
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 **Central State Bank, Elkader, 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 generally promotes economic revitalization and growth, consistent with its size, financial capacity, location, and current economic conditions. The bank's loan-to-deposit ratio is consistent with its local competition and lending within the bank's assessment area exceeds standards for satisfactory performance. The distribution of the bank's loans within its assessment area, as determined from the bank's self-analysis and verified by the examination loan sample, appears evenly distributed throughout the entire area. Income data was unavailable; therefore, loan amounts were used as a proxy to determine the lending to borrowers of different incomes and to businesses of different sizes. The bank is considered to have met the standards for satisfactory performance. In addition, no complaints were received by the institution regarding its CRA performance, since the previous examination.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	(NAME OF FINANCIAL INSTITUTION) 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

Central State Bank, with total assets of \$66 million as of December 31, 1995, is a subsidiary of A.J.J. Bancorp, a one-bank holding company. The bank's main office and a drive-up facility are located in Elkader. The bank operates one full-service branch in Marquette and limited service branches in Volga and McGregor. The bank's primary business focus is agriculture, and the bank offers agricultural, small business, instalment, single-payment, and various types of real estate lending. The bank's main competition in Elkader is Peoples State Bank and in McGregor, Interstate Savings & Loan Association. Several savings and loan associations, from Prairie du Chien, Wisconsin, provide competition in Marquette.

There are no apparent factors relating to the bank's financial condition and size, products offered, prior performance, legal impediments or local economic conditions that would prevent the bank from meeting local credit needs.

DESCRIPTION OF THE BANK-S ASSESSMENT AREA

The bank's offices are located in Clayton County, which is in the northeast portion of the State of Iowa, approximately 65 miles northwest of Dubuque. The bank's assessment area consists of portions of three counties, two in Iowa and one in Wisconsin with the area in Clayton County, Iowa comprising the largest portion of the assessment area. This assessment area consists of seven Block Numbering Areas (BNA's). According to the 1990 U. S. Census data, the assessment area has a population of 21,228 with minorities comprising 1% of the total. The assessment area consists of the towns of Elkader, Strawberry Point, Littleport, Volga, Luana, Monona, Farmersburg, Garnavillo, McGregor, and Marquette in Clayton County, Iowa; Waterville in Allamakee County, Iowa; and Prairie du Chien in Crawford County, Wisconsin.

The median family income for the assessment area is \$26,502, this is below the figures for the State of Iowa, which is \$29,303, and the State of Wisconsin, which is \$30,290. The BNA's in the bank's assessment area are all middle income areas. There are 9,691 housing units in the assessment area, of which 5,964 (61.5%) are owner-occupied. The median age of the housing stock is 53 years and the median value is \$39,322.

The economy of the assessment area is primarily dependent on agriculture, mainly dairy operations. However, the economy of Marquette and McGregor, located along the Mississippi River, is primarily dependent on tourism, which peaks during the summer and fall.

Major employers in the county are Elkader Wire and Display (45 employees), Central Community Hospital (75 employees), Land's End (50 employees), and Clayton County. Additionally, a river boat casino operates in Marquette and employs 700. The casino has improved the economic condition of the entire Clayton County area, by creating jobs and attracting tourists. According to the Iowa Department of Labor Statistics, the February 1996 unemployment rate for Clayton County was 7.3% this compares to the seasonally adjusted rate of

4.3% for the State of Iowa. These figures cover the winter months and the Clayton County rate appears higher than the State's average, primarily due to the agricultural nature of the area's employment base. Comparing these figures to 1990 U.S. census data, the unemployment rate for the State of Iowa has remained stable as it was 4.5%. However, the rate for Clayton County in 1990 was 4.3%.

Discussions with community representatives indicate that farmers are retiring or going out of business, this may have contributed to the difference in unemployment rates. This is further evidenced by information obtained from the Federal Reserve Community Lending Analysis System (CLAS), which revealed that farm proprietors have declined 1.4% from 1992 to 1993, and individuals employed in farming have declined 2.1% for the same time period. The housing stock in Elkader consists of single family residences with very little new construction due to a shortage of available lots. However, according to community representatives, a 18-24 unit senior citizens condominium complex is being built and will provide housing units for young families moving to Elkader. Further discussions with these representatives indicate a need for low down payment mortgages which would help the new residents acquire these homes.

The bank's assessment area meets the requirements of the regulation; it consists of contiguous political subdivisions, and all geographies where the bank has offices or deposit-taking ATMs. Additionally, the assessment area does not arbitrarily exclude any low-income or moderate-income areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

The bank's average quarterly loan-to-deposit ratio is 50.52%. Although this ratio is significantly less than peer (67.44%), as stated in the December 31, 1995 Uniform Bank Performance Report, it is reasonable given the local marketplace and the local demand for loans. According to community representatives, agricultural loan demand is relatively low in Elkader. This apparent lack of demand is attributed to government subsidies, the Conservation Reserve Program, which are paid directly to farmers not to farm land prone to erosion. Since the area around Elkader is susceptible to soil erosion, the loan demand is affected significantly by this program. Comparing Central State Bank to its local competition, which has a 46.35% loan-to-deposit ratio as of its June 30, 1995 Consolidated Report of Condition, is a more accurate measurement of the bank's performance. Additionally, the bank's branch in Marquette has a comparatively high loan-to-deposit ratio of approximately 80%. This is reflective of the makeup of the marketplace in which this branch competes.

The bank's loan-to-deposit ratio is considered reasonable in comparison to peer and taking into consideration the fact that government subsidies encourage certain local farmers not to farm. In

other markets (Marquette and Prairie du Chien), the bank has made loans meeting community credit needs at levels similar to peer.

Lending in the Assessment Area

A review of the loan sample revealed the following geographic distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL DELINEATED COMMUNITY	PERCENT OF TOTAL
Instalment	21	18	86
Single Pay	15	14	93
Real estate	10	8	80
Commercial/Ag	20	18	90
TOTAL	66	58	88

The loan sample above indicates a substantial majority (88%) of the bank's loans are within its assessment area. A review of the bank's internal analysis revealed the following geographic distribution:

Block Numbering Area (BNA)	Real Estate	Single Pay	Instalment	Agriculture	Commercial	Total
9604	1	0	2	6	4	13
9701	13	17	30	12	12	84
9702	1	7	7	7	2	24
9703	7	25	25	26	12	95
9706	0	10	13	37	5	65
9805	0	5	6	0	0	11
9806	0	2	2	0	15	19
Total In	22	66	85	88	50	311
Just Outside	Real Estate	Single Pay	Instalment	Agriculture	Commercial	Total
9605	0	0	1	0	0	1

9704	0	1	0	0	0	1
9705	1	0	0	1	1	3
9804	0	0	0	1	0	1
Other Outside	3	7	8	3	7	28
Total Outside	4	7	8	5	8	32

According to the analysis of the bank's lending in the past three months, 91% (311 of 342) of the bank's lending was within its assessment area.

The bank's internal geographic analysis of lending and a review of the geographic distribution of the examination loan sample reveals a substantial majority of the bank's lending is within its assessment area. This would indicate the bank exceeds the standards for satisfactory performance in this assessment criteria.

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

The bank does not routinely take applications for installment and single-payment loans; therefore, adequate income data could not be obtained for an analysis. This lack of income data limits the discussion of lending to individuals and businesses of different incomes and revenues to loan amounts. A review of the loan sample revealed; 15 single-payment loans averaged \$2,454 and 21 instalment loans averaged \$4,186. In addition, the income information available from the loan sample (although limited) revealed that the bank accepts applications from all income levels.

Review of the June 1995 Report of Condition revealed that 44 real estate loans were made to small businesses with annual revenue under \$1 million, an average of \$88,000 per loan, and 142 business loans were made for an average loan amount of \$24,000. The bank made all its loans to farms with annual sales under \$500,000. Agricultural lending to small farms secured by real estate included 74 loans averaging \$72,000, and farm loans not secured by real estate totaled 454 for an average of \$12,000.

The bank is making loans of different sizes and the average size of these loans indicates the bank makes loans to borrowers of all income levels. In addition, evidence from the examination reveals that loan applications appear to be taken from applicants of all income levels. Further, business and farm loans are made to borrowers, who by definition are small business and small farms.

Geographic Distribution of Loans

Overall, the geographic distribution indicates the bank's lending is dispersed evenly over the entire assessment area with no conspicuous gaps. The bank's assessment area is not very diverse and is mainly rural in nature having no low-income or moderate-income BNA's, and no minority

designated areas. Review of the bank's internal analysis indicates the bank is making loans in all of its geographies with significant concentrations in BNA's (9703, 9701) where it has full-service offices.

Review of CRA Complaints

No CRA complaints were received since the previous examination.

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