

### **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 Trust & Savings Bank** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 26, 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**.

First Trust & Saving Bank promotes economic revitalization and growth within its assessment area consistent with the bank's size and capacity to lend. The majority of the bank's loans (93.45%) were originated within the assessment area, and were reasonably distributed geographically among applicant of different income levels and businesses of different sizes. Management has implemented policies, procedures, and training programs to ensure that lending and credit activities within the bank are nondiscriminatory. The examination revealed no patterns or practices intended to discriminate or discourage any protected class, and no complaints were received by the bank regarding the bank's performance under the Community Reinvestment Act since the previous examination.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST 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	There are no low or moderate income BNAs in the bank's assessment area.		
Response to Complaints	No complaints were received since the previous examination		

**DESCRIPTION OF INSTITUTION**

First Trust & Saving Bank with assets of 17.6 million as of March 31, 1996, is a subsidiary of Aurelia FT & S Bankshares, Inc., a one-bank holding company. The institution is located in Aurelia, Iowa, a small farming community approximately 190 miles north west of Des Moines, Iowa. The bank has no branch offices. Competitors include: a branch of Heritage Bank, N.A. in Aurelia; Cherokee State Bank; Central Trust & Savings Bank; Valley Bank & Trust; Cherokee Community Credit Union; and a branch of First Federal Savings Bank of Siouxland, all located in the City of Cherokee in Cherokee County.

The bank is primarily an agricultural lender with 68.9% of its loan portfolio in agricultural loans. Other loan products include: commercial, mortgages, consumer, student, and small business loans. The bank does not own an automated teller machine (ATM), but provides debit cards to those customers who want to access their transaction accounts via ATMs owned by other institutions, or process point of sale (POS) transactions..

**DESCRIPTION OF ASSESSMENT AREA**

First Trust & Savings Bank has defined its assessment area as Buena Vista and Cherokee Counties. The assessment area contains a total of ten block numbering areas (BNAs), six in Buena Vista County (9601 through 9606) and four in Cherokee County (9801 through 9804). Towns located in the assessment area include Linn Grove, Sioux Rapids, Rembrandt, Newell, Lakeside, Alta, and Truesdale in Buena Vista County and Aurelia, Cleghorn, Larrabee, Meriden, and Quimby in Cherokee County. According to the 1990 census data, the bank's assessment area is entirely middle-income.

According to the 1990 census data, the population for the bank's assessment area is 34, 063; Whites constitute 33,335, or 97.9%. The state-wide nonmetropolitan median family income is \$29,303. There are a total of 13,119 households within the assessment area; of this total, 1,408 or 15.4% are low-income (less than 50% of median income), 1,859 or 20.3% are moderate-income (50-79% of median income), 2,716 or 29.6% are middle-income (80-120% of the median income), and 3,185 or 34.7% are upper-income (121% or more of median income).

The housing is predominantly single-family homes, and the median home value is \$37,150. Of the 14,113 housing units, 9,004 or 63.8% are owner-occupied, 4,025 or 28.5% are renter-occupied, and 1,084 or 7.7% are vacant units.

Discussions with community contacts and bank management revealed that the local economy is growing and considered stable; crop yields are projected to be strong in 1996. Pioneer Hi-bred International, Inc. of Johnston, Iowa is building a seed processing facility three miles north of Aurelia. According to Pioneer's management, the project represents a \$8 million dollar investment, and will create approximately 30 full-time and part-time jobs. While the new company will provide additional employment opportunities for residents, a city official thinks it

will further strain Aurelia's housing market.

Aurelia is primarily an agriculture community, and offers limited employment opportunities for its residents. Neighboring cities such as Storm Lake and Cherokee provide employment opportunities for residents seeking employment outside Aurelia. The chart below list major employer within the area:

EMPLOYERS	LOCATIONS	# OF EMPLOYEES	PRODUCTION/SERVICE
<b>IBP, Incorporated</b>	Storm Lake	1300	Pork Processing
<b>Wilson Food Corp</b>	Cherokee	613	Meat Packing
<b>K-Products, Incorporated</b>	Marcus	176	Apparel
<b>Christensen Bros Ready Mix</b>	Cherokee	80	Ready Mix concrete

According to the Iowa Department of Employment Service, the unemployment rate for Buena Vista County as of July 1996 was 2.3%, compared to 2.4% in July of 1995. During the same period, Cherokee County's unemployment rate declined from 2.7% to 2.3%, while the State of Iowa's unemployment rate increased to 3.3% from 3.0%.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Management has implemented policies, procedures, and effective training programs to prevent illegal discrimination in its lending practices. Interviews with the bank president, compliance officer, and lending personnel, as well as a review of the bank's loan files revealed that the institution is in compliance with antidiscrimination laws, including the Equal Credit Opportunity Act and the Fair Housing Act.

### **Loan-To-Deposit Ratio Analysis**

The bank's average loan-to-deposit ratio over the four quarters since the previous examination is 62.32%. According to the June 30, 1996 call report, the bank's loan-to-deposit ratio is 62.96%.

The bank's loan-to-deposit ratio was compared to ratios of its competitors as of June 30, 1996. They are as follows: Subject bank - 61.4%, Cherokee State Bank - 37.0%, Valley Bank & Trust Company - 89.3%, and Heritage Bank, N.A. - 86.7%.

Considering the bank's asset size and capacity to lend within its assessment area, this ratio indicates that the bank meets the standard for a satisfactory rating in this category.

**Lending in Assessment Area**

A six-month sample of loans was reviewed to determine the bank's level of lending within its assessment area.

Assessment Area	# of loans	Percentage of Total Loans	Total Dollar Amount of Loans	Percentage of Total \$ amount
IN	157	93.45%	\$3,450,567	92.22%
OUT	11	6.55%	\$291,251	7.78%
<b>Total</b>	<b>168</b>	<b>100.00%</b>	<b>\$3,741,818.00</b>	<b>100.00%</b>

As shown in the preceding chart, 93.4% of the total number of loans, and 92.2% of the total dollar amount of loans were originated within the bank's assessment area. The loan distribution exceeds the standard for satisfactory rating to this category.

The following chart illustrates the number and dollar amount of originations by loan type within the bank's assessment area.

<b>FIRST TRUST AND SAVINGS BANK, AURELIA, IOWA Six-Month Sample: Originations by Loan Type</b>		
Loan Type	# Originations By Loan	Type Originations by \$000's
Commercial/Agriculture	109	\$3,075,489
Installment	41	\$183,519
Real Estate	7	\$191,559
<b>Total Loans</b>	<b>157</b>	<b>\$3,450,567</b>

As shown in the preceding chart, commercial and agricultural loans dominated the bank's lending activity during the past six-months. These loans represent 69% of the originations, and 89% of the total dollar amount loaned during this period within the bank's assessment area. This distribution is reflective of the agricultural nature of the bank's assessment area.

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

The bank's total loan portfolio as of August 21, 1996, was reviewed to determine the bank's lending to borrowers of different incomes and businesses of different sizes.

**Real Estate Loan Analysis:**

All ten sampled real estate loans were made to upper-income borrowers. Management indicated that low- or moderate-income applicants often do not meet the bank's 20% down payment requirement. However, in an effort to meet the credit needs of low- or moderate- income applicants, the bank refers real estate loan applications to a mortgage company. This program enables low- or moderate-income applicants to obtain loan-term mortgages with minimal down payment (5% down) requirements. To facilitate the process, the bank processes and closes the loans for the mortgage company. Since the previous examination, the bank referred a total of 9 real estate loans in the amount of \$570,225 to the mortgage company. In an effort to further determine the bank's lending to low- or moderate-income borrowers, all outstanding real estate loans were reviewed.

**Installment Loan Analysis:**

The bank does not collect income information for installment loan products; therefore, a loan amount of \$2,000 or less was used as a proxy to reflect an affordable loan originated to a low or moderate income applicant based on the state nonmetropolitan median income of \$24,256. A review of the bank's total loan portfolio as of August 21, 1996 revealed that the bank originated 43 installment loans for amounts of \$2,000 thousand or less. These loans totaled \$48,666, and represent 34% of the bank's total installment loan portfolio.

**Commercial Loan Analysis:**

The bank's commercial and agriculture loan portfolio was reviewed. Revenue information was not available; however, management indicated that these loans were to businesses and farms with annual revenues of \$1 million or less. The bank originated 39 loans for amounts of \$5,000 or less which represent 20% of the commercial and agriculture loan portfolio. This lending activity is consistent with the types of farms and businesses located within the bank's assessment area.

Bank records indicate that management has made a satisfactory effort to meet the credit needs of low- or moderate-income borrowers within the bank's assessment area.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

An analysis of the bank's geographic distribution of loans is not applicable as there are no low- or moderate-income BNA's within the assessment area.

**Response to Substantiated Complaints**

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

