

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 **Titonka Savings Bank, Titonka, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 12, 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 Satisfactory.

Titonka Savings Bank generally promotes economic revitalization and growth in a manner consistent with its asset size, financial capacity and current economic conditions. The bank meets community credit needs primarily through the origination of small business, small farm and consumer loans. Although the bank's loan-to-deposit ratio does not meet the standards for satisfactory performance, a substantial majority of loans were made within the bank's assessment area, and lending to small businesses and small farms, and to borrowers of different income levels was strong. There is no evidence of prohibited discriminatory lending practices, or policies intended to discourage individuals from applying for loans offered by the bank.

DESCRIPTION OF INSTITUTION

Titonka Savings Bank, with \$54.8 million in assets as of March 31, 1997, is a subsidiary of Titonka Bancshares Inc., a one bank holding company. Based upon the December 31, 1996 Uniform Bank Performance Report (UBPR), agricultural loans and loans secured by farmland comprised approximately 69% of the bank's loan portfolio. Full loan and deposit services, including credit cards, are available at the bank's main office in Titonka and its branch location in Forest City, Iowa. The bank derives competition for loans and deposits from the following financial institutions: Farmers State Bank and Iowa State Bank in Algona, Farmers & Traders Savings Bank in Bancroft, Farmers Trust & Savings Bank in Buffalo Center, Liberty Bank & Trust Company and Manufacturers Bank & Trust Company in Forest City.

DESCRIPTION OF ASSESSMENT AREA

Titonka is located in north central Iowa's Kossuth County, approximately 50 miles west of Mason City and 20 miles south of the Minnesota state line. The bank's assessment area includes 24 communities and encompasses portions of Kossuth, Hancock and Winnebago Counties. The following chart depicts the BNAs, towns and counties in the assessment area.

BNA	County	Community(s)
9701	Hancock	Garner
9702	Hancock	Klemme, Goodell
9703	Hancock	Crystal Lake, Britt
9704	Hancock	Woden, Corwith, Kanawha
9501	Kossuth	Lakota, Ledyard, Swea City
9502	Kossuth	Titonka, Wesley
9503	Kossuth	Bankcroft, Burt, Lone Rock, Fenton
9801	Winnebago	Leland, Lake Mills, Scarville
9802	Winnebago	Buffalo Center, Thompson, Rake
9803	Winnebago	Forest City

Based upon 1990 census information, 34,154 people reside in the assessment area. Minorities comprise 1.4% of the population in the assessment area. Individuals of Hispanic origin and Asians comprise the largest minority groups (0.7% and 0.5%, respectively). The median family income of \$28,273 for the assessment area is below both the median family income for the State of Iowa (\$31,659) and the non-metropolitan state average median family income of (\$29,303). According to 1990 census information, 16.5% of the families in the assessment area had incomes

below 50% of the median family income and 20.9% had incomes between 50% and 80% of the median family income. None of the BNAs in the assessment area are low- or moderate-income.

Approximately 68.4% of the housing in the assessment area is owner-occupied, while single-family units comprise 87.2% of the housing supply. By comparison, the non-metropolitan state owner-occupancy rate is 66.3%, and 80.4% of the housing supply is single-family. The following chart depicts median housing values:

Geography	Median Housing Value	Built Pre-1950
Hancock County	\$36,988	45.7%
Kossuth County	\$33,869	51.3%
Winnebago County	\$39,186	43.0%
Assessment Area	\$34,693	48.4%

The assessment area median housing value is below the state median of \$45,519 and the non-metropolitan state median of \$38,521. The percent of homes built before 1950 in the assessment area is comparable to the non-metropolitan state percentage of 48.9%.

Agriculture and related industries play a major role in the local economy, with corn, soybean, and livestock production being the primary enterprises. The larger industrial employers in the assessment area are located in Forest City, as depicted below:

Business	City	Number of Employees	Product/Service
Winnebago Industries, Incorporated	Forest City	3000	Motor homes & Conversion Vans
Winnebago Industries, Incorporated CAPCO Division	Forest City	280	Aluminum Extrusions
Holland Contracting Corporation	Forest City	50	Ready-mix Concrete
Forest City Publishing Company	Forest City	24	Lithographic Printing

According to the Iowa Department of Employment Services statistics, unemployment rates for Hancock County (2.4%), Kossuth County (2.8%), and Winnebago County (2.3%) compare favorably to the State of Iowa unemployment rate (3.3%) for April, 1997.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed policies, procedures and training programs supporting nondiscrimination in lending. 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 quarterly loan-to-deposit ratios (LTD) for the six previous reporting quarters averaged 38.34%.

Loan-to-Deposit Ratios, by Quarter					
12/95	3/96	6/96	9/96	12/96	3/97
36.96%	37.04%	35.65%	38.87%	40.02%	41.48%

Based upon the December 31, 1996 UBPR, the bank's level of lending ranks well below the peer group average loan-to-deposit ratio of 62.91%. The following chart depicts the six-quarter average loan-to-deposit ratios of the bank and its closest competitors:

Bank/Location	Asset Size as of 3/31/97 (\$000)	Six-Quarter Average LTD Ratio (%)
Titonka Savings Bank Titonka, Iowa	54,795	38.34
Farmers Trust & Savings Bank Buffalo Center, Iowa	66,195	72.84
Farmers & Traders Savings Bank Bancroft, Iowa	30,405	66.54
Manufacturers Bank & Trust Company Forest City, Iowa	117,466	56.96
Farmers State Bank Algona, Iowa	38,366	75.80
Liberty Bank & Trust Company Forest City, Iowa	59,198	76.99
Iowa State Bank Algona, Iowa	119,554	58.15

Management indicated that the bank's low loan-to-deposit ratio reflects its conservative lending

practices. Both management and community representatives indicated that Titonka and the surrounding community do not have a strong demand for loans. Comments from community representatives also indicated that competition is a contributing factor to the bank's low loan-to-deposit ratio. Although the preceding factors serve to mitigate the bank's performance, the bank's loan-to-deposit ratio does not meet the standard for satisfactory performance based upon the bank's asset size, competition and current economic factors.

Lending in Assessment Area

A review of 466 commercial, agricultural and consumer loans made during the six-month period beginning October 1, 1996 through March 31, 1997 revealed the following level of lending within the assessment area:

Loan Type	Total Loans Sampled	Loans within the Assessment Area	Percent of Total Loans within the Assessment Area
Consumer Loans	140	120	86
Commercial/Agriculture	326	305	94
TOTALS	466	425	91

Based upon the high level of lending within the assessment area (91%), the bank's performance of lending within the assessment area exceeds the standards for satisfactory performance.

Lending Analysis Based Upon Borrower Income and Size of Business

The six-month sample of commercial, agricultural and consumer loans was also reviewed to determine the distribution of loans among borrowers of different income levels and businesses of different sizes. Because the bank does not generally collect borrower income information, the loan amount was used as a proxy. Based upon assessment area income demographics, \$2,000 was determined to be an amount for consumer loans that would service moderate-income individuals who may not have access to credit cards for smaller borrowing needs; \$1,000 was determined to be an amount that would service low-income individuals. Approximately 65 consumer loans sampled (46%) were made with original amounts of \$2,000 or less; 50 of these loans (36%) were made with original amounts of \$1,000 or less.

The majority of the bank's commercial and agricultural loans were for amounts under \$100,000; only five of the 326 commercial and agricultural loans in the sample were extended

for amounts over \$100,000. Review of the bank's June 1995 and 1996 Call Reports also indicated that all or substantially all of the loans outstanding were to small businesses and small farms, based on loan amount.

The bank's loan penetration to borrowers of different income levels, and businesses and farms of different sizes is consistent with the demographics of the assessment area and local demand. The bank exceeds the standards for satisfactory performance under this criterion.

Geographic Distribution of Loans

There are no designated low- or moderate-income geographies located within the assessment area in which lending activity could be analyzed; therefore, this criterion is not rated.

Response to Substantiated Complaints

No complaints were received regarding the bank's CRA performance since the previous examination.