

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 **Farmers State Bank, Lake View, Iowa**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **September 16, 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**.

Farmers State Bank's lending activity promotes economic growth, consistent with its size, location, and current economic conditions in its assessment area. The bank provides this support through the origination of small farm, small business, real estate, and consumer loans. The majority of the bank's loans are made within the assessment area, and are available to borrowers of all income levels, and to small farms and small businesses. The bank's loan-to-deposit ratio, although the lowest of its most comparable peer group banks, is considered satisfactory based on demographic and economic conditions in the area. The examination revealed no patterns or practices intended to discriminate or to discourage applications from any member of a protected class. No CRA-related complaints have been received since the previous examination.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	FARMERS 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	No low- or moderate-income geographies are present within the assessment area.		
Response to Complaints	No complaints have been received since the previous examination.		

DESCRIPTION OF INSTITUTION

Farmers State Bank, with \$19.5 million in total assets as of June 30, 1996, is a subsidiary of Jems, Inc., a one-bank holding company. The bank, one of two financial institutions in Lake View, serves its assessment area from its one office, which includes a drive-up automated teller machine (ATM).

Primary competition for deposit and loan services is provided by the Lake View Branch of First Federal Savings Bank of the Midwest, Bank Midwest (Wall Lake Branch), Carroll County State Bank (Auburn Branch), Citizens Bank (Sac City), and Sac City State Bank (Sac City). Competition for agricultural loans also comes from Farm Credit Services in Storm Lake.

Loan products offered by the bank include agricultural, business, residential mortgage, and consumer (installment, single-payment and automobile) loans, with maturities normally not exceeding five years. Requests for real estate loans with longer maturities are referred to Iowa Bankers Mortgage Corporation in Des Moines. In addition, the bank offers government-guaranteed/insured student loans and other government-assisted loans through the Farmers Home Administration, the Small Business Administration, and the Iowa Beginning Farm Loan Program. As of June 30, 1996, the bank's loan portfolio was comprised of 55% commercial/agricultural loans and 45% consumer loans. There are no factors relative to the bank's financial condition, size, or local economic conditions which would prevent the bank from meeting community credit needs.

DESCRIPTION OF ASSESSMENT AREA

Lake View, Iowa, is located in Sac County, approximately 115 miles northwest of Des Moines, 80 miles southeast of Sioux City, and 100 miles northeast of Omaha. The bank has defined its assessment area as block numbering areas (BNAs) 9802 and 9803, which are primarily rural agricultural areas located in Sac County. The largest cities in the assessment area include Lake View (population of 1,303), Odeboldt (1,158), Wall Lake (875), and Auburn (283).

According to 1990 U.S. Census data, the two BNAs have a combined population of 6,000, which accounts for 48.7% of Sac County's total population. Minorities represent 0.5% of the assessment area population. The two BNAs have almost identical median family incomes, that together average \$26,185, which compares to \$29,303 for non-metropolitan areas in the State of Iowa. Although this median income level defines these BNAs as middle-income areas, 20.2% of the families in the assessment area are low-income, and 22.4% are moderate-income.

The housing stock in the assessment area has a median value of \$29,087 and a median age of 50 years, with 54.2% of the units being built before 1950. The vast majority (93.6%) of the properties are 1-4 family units, with 60.1% of all housing being owner-occupied, 22.8% rental units, and 17.2% vacant.

Although Black Hawk Lake and Black Hawk Lake State Park are popular tourist attractions in the area, the local economy is primarily dependent upon agriculture and related services. Corn

and soybeans are the primary crops grown in the area, while hog production is also prevalent. As of August, 1996, corn and soybean prices were up 71% and 32%, respectively, over one year ago, and hog prices were up approximately 21%. Crop production for 1996 is expected to be average or a little better, but below 1995's figures. Pork production in Iowa, as of July, 1996, is down substantially from 1995 and is projected to decline further through the end of 1996.

Because of the area's heavy reliance on agriculture, non-farm employment opportunities within the assessment area are limited. Within the Lake View area, the largest employers are the Wall Lake View Auburn School District, which employs a total of 62, and Lake View Concrete Products Co., which employs 20. All other employers in Lake View generally have fewer than ten employees. As a result, residents within the assessment area often obtain employment in other nearby communities. The towns of Carroll, Ida Grove, and Storm Lake, located within 20-30 miles of Lake View, offer significant non-farm employment opportunities. The largest employers in these cities (number of employees shown parenthetically) include IBP, Inc. (1,450); Bil-Mar Foods, Inc. (575); Furst-McNess (340); Midwest Industries, Inc. (315); Gomaco Corp. (315); Pella Corp. (300); G.E. Co. (180); Farmland Foods (120); and Delavan-Carroll Inc. (100).

The unemployment rate in Sac County, as well as throughout Iowa, has been declining steadily. In August, 1996, the unemployment rate in Sac County was 2.5%, down from 5.4% in January, 1996, while Iowa's statewide unemployment rates was 2.9%, down from 4.2% in January, 1996.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank was examined for compliance with fair lending laws and regulations. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive portions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

Loan-to-Deposit Ratio Analysis

A review of the bank's quarterly Consolidated Reports of Condition and the Uniform Bank Performance Reports (UBPRs) from September 30, 1995 through June 30, 1996 revealed a four-quarter average loan-to-deposit (LTD) ratio of 45.58%. For the bank's nationwide peer group, the average for the same period was 60.62%. According to the UBPR, the bank's June 30, 1996 LTD ratio was 45.30%.

Because the bank's LTD ratio is low compared to its peer group, an analysis of competitors' statistics is appropriate to determine if local factors contribute to the bank's low LTD ratio. Of the financial institutions which the bank has identified as competition, only two are similar to Farmers State Bank in that both have just one or two offices located within a single city. These two comparable banks are Sac City State Bank and Citizens Bank, both located in Sac City, about 8 miles north of Lake View. The following table compares the loan-to-deposit ratios:

Loan-to-Deposit Ratio of Farmers State Bank and Its Most Representative Competitors				
Bank Name	Asset Size as of 12-31-95 (\$000)	LTD Ratio 6-30-95	LTD Ratio 12-31-95	Average
Sac City State Bank	\$44,244*	53.52%*	50.59%*	52.06%
Citizens Bank	\$30,633*	47.22%*	46.06%*	46.64%
Farmers State Bank	\$19,468	-	-	45.58%**

*Information obtained from the Polk North American Financial Institutions Directory

**Four-quarter average

As the previous chart illustrates, the average LTD ratio for Farmers State Bank is the lowest of the three comparable banks, although more in line with the immediate competition than with the national peer group. Factors contributing to low LTD ratios in the area include loan competition from non-banks (e.g., Farm Credit Services), low demand for real estate loans because of low population density, older age of residents who tend to have fewer credit needs, and competition from other financial institutions serving the area.

The bank's LTD ratio, although the lowest of the banks in the immediate area, meets the standards for satisfactory performance when considered in the context of local demographic and economic conditions.

Lending in Assessment Area

In order to ascertain the bank's lending performance within its assessment area, all agricultural, real estate, and single-payment loans for the period February 1, 1996 through July 31, 1996 were reviewed. The following table illustrates the results of this review.

Lending in the Assessment Area During the Period 2/01/96 - 7/31/96						
Loan Product	Total Loans in the Review Period		Loans in the Assessment Area		% in the Assessment Area	
	#	\$	#	\$	#	\$
Agricultural	161	744,709	123	602,668	76.4	80.9
Real Estate	16	454,699	16	454,699	100.0	100.0
Single-Payment	146	142,700	121	124,802	82.9	87.5
Total	323	1,342,108	260	1,182,169	80.5	88.1

Over 80% of the total number of loans and 88% of the total dollar amount of loans originated in the sample were made within the assessment area. This distribution exceeds the standards for

satisfactory performance.

Lending Analysis Based Upon Borrower Income and Size of Business

The assessment area's small population size allows bank personnel to better know their customers. Consequently, the bank does not consistently collect income information from small business, small farm, and consumer loan applicants; therefore, to conduct an analysis of lending based upon borrower income, a proxy for income was used.

Consumer Loans

An analysis of the single-payment, installment, and auto loans made during the period February 1, 1996 through July 31, 1996 reveals a significant volume of loans in amounts of \$1,000 and under, including six loans as low as \$20-\$25. The following table illustrates this loan volume.

Consumer Loan Originations by Size of Loan During the Period 2/01/96 - 7/31/96					
Loan Amount	Single-Pay Loans	Installment Loans	Auto Loans	Total	
				#	%
\$20 to \$150	24	5	0	29	8.9
Over \$150 to \$500	46	26	4	76	23.2
Over \$500 to \$1,000	39	25	7	71	21.7
Subtotal	109	56	11	176	53.8
Over \$1,000	37	50	64	151	46.2
Total	146	106	75	327	100.0

The preceding table indicates that the bank is meeting the credit needs of consumers of all income levels, especially low- or moderate-income families, by virtue of the fact that loans of all sizes are made by the bank.

Small Business/Small Farm Loans

Bank management stated that there are few businesses and farms in the assessment area that would qualify as a large business, that is, with annual revenues in excess of \$1 million. A review of commercial and agricultural loans made in the six-month period referenced above identified only one such large business. Management stated that all other borrowers are small businesses. An analysis of loans, by dollar amount, made during this period also reveals that the bank frequently makes loans in small dollar amounts to businesses and farms, as illustrated in the table below.

Commercial/Agricultural Loans by Size of Loan During the Period 2/01/96 - 7/31/96				
Loan Amount	Commercial Loans	Non-Real Estate Agricultural Loans	Total	
			#	%
\$0 to \$1,000	45	37	82	29.2
Over \$1,000 to \$5,000	47	83	130	46.3
Over \$5,000 to \$10,000	13	23	36	12.8
Over \$10,000	15	18	33	11.7
Total	120	161	281	100.0

The preceding chart illustrates that the high volume of low dollar amount loans indicates that the bank is meeting the needs of commercial and agricultural borrowers of all sizes, especially small businesses. Based on the information available, the bank's performance in meeting the credit needs of borrowers of all income levels and business sizes exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

Because there are no low- or moderate-income geographies within the bank's assessment area, this criterion is not rated.

Response to Complaints

No complaints have been received by the institution concerning its CRA performance since the previous examination; therefore, this criterion is not rated.