurance, and refers 30-year mortgage applications to Iowa Bankers Mortgage in Des Moines.

DESCRIPTION OF ASSESSMENT AREA

Iowa State Bank is located in Fairfield, Iowa, approximately 50 miles west of the Mississippi River and 30 miles north of the Missouri state line. The bank has delineated Jefferson County as its assessment area. Jefferson County is divided into four block numbering areas (BNAs). The bank has an office in two of the four BNAs which are urban areas (9003 and 9004), while the other two BNAs are rural areas.

According to 1990 U.S. Census data and the Federal Reserve Bank's Community Lending Analysis System (CLAS), Jefferson County has a population of 16,310. Although all BNAs in the assessment area are defined as middle income, the highest income geography within the assessment area is the BNA representing eastern Fairfield (112% of median income) and the lowest income geography is western Fairfield (89.66% of median income). The median family income for Jefferson County is \$29,443. Low income families represent 17.6% of all families in Jefferson County and 19.6% are considered moderate income families. Minorities represent 2.4% of the population. There are no BNAs with high concentrations of minority residents.

The housing stock of Jefferson County is 62.4% owner-occupied and 81.9% consisting of one-to-four unit family residences with a median age of 37 years. Mobile homes represent 10.8% of the housing stock.

The primary industries in Jefferson County are farming and livestock. According to Iowa State University's annual farmland value survey as published in December of 1995, farmland values for 1995 increased 8.3% in Jefferson County from 1994 levels, and out paced the state's average increase of 7.3%. The Fairfield area is well-diversified with a number of manufacturing firms, small businesses and an international university. In addition to agriculturally-related business, the major employers in the assessment area are Rockwell International (heavy equipment

manufacturer), Dexter, Inc. (washing machine manufacturer), and Maharishi International University (accredited university specializing in transcendental meditation).

According to the Labor Market Information Division of the Iowa Department of Employment Services, unemployment in Jefferson County was 3.3%, which compared favorably with the state average of 4.0% for March 1996.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs to support fair lending activities. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

Loan-to-Deposit Ratio Analysis

The bank's average quarterly loan-to-deposit ratio since the previous examination is 66.03%. According to the Uniform Bank Performance report dated December, 1995, the bank's loan-to-deposit ratio exceed its peer average of 60.68%.

In order to assess the bank's standing with local competition, a loan-to-deposit ratio analysis was conducted with four banks located in Jefferson County. The following chart represents a loan-to-deposit ratio comparison for 1995, according to the *McFadden American Financial Directory*:

| Loan-to-Deposit Ratio (LTD) of Iowa State Bank's Immediate Competition | | | | | | |
|---|-----------------------------|---------------------------|----------------------------------|------------------------------|----------------------------|----------------|
| Bank Name | Main Office Location | Competitive Branch | Asset Size (in thousands) | LTD Ratio Spring 1995 | LTD Ratio Fall 1995 | Average |
| Central Valley Bank | Ottumwa | Fairfield | \$31,334 | 81.16% | 73.04% | 77.10% |
| First National Bank | Fairfield | Fairfield | \$81,573 | 70.31% | 71.30% | 70.80% |
| Farmers Savings Bank | Packwood | Packwood | \$15,145 | 32.57% | 29.97% | 31.27% |
| Libertyville Savings Bank | Libertyville | Libertyville | \$45,541 | 69.69% | 72.22% | 70.95% |
| Iowa State Bank | | | \$73,759 | | | 66.03% |

Considering the bank's financial condition, legal impediments, strong local competition and lending opportunities available in the assessment area, the institution's loan-to-deposit ratio meets standards for satisfactory performance.

Lending in Assessment Area

In order to determine the bank's lending performance within its assessment area, sample of loan originations was reviewed:

| EXAMINATION LOAN SAMPLE ANALYSIS | | | |
|---|----------------------|-----------------------------------|-------------------------|
| Loan Type | Total Sampled | Within the Assessment Area | Percent of Total |
| Real Estate | 10 | 8 | 80 |
| Direct Installment | 16 | 14 | 87.50 |
| Indirect Installment | 11 | 10 | 90.91 |
| Overdraft Protection | 10 | 9 | 90 |
| Single Payment | 10 | 10 | 100 |
| Commercial | 20 | 16 | 80 |
| Total Approved Loans | 77 | 67 | 87.01 |

In addition to the examination loan sample, the results of the bank's own analysis of its two most active loan products, automobile/truck loans, and unsecured consumer loans, for the period of October 1995 through March 1996 were also reviewed:

| IOWA STATE BANK'S LOAN ORIGINATION ANALYSIS OCTOBER 1995 - MARCH 1996 | | | |
|--|------------------------|-----------------------------------|-------------------------|
| Loan Type | Total in Period | Within the Assessment Area | Percent of Total |
| Automobile & Truck | 53 | 34 | 64.15 |
| Consumer Unsecured | 87 | 73 | 83.91 |
| Total Approved Loans | 140 | 107 | 76.43 |

As the preceding charts illustrate, the majority of sampled loans is within the bank's assessment area. This performance meets standards for satisfactory performance.

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

A sample of loans was reviewed to determine the bank's distribution of loans among borrowers of different income levels. The review of the loan sample revealed the following:

| LOAN TYPE | LOW-INCOME Number of Loans | MODERATE- INCOME Number of Loans | MIDDLE- INCOME Number of Loans | UPPER-INCOME Number of Loans |
|----------------------|---------------------------------------|---|---|---|
| Real Estate | 0 | 3 | 1 | 6 |
| Direct Installment | 3 | 3 | 4 | 6 |
| Indirect Installment | 4 | 2 | 0 | 4 |
| Overdraft Protection | 0 | 3 | 2 | 5 |
| Total Originations | 7 | 11 | 7 | 21 |

As the chart illustrates, 7/46 or 15.22% of loans sampled were to low income borrowers and 11/46 or 23.91% of loans sampled were to moderate income borrowers. These percentages are consistent with the low income and moderate income makeup of the bank's assessment area, as defined by the 1990 U.S. Census. Low income families represent 17.6% and moderate income families represent 19.6% of the total population of Jefferson County. In addition to the loan sample, the bank's mobile home lending activity was analyzed in order to measure the bank's commitment to investing in low income housing. During the period between June 1995 and March 1996, the bank originated seven mobile home loans for a total of \$51,956.

The commercial loan sample with current annual revenue information and the bank's June 30, 1995 Consolidated Report of Condition detailing loans to small businesses and farms were reviewed. Thirteen out of 14 (92.86%) commercial loans sampled were to businesses with gross annual revenues of \$500,000 or less. According to the Consolidated Report of Condition, the bank's loan portfolio contained 348 agricultural loans and 518 commercial loans. These loans all had principal balances not exceeding \$100,000.

The examination analysis of lending to borrowers of different income levels and businesses of different sizes revealed that the bank meets standards for satisfactory performance. The bank's loan activity with low income and moderate income borrowers is adequate, and performance with small farms and small businesses is strong.

Geographic Distribution of Loans

All of the BNAs in the bank's assessment area are designated middle income geographies. An analysis of the examination loan sample revealed the following distribution of loan activity by BNA:

| Loan Type | Eastern Jefferson BNA # (9901) | Western Jefferson BNA # (9902) | Western Fairfield BNA # (9903) | Eastern Fairfield BNA # (9904) | Total Loan Originations |
|----------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------|
| Real Estate | 0 | 1 | 6 | 1 | 8 |
| Direct Installment | 0 | 2 | 9 | 3 | 14 |
| Indirect Installment | 0 | 1 | 5 | 4 | 10 |
| Overdraft Protection | 0 | 0 | 5 | 4 | 9 |
| Commercial | 1 | 4 | 7 | 3 | 15 |
| Single Payment | 0 | 3 | 7 | 0 | 10 |
| Total | 1 | 11 | 39 | 15 | 66 |

As the above chart illustrates, the majority of loans sampled (39/66 or 59.09%) were originated in western Fairfield and only 1.59% (1/66) were originated in eastern Jefferson County. In order to further analyze this disparity, the bank's self analysis was employed.

The bank's self analysis included a geographic break down of its two most active consumer loan products for the period of October 1995 through March of 1996: Consumer unsecured and automobile/truck loans. Instead of using BNAs, the bank divided its delineation into eight areas: both Fairfield and surrounding Jefferson County were divided into four areas each. After analyzing the geographic distribution of loans, using the bank's results, it was determined that 16.44% (12/73) of consumer unsecured and 23.53% (8/34) of auto/truck loans were originated in eastern Jefferson County. Bank management further explained that because of its proximity to Mt. Pleasant, a town in Henry County that is similar in size to Fairfield, the majority of residents in eastern Jefferson County work in and conduct their banking activities in Mt. Pleasant.

Based upon the examination loan sample, discussions with management and the bank's self-analysis, the geographic distribution of loans is reasonable.

Response to Substantiated Complaints

No complaints were received by the institution regarding CRA performance, since the previous examination.