

PUBLIC DISCLOSURE

September 29, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Ireland Bank
12-16-0310-0000**

**P.O Box 186
Malad City, Idaho 83252**

**FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET
SAN FRANCISCO, CALIFORNIA 94105**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE of CONTENTS

I.	General Information		1
II.	Institution Rating	1	
III.	Performance Context		
	A.	Description of Institution	2
	B.	Description of Assessment Area	2
V.	Performance Criteria		
	A.	Loan-To-Deposit Ratio	4
	B.	Lending In Assessment Area	5
	C.	Lending By Borrower Income And By Business Revenue	6
	D.	Geographic Distribution Of Loans	9
	E.	Response To Complaints	10
VI.	Compliance With Anti-Discrimination Laws and Regulations		11

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 operation 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 Community Reinvestment Act (CRA) performance of **Ireland Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **September 29, 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 CRA RATING: Outstanding

This institution is rated outstanding. The bank has designated Bannock, Power, Caribou, Oneida and Bear Lake Counties as its assessment area. Given the performance context, the bank's percentage of lending within the assessment area, its loan to deposit ratio, its percentage of lending to small businesses and farms all demonstrate the bank's commitment to meeting the credit needs of its communities. Additionally, the bank showed a reasonable distribution of loans throughout the assessment area including penetration into the moderate-income census tracts located in the City of Pocatello. These factors combined with the bank's provision of retail banking services warranted the outstanding rating.

DESCRIPTION OF INSTITUTION:

Ireland Bank, with assets of approximately \$85 million, is a subsidiary of Ireland Bancorp and operates eight full service offices in South East Idaho. Its main office is located in Malad City and branches are located in the municipalities of Preston, Pocatello, Soda Springs, Lava Hot Springs, Downey, Grace, and Inkom. In addition, the bank has an automated teller machine (ATM) located in Montpelier, Idaho.

Bank management indicated that the bank extends a full array of loan products and does not focus on a particular type of lending. This is evidenced by the loan portfolio which, as of June 30, 1997, was comprised of 37 percent commercial loans and loans secured by non-farm, non-residential property, 34 percent of loans secured by farmland or to finance agricultural production, 15 percent of loans secured by residential real estate and 13 percent classified as consumer and other loans. The bank's loan portfolio has grown by approximately 22 percent and its investment portfolio has grown by approximately 9 percent since the previous examination. The bank's assets are made up of 67 percent loans and 33 percent securities

At the time of the examination there were no legal impediments that adversely affected the bank's ability to meet the credit needs of the communities in which the branch offices are located. The bank had no merger or acquisition plans.

DESCRIPTION OF IRELAND BANK'S ASSESSMENT AREA:

The bank's assessment area is located in South East Idaho and includes all of Bannock, Oneida, Power, Bear Lake, Franklin and Caribou counties. Pocatello, which is located in Bannock County, is the largest city in the assessment area and it has recently been designated as a metropolitan statistical area. The other major towns and cities in each of the counties include, respectively, Malad City, American Falls, Montpelier, Soda Springs, and Preston.

According to the Idaho State Department of Commerce, the total assessment area population totaled 108,110 persons in 1995. From 1990 to 1995, all of the counties in the assessment area experienced population growth ranging from 4.6 percent in Caribou County to 12.7 percent in Power County. Bannock County or the Pocatello metropolitan statistical area contains 66 percent of the assessment area's population.

Bannock County also contains 70 percent of the 2,352 business establishments in the assessment area and 22 percent of the 2611 farms in the assessment area. As an indicator of the size of the farms, 531 farms occupy over 1000 acres of land while the other 2080 occupy less than 1000 acres of land. Some of the major employers in the various counties of the assessment area include Franklin County Medical Center, Head Manufacturing, Idaho State University, American Micro Systems, Conda Mine, Monsanto, Bear Lake Regional Hospital, Lamb-Weston, J.R. Simplot Co., Hess Pumice, and Ireland Bank.

The 1990 census data indicated that the annual median household income in the assessment area was \$25,948. According to the Idaho State Department of Commerce, all counties, except Power County, had per capita incomes ranging between 71 percent to 89 percent of the state average per capita income of \$17,505. Power County exceeded the average per capita income by 3 percent. As of 1995, the unemployment rate in the area ranged from 4 percent in Oneida County to 6.2 percent in Power County. As a comparison, the state unemployment rate in May of 1997 was 4.9 percent. The state's unemployment rate has been below 5 percent only 4 other times since 1978.¹

According to the State of Idaho's Consolidated Plan Executive Summary, although the number of developed housing units is expected to keep up with the population growth, the majority of the units will be designed for the upper-income market. As a result, many of Idaho's low-income households will continue to have difficulty finding affordable housing. The median housing price in Idaho was \$99,000² while the 1990 census data indicated that the median housing price in the assessment area was \$50,750. Despite the aforementioned, bank management indicated that the local community has been adverse to the development of affordable housing in their communities. On two separate occasions, communities within the assessment area have turned down opportunities to develop affordable housing for low-income persons.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

There are five performance criteria considered under the small bank CRA evaluation: the bank's average loan-to-deposit ratio, its lending within its assessment area in comparison to its total lending, the distribution of lending to borrowers of different income levels and to businesses of different sizes, the geographic distribution of its loans within the assessment area, and the bank's responsiveness to complaints about its CRA performance. In assessing the bank's overall rating, two factors, the geographic distribution of the bank's lending and the bank's lending to businesses and farms of different sizes were weighed more heavily than the other factors. Also, the bank did not receive any written complaints about its CRA performance during the period under review; therefore, this performance criterion was not considered in assessing the bank's overall performance.

Ireland Bank's performance materially exceeded the standards for a "satisfactory" rating with respect to the penetration of businesses and farms of different sizes, its loan-to-deposit ratio and its percentage of loans in the assessment area. Nonetheless, the institution's lending performance alone was not rated "outstanding" since its dispersion of loans throughout geographies of differing income levels in its assessment area only met the standards for a "satisfactory" performance. However, the institution's performance in providing branches and other services and delivery systems in its assessment area augmented the institutions satisfactory rating to the extent that it was rated "outstanding."

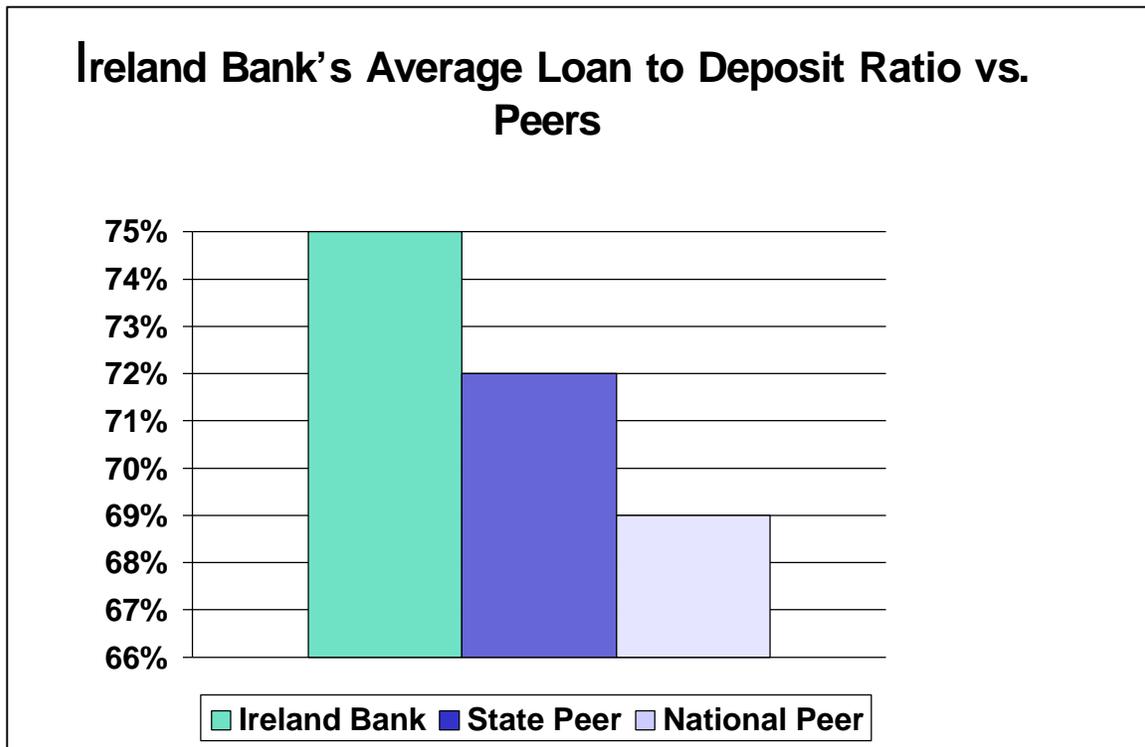
LOAN-TO-DEPOSIT RATIO:

¹ U.S. Territory, Mid-Year Economic Review, U.S. Bank, July 1997. Page 6

² Real Estate Outlook, February 1995, National Assoc. of Realtors - Idaho Department of Commerce

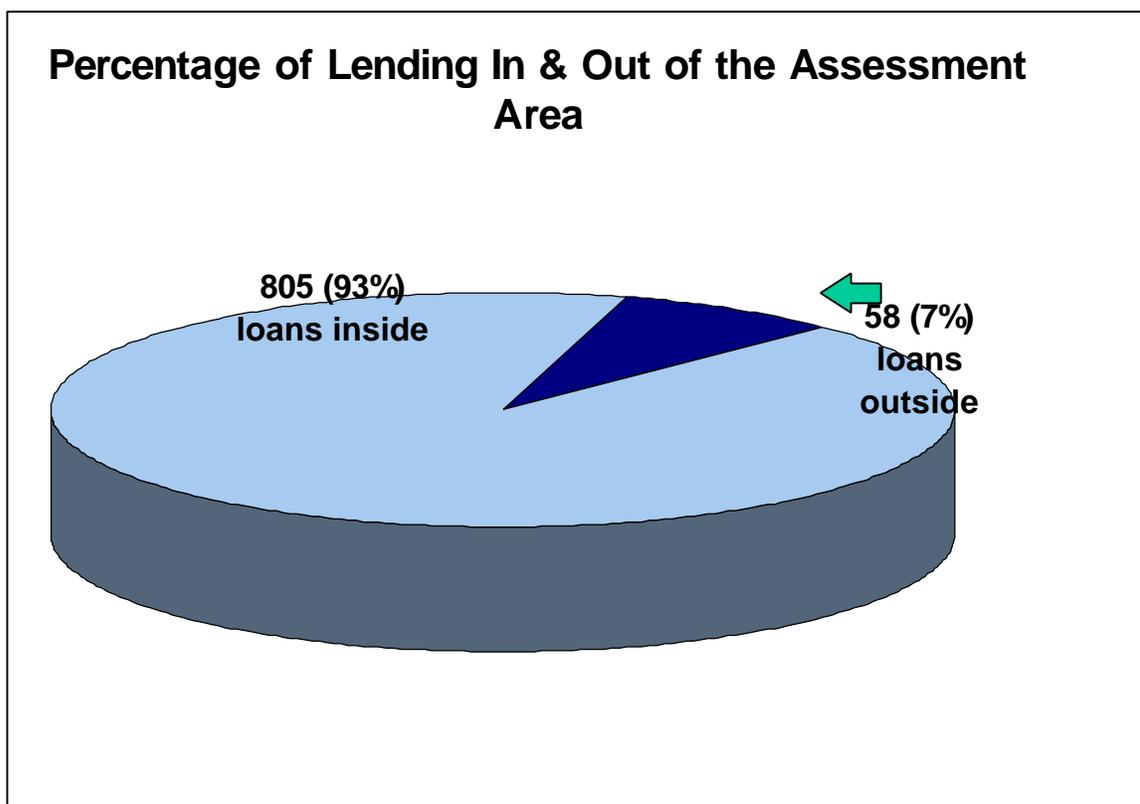
In analyzing the bank's loan-to-deposit ratio, a quarterly average for the quarters ranging from December 31, 1995 to June 30, 1997 was calculated. During this time period, the bank's loan-to-deposit ratio increased from 74.21 percent to 84.16 percent. Over the same time period, the bank experienced a 14.4 percent growth in deposits from \$58.1 million to \$67.9 million and experienced a 24.5 percent growth in loans from \$43.1 million to \$57.1 million. There are no legal impediments that adversely affect the bank's ability to meet various credit needs within the community in a manner consistent with its resources and capabilities.

Examiners determined that there are no community banks within the same geographic region as Ireland Bank which had similar asset size, balance sheet composition, target markets, branch networks, and major product lines. Therefore, the bank's loan-to-deposit ratio was compared to its historical average and to the average loan-to-deposit ratio of its state and national peer banks. Using these averages as a source for comparison, the bank's loan-to-deposit ratio is at a historical high. Additionally, the institution's quarterly average loan-to-deposit ratio of 75.88 compares favorably to the state peer bank average of 72.17 percent and the national peer bank average of 69.38 percent (see graph below). Based on this information, the bank's loan-to-deposit ratio exceeded standards for a satisfactory performance.



LENDING IN ASSESSMENT AREA:

The bank's responsiveness in lending to businesses and farms within its assessment area exceeds the standards for a satisfactory performance. As depicted in the chart below, during the time period examined, the bank extended approximately 93 percent of its small business and small farm loans inside the assessment area.³ Given that Ireland Bank's offices are located closer to the edges of the assessment area, the percentage of lending in the assessment area displayed the bank's commitment to meeting its communities' credit needs.



³ According to Regulation BB, small business loans are those extended in dollar amounts less than \$1 million and small farm loans are those extended in dollar amounts less than \$500,000.

LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

To determine the bank's record of lending to businesses and farms of various sizes within its assessment area, examiners collected and reviewed the gross revenues of a sample of the bank's commercial and agricultural loan customers and compared them to the types and sizes of businesses and farms within the bank's communities. In addition, when the bank used the gross annual incomes of its customers to qualify them for these types of loans, examiners compared those incomes to the number and percentage of low-moderate-, middle- and upper-income families living in the assessment area. Since loans to small businesses and small farms tend to have smaller dollar amounts, greater weight was given to the percentage distribution based on the number of loans rather than the overall percentage of dollar volume.⁴

Businesses of Different Sizes

The examiner gauged the reasonableness of the bank's credit penetration in the small business sector of the assessment area by reviewing the number of loans extended to small businesses. In this regard, the examiners reviewed a statistical sample of 81 small business loans, which totaled \$3.1 million, extended within the bank's assessment area. Of these 81 small business loans, 76 (94 percent) went to businesses with gross annual revenues of less than \$1 million.

Additionally, the statistical sampling revealed that 85 percent of the 81 loans were in dollar amounts less than \$100,000. A detailed review of individual loan accounts indicated that a significant number of the 81 loans were for amounts below \$30,000; loans below \$30,000 were identified by a community member as a credit need in the assessment area.

The statistical sample was also reviewed to determine the reasonableness of the bank's lending level in terms of the revenues of the businesses located in the assessment area. In this case, the examiners used businesses in the assessment area having less than 50 employees as a proxy for the size of a business' revenue. The examiners then used the 1990 census data to compare the bank's lending to small businesses to the proxy.

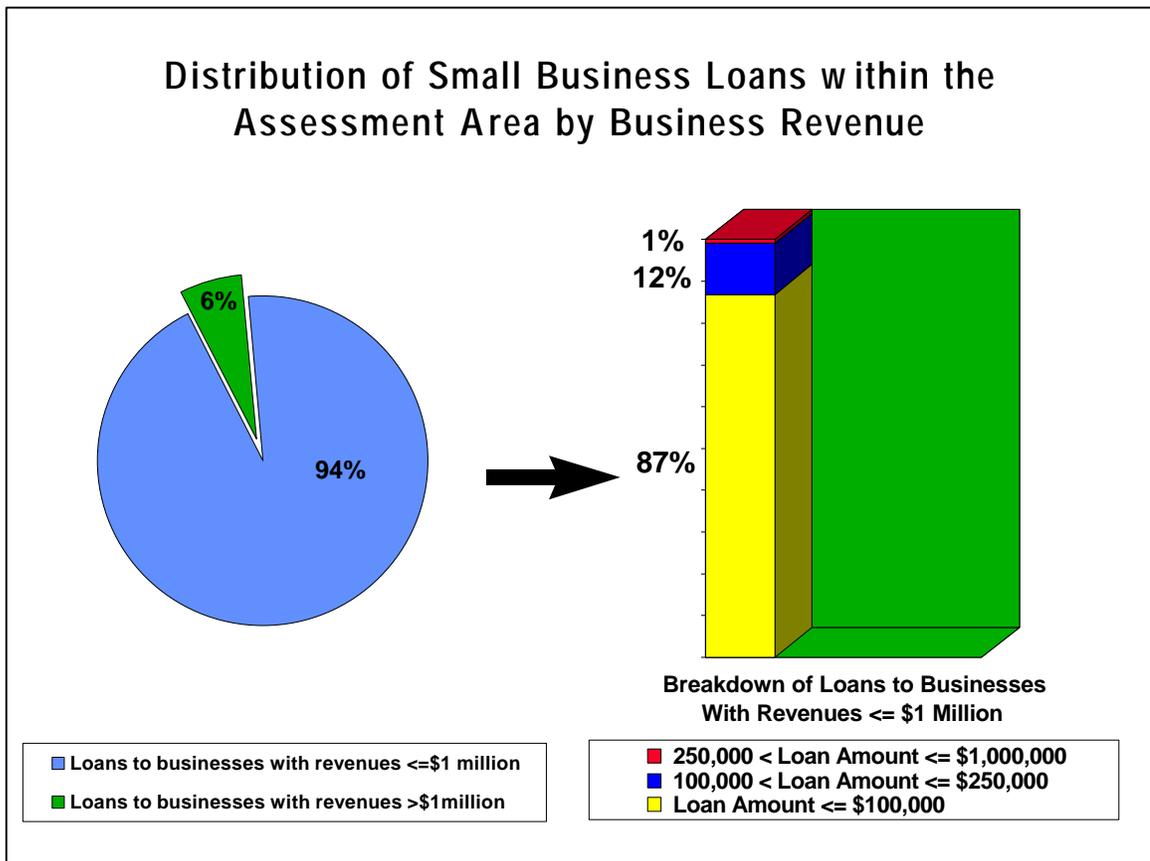
Although the 1990 census had information only on Bannock County, it was determined that 70 percent of the businesses in the assessment area are located in this county. Moreover, approximately 96 percent of the businesses in Bannock County were small businesses. Given that the census information was compiled in 1990, examiners obtained more recent information from the Idaho State Department of Commerce on the number of businesses that are located within the assessment area.

According to the Idaho State Department of Commerce, there are 2,352 business establishments in the assessment area. This number significantly exceeds the number of businesses (1,631) obtained from the 1990 census. Of the 2,352 business establishments, the examiners were able to identify a number of large employers having revenues greater than one million dollars. The presence of large employers in

⁴ According to Regulation BB, small businesses and small farms are those having gross annual revenues of less than \$1 million.

the assessment area indicates that although there are opportunities to lend to larger businesses, a majority of the bank's loans has been extended to small businesses.

In light of the statistical sample and the sizes of businesses operating within the assessment area, it was determined that Ireland Bank significantly lends to and has successfully helped meet the credit needs of the small businesses in its assessment area.



Farms of Different Sizes

To gauge the reasonableness of the bank's credit penetration in the small farming sector of its assessment area, the examiners reviewed a statistical sampling of small farm loans. The statistical sample was also reviewed to determine the reasonableness of the bank's lending level in terms of the sizes of the farms located in the assessment area.

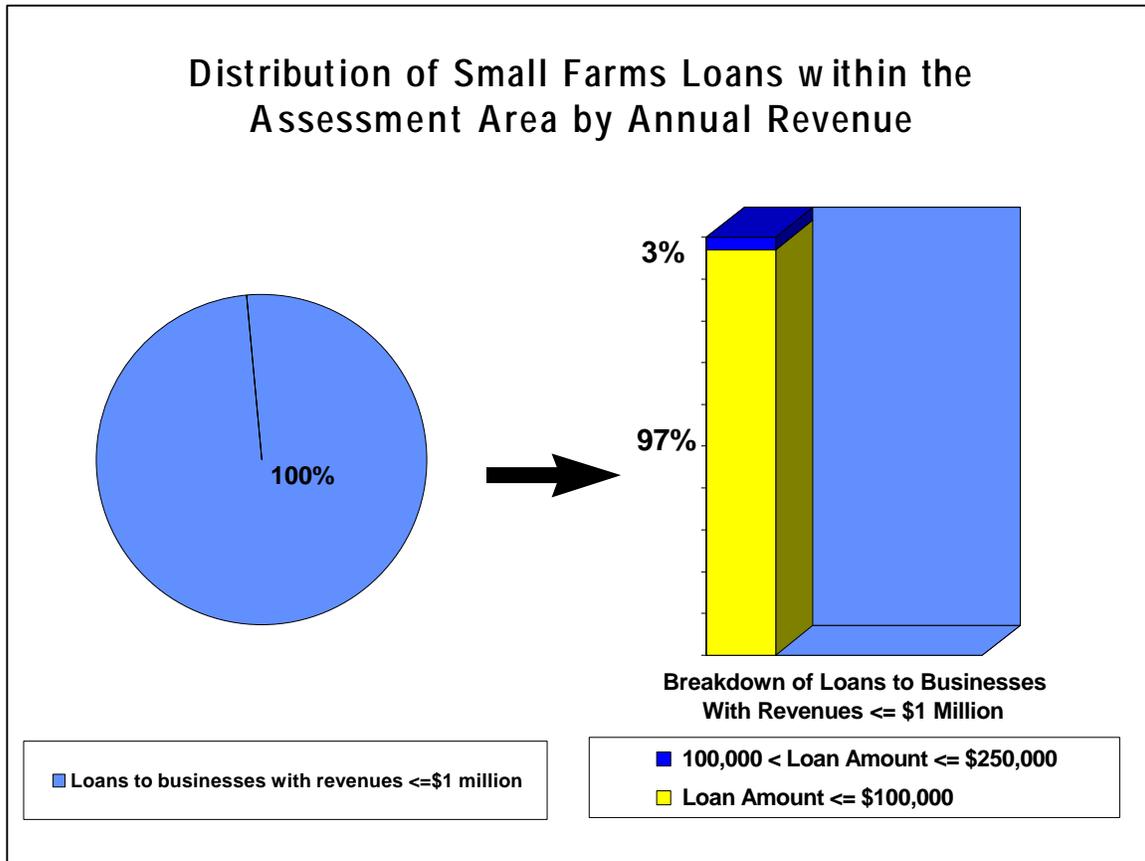
The statistical sample included 111 small farm loans with gross annual revenues of less than \$1 million and was compared to the percentage of farms in the assessment area.

To obtain the sizes of farms within the assessment area, the examiners used the acreage of the farm as a proxy for the size of the farming operation.

Information from the Idaho State Department of Commerce indicated that there were

2611 farms in the assessment area, of which 532 (20 percent) operated on more than 1000 acres of land. It was determined that Ireland Bank extended 100 percent of its loans to farms with less than \$1 million in gross annual revenues and farms that operated in less than 1000 acres of land. Additionally, the statistical sample indicated that 97 percent of the 111 small farm loans were in amounts of less than \$100,000. A detailed review of individual loan accounts further indicated that many of the loans were for amounts below \$30,000. As with small business loans, community contacts indicated that small dollar loans were a credit need among agricultural producers in the area.

By extending these small dollar loans to small farming operations, Ireland Bank has demonstrated its commitment to meeting the credit needs of its communities.



Community Development Lending

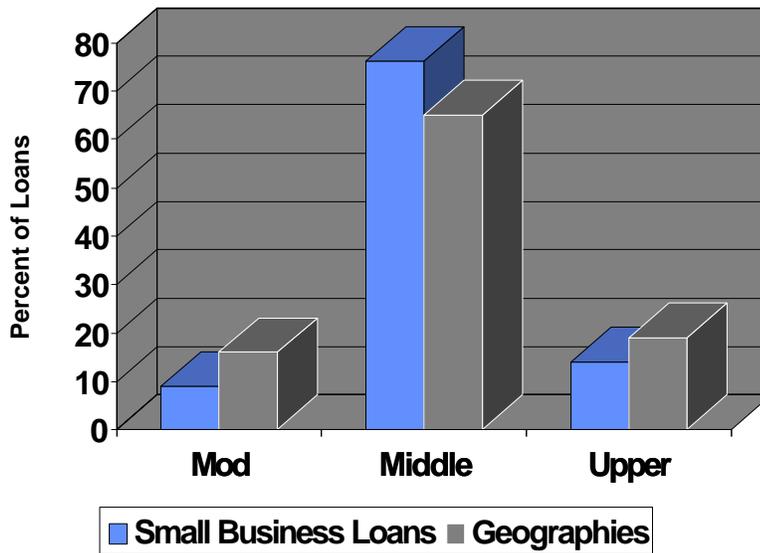
Ireland Bank has also demonstrated its commitment to low- and moderate-income persons in its assessment area and in a broader statewide area by purchasing participations in loans extended by the Idaho Community Reinvestment Corporation (ICRC). The bank has purchased \$52,000 in loans that were used to provide long-term financing for affordable multifamily housing.

GEOGRAPHIC DISTRIBUTION OF LOANS:

In order to analyze the bank's geographic distribution of loans, information on the population and the types and sizes of businesses was gathered and considered for the census tracts within the bank's assessment area, particularly those tracts in close proximity to the Pocatello branch as it is closest to the five moderate-income tracts located in the assessment area. This information was compared to the number of loans extended within the three income level categories of the census tracts. Given that the five moderate-income census tracts in the bank's assessment area are located in the City of Pocatello, a geographic analysis of small farm loans was not performed since small farm loans were located in only the middle- and upper-income areas outside of the City of Pocatello. Therefore, an analysis of these loans would not have been meaningful.

The bank's assessment area contains 31 census tracts or block numbering areas. There are 5 (16 percent) moderate-income tracts, 20 (65 percent) middle-income tracts, and 6 (19 percent) upper-income census tracts. There are no low-income census tracts located in the assessment area. The percentage of the bank's loans in moderate- middle- and upper-income tracts was 9 percent, 76 percent and 14 percent, respectively. As a percentage of dollar volume, the bank extended 12 percent, 63 percent and 25 percent in those same tracts, respectively. The bank's penetration into moderate-income tracts is reasonable and it is further supported by the fact that the percentage of loans in these tracts was diluted by the commercial lending occurring at the other seven branches located in middle-income census tracts. Based on this information, the bank's lending under this category met the standards for a satisfactory performance.

Comparison of the Percentage of Loans in Different Geographies to the Percentage of Geographies in Assessment Area



RESPONSE TO COMPLAINTS:

The bank did not receive any written complaints about its CRA performance during the period under review; therefore, this performance criterion could not be evaluated.

PROVISION OF SERVICES:

An evaluation of the branching structure of Ireland Bank was performed to determine the accessibility of the branches to all communities within the assessment area. Ireland Bank operates eight offices in South East Idaho. These offices are geographically well dispersed and reasonably accessible to all sections of the bank's assessment area. Most notably, in the towns of Lava Hot Springs, Downey, Grace, and Inkom, Ireland Bank is the only provider of banking services. Additionally, the bank's most recently opened office is within close proximity to the only five moderate-income census tracts within its assessment area.

The bank offers the same services at each of its branches; however, there are some

differences with respect to the hours of operation, the availability of drive-up windows and the availability of ATMs. These differences do not adversely impact particular areas of the assessment area.

The bank's use of alternative delivery systems was also reviewed to determine to what extent they enhanced the accessibility of the institution. The bank provides ATM access at the Lava Hot Springs Office, which was specifically requested by the community and at the Malad City and the Preston offices. Additionally, the bank operates an ATM in the City of Montpelier. Ireland Bank also has a toll free number so customers can bank by telephone 24 hours a day. In addition to normal account maintenance activities including transfers, inquiries and obtaining loan and deposit rate information, customers can also complete a consumer loan application over the phone. For business customers, the bank offers a courier service to bring banking service to the business owners in Pocatello.

Examiners also evaluated the level of community development services provided by the institution. In assessing the bank's performance, examiners considered the capacity and constraints of the institution, the opportunities to provide community development services, and the responsiveness of those services to community development needs in the assessment area.

The bank's President, has been an active member of the board of directors of the Idaho Community Reinvestment Corporation (ICRC). The ICRC was established to provide long-term financing for affordable multifamily housing; there are ten commercial banks that make up the non-profit mortgage banking consortium. The ICRC finances loans by pooling funds from each member bank. Member banks participate in each loan in proportion to their asset size. A loan committee, consisting of senior credit officers from the member banks, approve all loans. The loans are then sold on the secondary market to replenish the ICRC's available loan pool. The ICRC uses its staff to provide technical assistance to housing developers. The President also commits his time to community development services as a member of the Governor's Task Force for Affordable Housing. The task force is committed to identifying barriers to and finding solutions for creating affordable housing within the state.

Overall, the bank's provision of retail banking services enhances the availability of credit in the assessment area, particularly in those towns where it is the only bank present. Furthermore, the bank president's participation in community development services enhances the availability of affordable housing and is particularly responsive to the need for affordable housing in the state.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations such as the Equal Credit Opportunity Act and the Fair Housing Act. The bank is currently subject to the Home Mortgage Disclosure Act; however, it is not required to submit its data until March of 1998. While there were violations of the Equal Credit Opportunity Act, they were technical in nature and did not have a discriminatory effect. Although some weaknesses were noted in the bank's lending policies relating to fair

lending, the policies, procedures and training in general support non-discrimination in lending.