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 **Quad City Bank and Trust Company, Bettendorf, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 27, 1997**. 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 <u>Satisfactory</u>.

The bank provides credit consistent with its size, financial capacity, location, current economic conditions and the needs of its assessment area. The bank is a strong consumer and commercial lender. A majority of the bank's loans are originated within its assessment area and are reasonably distributed among the census tracts. The bank's loan-to-deposit ratio and lending to borrowers of different income levels and businesses of different sizes meet the standards for satisfactory performance.

DESCRIPTION OF INSTITUTION

Quad City Bank and Trust Company, with total assets of $149.1 million as of March 31, 1997, is a subsidiary of Quad City Holdings, Inc. The bank provides conventional loan and deposit products and services, and has significant trust and merchant credit card operations. The bank=s operates its main office in Bettendorf, Iowa, and has a branch office located in Davenport, Iowa. The bank recently turned an affiliated bank in Moline into a branch office.

According to management, the bank=s primary competitors include Norwest Bank Iowa, National Association with branches in Bettendorf and Davenport; Firstar Bank Iowa, National Association, with branches in Bettendorf and Davenport; Brenton Bank, with branches in Davenport; and Northwest Bank & Trust Company, with branches in Bettendorf and Davenport. Additional competition comes from The Rock Island Bank, National Association; Bank One, Alcoa Employees Credit Union, Mercantile Bank, FSB, and Citizens Federal Savings Bank.

DESCRIPTION OF BANK=S ASSESSMENT AREA

The bank is located in Bettendorf, Iowa, in Scott County. Bettendorf is part of the Quad Cities located on the Mississippi River between Illinois and Iowa. The Quad Cities include the Cities of Bettendorf and Davenport in Iowa, and Rock Island and Moline in Illinois. Bettendorf is approximately 165 miles west of Chicago, Illinois.

Bettendorf is located in the Davenport/Rock Island/Moline Metropolitan Statistical Area (MSA # 1960), which includes Henry and Rock Island Counties in Illinois and Scott County in Iowa.
In the first quarter of 1997, management changed its assessment area to include whole geographies surrounding its main office and branch location. The assessment area currently includes 39 census tracts. Of the 39 census tracts within the bank=s assessment area, three or 8% are low-income, seven or 18% are moderate-income, 20 or 51% are middle-income and nine or 23% are upper-income. Prior to the first quarter of 1997, the bank's assessment area included 18 census tracts, 11 of which were in Davenport and 7 were in Bettendorf. Of the 18 census tracts, five were low- and moderate income. None of the census tracts were considered minority tracts (minority population in excess of 50% of the total tract population).

According to 1990 census data, the assessment area has a population of 150,979, and is made up of 90.9% Whites, 5.1% African-Americans, 2.8% individuals of Hispanic origin, and 1.2% other minorities. The MSA median family income is $34,082. Of the total families within the MSA, 20% are low-income, 18% are moderate-income, 23% are middle-income, and 39% are upper-income. Housing within the assessment area consists of 62% owner-occupied units, 31% rental units and approximately 7% vacant or boarded up units. The median housing value is $54,107 and the gross median monthly rent is $361.
The economy of Bettendorf consists largely of metal stamping, casting and steel manufacturing industries. Bettendorf's residents commute to Davenport, Iowa, Rock Island and Moline, Illinois for employment. The top five employers in the bank=s assessment area include: Oscar Mayer

Foods Corp., employing 1,850; John Deere Davenport Works, employing 942; Sears Manufacturing Company, employing 500; Ralston Purina Company, employing 500; The Quad City Times, employing 400; and Continental Baking Company/Wonder-Hostess, employing 389. John Deere headquarters is also in Moline. According to the Iowa Department of Employment Services, the March 1997 unemployment rate for Scott County, which comprises the majority of the banks assessment area, was 3.6%, compared to the State of Iowa unemployment rate of 3.9%. The unemployment rate for the State of Iowa increased slightly since the previous examination rate (3.3%).

Community representatives stated the area economy is reasonably stable, with new businesses, proposed expansions and developments occurring. One contact stated that Bettendorf is perceived as the more affluent city of the four Quad Cities, with a greater number of white collar individuals and a higher median family income. Residential and commercial development is mainly occurring in the north Davenport region. According to the contacts, the Quad City Bank and Trust company makes all types of loan products available its local assessment area.

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 Act and Fair Housing Act.

Loan-to-Deposit Ratio

The bank's March 31, 1997 Consolidated Report of Condition revealed a loan-to-deposit ratio of 73.07%, which is higher than the peer group=s ratio of 66.97% (according to the March 31, 1997 Uniform Bank Performance Report). An analysis of the bank=s Consolidated Reports of Condition for the seven quarter examination review period disclosed an average loan-to-deposit ratio of 58.57%, while the peer group=s loan-to-deposit ratios remained fairly constant or (approximately 66%) since the previous examination. The following chart shows the bank=s quarterly loan-to-deposit ratios since the previous examination:

9/95	12/95	3/96	6/96	9/96	12/96	3/97
49.61%	49.10%	52.54%	58.84%	62.99%	63.82%	73.07%

As indicated in the preceding chart, the bank=s loan-to-deposit ratio has increased significantly since the previous examination. The large increase since the previous examination is a result of increased lending activity, without a corresponding increase in deposits; total deposits increased by approximately 48%. A review of the bank=s Consolidated Report of Condition, revealed that the bank=s gross loans increased by 120% since December 31, 1995. At that time, the bank had approximately $41 million in loans, with the majority or $20 million being commercial loans. As of March 31, 1997, the bank had approximately $91 million in loans, with the majority or $39 million being real estate secured loans and $38 million in commercial loans.

According to the most recent reports available, the bank's local competitors' loan-to-deposit ratios (as of March 31, 1997) are as follows:

Name of Bank	Total Assets (000s)	Loan-to-Deposit Ratio
QUAD CITY BANK AND TRUST COMPANY	$149,089	73.07%
NORWEST BANK IOWA, NA	$5,729,121	73.35%
FIRSTAR BANK IOWA, NA	$2,726,204	79.98%
BRENTON BANK	$1,503,776	71.59%
NORTHWEST BANK AND TRUST COMPANY	$152,927	63.18%
ROCK ISLAND BANK, NA	$442,371	79.86%
MERCANTILE BANK	$408,074	109.00% (6/30/96)

The preceding chart shows that competitors' ratios are consistent with the bank's ratio considering the competitors' more extensive branch networks. Additionally, the bank has been in operation for less than three and one half years. The bank's lending efforts within the local community is adequate when compared to its local financial institution competitors.

The bank's loan-to-deposit ratio, given the bank's size, financial condition and credit needs of the assessment area, has increased substantially since the previous examination and is considered reasonable. The bank's loan-to-deposit ratio compares favorably to the loan-to-deposit ratios of its peer group.

Lending in Assessment Area

According to the bank's analysis of its three major loan products, a substantial majority (292 of 394 or 74%) of the total loans, were made within the bank's assessment area. For the six-month period between July 1, 1996 and December 31, 1996, 92 or 77% of commercial, 104 or 67% of consumer indirect automobile and 96 or 81% of other consumer secured loans were made within the assessment area.

The examination loan sample (consisting primarily of loans made in April of 1997) was also reviewed to verify the bank's review of the level of lending activity within the assessment area. The examination loan sample revealed the following:

LOAN TYPE	TOTAL # OF LOANS SAMPLED	# OF LOANS WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL %
Real Estate Mortgage	14	11	79
Consumer Installment (Direct and Indirect)	44	32	73
Single Payment	11	8	73
Overdraft Protection	10	9	90
Home Equity	11	8	73
Credit Card	10	9	90
Commercial/Agricultural	20	15	75
Total	**120**	**92**	**77**

The examination loan sample further supports the fact that a substantial majority of the bank=s loan activity or 77% was within the bank=s assessment area.

The bank=s activity since the previous examination, based upon the bank=s defined assessment area during 1995 and 1996, was also reviewed. Of the bank=s total HMDA reportable loans, approximately 52% in 1995 and approximately 50% in 1996 were originated within the bank=s defined assessment area. Although these ratios are lower than the level of lending described previously, mortgage loans comprise a lower level of the bank=s total volume of lending.

Based upon information provided by management and the examination loan samples, the bank originates a substantial majority of its loans within its currently defined assessment area.

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

The bank does not retain borrower income information in all loan files; therefore, the loan amount was used as a proxy to assess the bank=s performance in lending among borrowers of different income levels.

The bank performed a review of all loans originated from July 1, 1996 to December 31, 1996; the review was based on original loan amounts. During this period, the bank originated 507 consumer loans. Of the total loans originated, 131 or 26% were for $5,000 or less; 127 or 25% were between $5,000 and $10,000; and 192 or 38% were between $10,000 and $25,000. Approximately 89% of the 507 consumer loans, were for amounts less than or equal to $25,000 and 51% were for amounts less than or equal to $10,000. During this period, the bank also originated 233 commercial loans. Of these loans, 128 or 55% were for $50,000 or less; 40 or 17% were between $50,000 to $100,000; and 31 or 13% were between $100,000 to $250,000. The majority of the 233 commercial loans (72%) were in amounts of $100,000 or less.

The examiners performed an analysis of a sample of loans made since the previous examination where income information used in making the credit decision was available. The analysis included those loans originated within the bank=s current assessment area. The analysis revealed the following distribution of loans among borrowers of different income levels:

LOAN TYPE	LOW-INCOME BORROWERS $'s/Number	MODERATE-INCOME BORROWERS $'s/Number	MIDDLE-INCOME BORROWERS $'s/Number	UPPER-INCOME BORROWERS $'s/Number	TOTAL $=s/Number
Real Estate	$0/0	$0/0	$133,926/2	$883,724/9	$1,017,650/11
Indirect Installment	$33,955/3	$23,701/2	$37,839/4	$88,995/6	$184,490/15
Direct Installment	$4,159/2	$33,840/8	$19,842/5	$22,321/2	$80,162/17
Overdraft Protection	$800/1	$500/1	$1,500/2	$9,000/5	$11,800/9
Home Equity Line	$0/0	$0/0	$27,500/2	$188,200/6	$215,700/8
Single Payment	$5,500/2	$13,130/1	$11,500/1	$13,500/2	$43,630/6
Credit Card	$0/0	$0/0	$11,500/4	$14,000/3	$25,500/7
Total	$44,414/8	$71,171/12	$243,607/20	$1,219,740/33	$1,578,932/73

As illustrated in the preceding chart, the greatest number of loans (33 or 45%) were to upper-income borrowers, with 20 or 27% to middle-income borrowers, 12 or 16% to moderate-income borrowers, and eight or 11% to low-income borrowers. The greatest volume of loans, by dollar amount, was also to upper- ($1.2 million) and middle- ($243,607) income borrowers. This distribution is somewhat consistent with the assessment area income distribution. Although the sample size may appear small, it is a reasonable representation of the bank=s lending activity.

The examiners also reviewed the bank=s activity since the previous examination that was based upon the bank=s defined assessment area during 1995 and 1996. Of the bank=s HMDA- reportable loans, approximately 21% in 1995 and approximately 14% in 1996 were originated to low- and moderate-income borrowers within its defined assessment area; this compares somewhat favorably with the distribution (by income levels) of the assessment area=s population.

Management indicated that commercial loans are the bank=s main loan product, when considering dollar volumes; no agricultural loans were originated since the previous examination. In addition, management stated the bank=s primary commercial loan borrowers are considered small businesses. Since the previous examination, the bank originated 1,009 commercial loans (totaling approximately $124.6 million) for an average loan amount of $123,450. A sample of commercial loans was reviewed to ascertain whether the bank was lending to businesses of different sizes. Small business loans are defined as those with original amounts of $1 million or less. For 20 loans sampled, revenues ranged from $36,000 to $834,000, with two businesses having a gross annual income figure in excess of $1 million.

According to the bank=s June 30, 1996 Consolidated Report of Condition, all or substantially all of the bank=s loans secured by commercial properties, and commercial and industrial loans had original amounts of $100,000 or less. As of June 30, 1996, 84 loans (totaling $13.6 million) secured by commercial properties, and 286 commercial and industrial loans (totaling $25.6 million) were outstanding.

Based on the bank=s analysis, the HMDA data and the examination sample of recently originated loans, the distribution of the bank=s loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes. Additionally, the bank=s financial reports indicate that all or substantially all of the bank=s business loans are to small businesses and are in small dollar amounts.

Geographic Distribution of Loans

The bank=s assessment area consists of 39 census tracts within the Davenport/Rock Island/Moline (MSA). Three or 8% are low-income census tracts, seven or 18% are moderate-income; 20 or 51% are middle-income; and nine or 23% are upper-income.

The bank=s geographic distribution report of loans as of March 6, 1997 was reviewed. The bank analyzed commercial, consumer and residential real estate loans that were originated from July 1996 to December 1996. According to the report, of the bank=s three major loan products, 167 or 12% of the 1,382 loans within the assessment area were originated in low- and moderate-income census tracts. The report revealed that 92 or 24% of the commercial loans, 64 or 7% of the consumer loans and 11 or 8% of the residential real estate loans were originated in low- and moderate-income census tracts within the assessment area. Although the distribution of real estate and consumer loans is not consistent with the composition of the assessment area (low-income areas and moderate-income areas comprise 8% and 18%, respectively, of the assessment area), it was noted that the housing units within low- and moderate-income tracts comprise approximately 18% of the total 61,379 housing units within the assessment area. Of those units within low- and moderate-income areas, only 10% are owner-occupied. This information, derived from the 1990 census data, supports the fact that the bank did not originate a large volume of real estate loans in low- and moderate-income areas.

The bank=s 1995 and 1996 HMDA data was reviewed to assess the geographic distribution of loans within low- and moderate-income areas based on the bank=s former assessment area (four census tracts or 22% were considered low- and moderate-income). Of the total HMDA-reportable loans, 4 loans or 9% in 1995 and 13 loans or 18% in 1996 were made in low- and moderate-income census tracts.

The bank=s geographic distribution of lending throughout the assessment area, including within low- and moderate-income census tracts, is reasonable. There were no areas within the assessment area with little loan penetration.

Response to Complaints

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