

**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 **Security Savings Bank, Gowrie, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **June 2, 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.

Security Savings Bank serves the credit needs of its assessment area consistent with its size, financial capacity, location, and current economic conditions. The bank's efforts are evidenced through an acceptable loan-to-deposit ratio, a substantial majority of loans generated within the assessment area, and a strong performance of lending to businesses and farms of different sizes, and borrowers of different incomes.

**DESCRIPTION OF INSTITUTION**

Security Savings Bank, Gowrie, Iowa, with total assets of \$32.5 million as of March 31, 1997, is a subsidiary of Security Financial, Inc., a one-bank holding company based in Farnhamville, Iowa. Prior to December 1996, the bank's main office was located in Farnhamville, approximately 25 miles southwest of Fort Dodge. On December 9, 1996, the bank moved its charter to Gowrie, seven miles east of Farnhamville, where the main office and a 24-hour automated teller machine (ATM) are located. Branches are located in the neighboring communities of Farnhamville, Harcourt, and Lehigh. On June 9, 1997, the bank acquired a fourth branch in Boxholm from Boone County State Bank. Both the main office and the Farnhamville branch are full-service locations, offering deposit services as well as retail, commercial and agricultural loans. The other branches offer complete deposit services; a loan officer is available at least once a week. Loan applications are available at all locations, but are processed centrally at the Farnhamville office. There are no apparent factors relating to the bank's prior performance, legal impediments, size and financial capacity, or local economic conditions that would prevent the bank from meeting the credit needs of its community.

The bank's primary competitors are First Bank and Trust, Lohrville (a branch of Fort Dodge); Heartland Bank, Gowrie (formerly State Bank of Gowrie, now a branch of Somers); First American State Bank, Dayton (a branch of Fort Dodge); and Community State Bank, Paton.

**DESCRIPTION OF ASSESSMENT AREA**

The bank has designated portions of Calhoun and Webster Counties as its assessment area. Block numbering area (BNA) 9503, located in Calhoun County, and census tracts 103 and 104, in Webster County, are all middle-income geographies. They contain the communities of Lohrville, Somers, Dayton, Otho, Callender, Lanyon, Knierim, and Rinard, in addition to the communities in which the branches are located.

According to the Iowa Department of Employment Services, the State of Iowa unemployment rate for April 1997 is 3.3%; the unemployment rates for Calhoun and Webster Counties are 3.1% and 3.8%, respectively. All of these rates compare favorably to April 1996 unemployment rates of 3.7%, 3.2% and 4.1%, respectively. Major employers in the area include: Farmers Co-op, Farnhamville; Consolidated Co-op, Gowrie; Air-Electric Machine Co., Lohrville; and Prairie Valley School District. Community representatives indicated that an additional 600 new employment opportunities are being created with new businesses locating in Fort Dodge, such as Wal-Mart Superstore and a State of Iowa medium security correctional facility.

According to 1990 U.S. census data, the assessment area's population is 9,850, with minority residents comprising 0.7% of the total population. The assessment area's median family income of \$26,935 is slightly lower than the State of Iowa non-metropolitan median family income of \$29,303. Of the 2,799 families in the assessment area, 16.0% are low-income families and 24.6% are moderate-income families. The assessment area contains 4,194 housing units, of which 64.5%

are owner-occupied. Community representatives stated that increased employment opportunities in Fort Dodge have resulted in the need for additional affordable housing.

### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs to support fair lending activities. 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

A review of the bank's Consolidated Report of Condition for the previous six quarters revealed an average loan-to-deposit ratio (LTD) of 54.47%. According to the Uniform Bank Performance Report dated March 31, 1997, the bank's loan-to-deposit ratio of 52.03% is significantly lower than its peers' ratio of 66.05%, consistent with past trends. The current significant variance is attributed to the influx of deposits as two banking locations were added. Management recognizes the variance in the loan-to-deposit ratio and plans to address it.

The following chart illustrates the loan-to-deposit ratio comparison between the bank and its primary competitors, according to the Consolidated Report of Condition of each bank:

Loan-to-Deposit Ratios of Competition								
Bank Name and Location	Asset Size (000's)	LTD Ratio 12/95	LTD Ratio 3/96	LTD Ratio 6/96	LTD Ratio 9/96	LTD Ratio 12/96	LTD Ratio 3/97	Average LTD Ratio
Heartland Bank, Gowrie	\$48,235	82.56%	71.39%	78.25%	84.68%	89.95%	66.47%	78.88%
First Bank and Trust, Lohrville	\$47,982	66.10%	60.29%	61.97%	69.92%	68.52%	58.87%	64.28%
First American Bank, Dayton	\$163,175	57.94%	58.44%	62.27%	67.11%	71.01%	67.03%	63.97%
Community State Bank, Paton	\$26,261	64.31%	51.93%	54.18%	59.43%	66.60%	53.76%	58.37%
<b>Security Savings Bank, Gowrie</b>	<b>\$32,510</b>	<b>57.16%</b>	<b>50.27%</b>	<b>49.80%</b>	<b>56.99%</b>	<b>60.55%</b>	<b>52.03%</b>	<b>54.47%</b>

As indicated above, the bank reports its highest loan-to-deposit ratio in December, due in part to an increase in the number of agricultural loans which are originated during the fourth quarter. The bank's loan-to-deposit ratio meets the standards for satisfactory performance, considering its size, financial condition, and the credit needs of its assessment area.

### LENDING IN ASSESSMENT AREA

The examination loan sample was reviewed to determine the proportion of lending activity within the bank's assessment area, as illustrated in the following chart:

LOAN TYPE	TOTAL SAMPLED	WITHIN ASSESSMENT AREA	PERCENT OF TOTAL
Direct Installment	20	17	85.00%
Indirect Installment	9	8	88.89%
Single Payment	11	5	45.45%
Real Estate	10	6	60.00%
Credit Cards	10	8	80.00%
Commercial/Agricultural	26	21	80.77%
<b>Total Approved Loans</b>	<b>86</b>	<b>65</b>	<b>75.58%</b>

As the above chart illustrates, a substantial majority of the loans in the examination sample were originated within the bank's assessment area. Additionally, the bank provided a report of currently outstanding consumer installment loans. An analysis of this report revealed that of 452 loans, 345 (76.33%) were originated within the bank's assessment area. An additional report of currently outstanding agricultural loans revealed that of 207 loans, 181 (87.44%) were within the bank's assessment area. The bank's performance for lending within its assessment area exceeds the standards for satisfactory performance.

### LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

A six-month sample of loans for the period ending April 30, 1997, was analyzed to determine the distribution of loans among borrowers of different income levels. The bank does not regularly collect income information; therefore, a proxy based on loan amount was used to determine the extent of lending among the various income levels for installment loans. According to management, low- and moderate-income individuals would be capable of supporting a personal loan of up to \$2,500. Of the 211 consumer installment originations reviewed, 54 (25.59%) were

for \$1,500 or less, and 30 (14.22%) were for amounts greater than \$1,500 but less than or equal to \$2,500. This indicates that the bank makes loans in order to accommodate borrowers of different income levels.

All commercial and agricultural loan originations for the six-month period ending April 30, 1997, were reviewed to determine the bank's performance in lending to businesses and farms of different sizes. Of the 288 commercial and agricultural loans in the sample, only 8 (2.78%) were for amounts greater than \$100,000. Small farm loans are those with original amounts of \$500,000 or less, and small business loans are those of \$1,000,000 or less. According to the bank's consolidated report of condition dated June 30, 1996, all 438 of the agricultural and business loans in the bank's portfolio at that time had origination amounts of \$100,000 or less. In June 1995, the bank also reported 410 agricultural and business loans, all with origination amounts of \$100,000 or less.

Additionally, the bank currently participates in the Iowa Ag Development Program; the program targets young farmers who may not have the capital necessary to purchase acreages. The state sells revenue bonds to the bank, and in turn, the proceeds go to the farmer at a low interest rate. At the present time the bank has approximately six of these loans, totaling nearly \$400,000. This evidences the bank's commitment to the credit needs of small farm and small business owners.

The bank's loan penetration among borrowers of different incomes and businesses of different revenue sizes exceeds the standards for satisfactory performance.

### **GEOGRAPHIC DISTRIBUTION OF LOANS**

There are no designated low- or moderate-income geographies located within the assessment area; thus, an analysis of loan distribution within geographies is not meaningful.

### **RESPONSE TO COMPLAINTS**

No CRA-related complaints were received by either the institution or the Federal Reserve Bank of Chicago since the previous examination.