

## **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 **Fort Madison Bank & Trust Company, Fort Madison, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **June 30, 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**.

Fort Madison Bank & Trust Company promotes economic revitalization and growth, consistent with its size, financial capacity, location, and current economic conditions. The bank's efforts are primarily accomplished through the origination of consumer purpose loans, including real estate. The bank has a reasonable loan-to-deposit ratio and originates a substantial majority of loans within its assessment area. The bank is lending to consumers of different income levels and businesses of different sizes. The geographic distribution of loans demonstrates the bank's willingness to extend credit throughout its assessment area. Management has developed policies, procedures, and training programs that have been effective in preventing discrimination in credit activities.

**DESCRIPTION OF INSTITUTION**

Fort Madison Bank & Trust Company, with assets of \$99.3 million as of March 31, 1997, is wholly owned by the Fort Madison Financial Company. The bank, which has been in business since 1854, operates three full-service offices and four automated teller machines (ATMs), all located in Fort Madison. Management considers the following financial institutions as its principal competitors: Lee County Bank & Trust, N.A., Fort Madison, Iowa; State Central Bank, Keokuk, Iowa; and Pilot Grove Savings Bank, Pilot Grove, Iowa. Other competitors include: Burlington Bank & Trust, Burlington, Iowa; Keokuk Savings Bank & Trust Company, Keokuk, Iowa; Midwest Federal Savings and Loan Association, Fort Madison, Iowa; and the credit unions at the Dial Corporation, E.I. DuPont de Nemours and Company, Inc., and the Iowa State Penitentiary.

The bank offers commercial, consumer, and residential real estate loans. Although not primary products, the bank also offers agriculture-related loans. The bank is involved in government-guaranteed, subsidized and insured lending programs by offering Small Business Administration (SBA), Alternative Agricultural, First-time Farm Buyer, Farm Services Agency (insured farm loans), Farmers Home Administration (FmHA), Veterans Administration (VA), Student, and I-Plus loans.

**DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area is defined as Lee County in Southeastern Iowa. Although the bank does not consider the western townships of Cedar, Harrison, Van Buren, and Des Moines in Lee County to be its primary service area, the geographies associated with these townships extend to within four miles of Fort Madison, and as a result of this close proximity, are included in the assessment area.

The assessment area consists of 12 Block Numbering Areas (BNAs); ten of which are middle-income, one is moderate-income; and one is low-income. The BNA (#9908.99) defined as low-income is a Coast Guard station, located in southern Lee County along the Mississippi River and, according to 1990 U.S. Census data, contains 18 residents, no housing units and no reported income. As a result, this BNA is not considered relevant to this evaluation and will not be further referenced. The moderate-income BNA (#9908.00) is also located in southern Lee County, approximately 20 miles south of Fort Madison.

According to the 1990 U.S. Census, the population of the assessment area is 38,687. The median family income for the assessment area is \$29,973, compared to the non-metropolitan state median family income of \$29,303. The population is 94.8% White, 3.0% Black, 1.8% Hispanic, 0.3% Asian, 0.1% American Indian, and 0.1% other. Approximately 20% of families within the assessment area are low-income, 17% are moderate-income, 23% are middle-income, and 40% are upper-income.

The housing stock within the assessment area is 67.3% owner-occupied, 23.6% rental, and 9.2% vacant. One-to-four family housing units represent 74.5% of the assessment area's housing stock. The housing stock in the area has a median value of \$35,634 and over 50% (8,401 units) of the housing stock was built before 1950.

Local residents are employed in primarily blue collar, industrial positions, with only a small percentage of the total work force employed in agricultural-related companies. Major employers in the assessment area include The Dial Corporation (canned meat products) in Fort Madison, which employs 600; Sheaffer, Inc. (pens and pencils) in Fort Madison, which employs 489; and the Iowa State Penitentiary, which employs 530.

According to the Iowa Department of Economic Development, the unemployment rate for Lee County has declined from 5.9% in May 1996 to 5.5% in May 1997. These rates are still substantially higher than the Iowa unemployment rates of 3.7% in May 1996 and 3.0% in May 1997. Various sources indicated that the loss of a paper plant plus shut-downs and cut-backs by other major employers have contributed to the higher unemployment rate for Lee County.

**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 and Fair Housing Acts.

**LOAN-TO-DEPOSIT RATIO**

The bank's quarterly loan-to-deposit ratios since the previous examination averaged 69.25%. According to the March 31, 1997 Uniform Bank Performance Report (UBPR), the bank's loan-to-deposit ratio of 68.03% was slightly below its national peer average of 69.51%.

To assess the bank's standing with local competition, the bank's loan-to-deposit ratio was compared to that of its principal competitors. The following chart represents a loan-to-deposit ratio comparison with area competitors:

<b>Loan-to-Deposit Ratios of Fort Madison Bank &amp; Trust Company, Principal Competitors and Peer Group</b>								
<b>Bank Name</b>	<b>Asset Size (\$ mm)</b>	<b>Dec. 1995</b>	<b>Mar. 1996</b>	<b>Jun. 1996</b>	<b>Sep. 1996</b>	<b>Dec. 1996</b>	<b>Mar. 1997</b>	<b>6-Quarter Average</b>
Fort Madison Bank & Trust	99.3	69.64%	65.94%	66.87%	72.71%	72.33%	68.03%	<b>69.25%</b>
Lee County Bank & Trust, N.A.	90.1	82.07%	81.04%	83.19%	84.76%	82.04%	80.84%	<b>82.32%</b>

Loan-to-Deposit Ratios of Fort Madison Bank & Trust Company, Principal Competitors and Peer Group								
State Central Bank	155.4	84.72%	84.91%	82.69%	84.25%	88.03%	86.83%	<b>85.24%</b>
Pilot Grove Savings Bank	106.2	81.81%	82.82%	87.74%	90.64%	90.13%	93.71%	<b>87.81%</b>
Peer Group		67.54%	67.15%	69.63%	70.22%	69.65%	69.51%	<b>68.95%</b>

The bank's principal competitors have loan-to-deposit ratios that averaged 13% to 18% more than the bank's over the past six quarters. An analysis of the assets of Fort Madison Bank & Trust Company and its principal competitors indicates that the bank maintained nearly 30% of its assets in securities, leaving approximately 70% for loans. An analysis of the March 31, 1997 UBPR and discussions with bank management revealed that the bank's competitors have chosen a different asset mix and have more funds available to make loans. Considering the bank's size, financial condition and local competition in the assessment area, the bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance.

#### **LENDING IN ASSESSMENT AREA**

All loans originated from November 1, 1996 to May 31, 1997 were reviewed to determine the bank's level of lending within its assessment area. Of the 987 loans reviewed, 805 loans or 81.6% were originated within the bank's assessment area. Loans originated during this time period revealed that the bank made a substantial majority of its loans within its assessment area and indicates that the bank's performance under this criterion exceeds the standards for satisfactory performance.

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

The bank does not routinely record income information for loan applicants, therefore a loan amount of \$1,500 was used as a proxy to help determine the bank's performance in this category. Of the 805 loans the bank made within its assessment area, 703 were identified as consumer loans. It was determined that there were 104 (14.8%) of the 703 loans in the preceding six months that were originated in an amount of \$1,500 or less. This is below the 35.3% of low- and moderate-income families in the assessment area according to the 1990 Census data. Although below the percentage for low- and moderate-income families, the number of loans originated in this amount still demonstrates the bank's willingness to extend credit in amounts that are affordable for lower-income families.

The bank identified 102 commercial loans originated in the preceding six months. Of the 102

loans, 98 (96.1%) were to small businesses (businesses with gross annual revenues less than \$1 million).

The banks willingness to lend to borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance.

### **GEOGRAPHIC DISTRIBUTION OF LOANS**

Loans originated during the six-month period preceding the examination were analyzed in order to evaluate the bank under this category. The moderate-income BNA (#9908.00) is located in the southern portion of Lee County, approximately 20 miles south of the bank and is serviced by two local financial institutions. The other ten BNAs are middle-income.

Of the 805 loans the bank made within the entire assessment area, 799 (99.3%) were in middle-income BNAs; 589 (73.2%) of the 805 loans were made in Fort Madison. There were six loans made in the moderate-income BNA, which represent 0.7% of the total loans originated within the assessment area. While this percentage is low, it is considered to be reasonable, considering the size of the BNA and the distance the BNA is from the bank.

### **RESPONSE TO COMPLAINTS**

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