
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 **Central State Bank, Elkader, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of October 6, 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.

The bank's level of lending within the assessment area is excellent, lending to borrowers with different incomes was reasonable and the loan-to-deposit ratio is adequate. There are no low-income or moderate-income geographies in the assessment area and no CRA-related complaints were filed since the previous examination; therefore, these two criteria were not analyzed or rated for this examination.

DESCRIPTION OF CENTRAL STATE BANK

Central State Bank, with total assets of \$66.5 million as of June 30, 1997, is a subsidiary of AJJ Bancorp, a one-bank holding company. The bank's offices are all located in Clayton County, in the northeast portion of the State of Iowa approximately 65 miles northwest of Dubuque. The bank's main office and a drive-up facility are located in Elkader; one full-service branch office is located in Marquette, one limited-service branch is in McGregor and another limited-service office is in Volga. The bank's primary lending focus is agriculture loans, but offers a variety of credit and deposit products from its full-service Elkader and Marquette offices; only deposit transactions are available at the Elkader drive-up facility, and the McGregor and Volga branches.

Based on its financial condition, size, product offerings, prior performance and legal impediments, the bank is deemed capable of meeting the various community credit needs.

The bank's main competitors include: Peoples State Bank in Elkader, Union Bank & Trust Company in Strawberry Point, Union State Bank in Monona, Luana Savings Bank in Luana and Peoples State Bank in Prairie du Chien. All competitors are located in the State of Iowa with the exception of Peoples State Bank which is in Prairie du Chien, Wisconsin.

DESCRIPTION CENTRAL STATE BANK'S ASSESSMENT AREA

The bank's assessment area includes portions of three counties, two in Iowa (Clayton and Allamakee) and one in Wisconsin (Crawford); the area in Clayton County comprises the largest portion of the assessment area. The assessment area consists of seven middle-income block numbering areas (BNAs); BNAs 9701.00, 9702.00, 9703.00 and 9706.00 are located in Clayton County, 9604.00 is in Allamakee County, and 9805.00 and 9806.00 are in Crawford County.

According to 1990 census data, the assessment area's population is 21,228; 21,019 (99.0%) are White and 209 (1.0%) are minority. The median family income for the non-metropolitan State of Iowa areas (NonMetro) is \$29,303 and non-metro State of Wisconsin is \$30,290. There are 1,193 (20.4%) low-income families, 1,343 (23.0%) moderate-income families, 1,444 (24.8%) middle-income families, 1,854 (31.8%) upper-income families within the assessment area; 623 families or 10.7% lived below the poverty level.

There are 9,691 total housing units within the assessment area; owner-occupied housing represent 5,964 (61.5%) units, rentals represent 2,137 (22.1%) units and there are 1,590 (16.4%) vacant housing units. The median housing value is \$39,322 and the median gross rent is \$269.

According to the United States Bureau of Labor statistics, recent unemployment figures for Clayton, Allamakee and Crawford Counties, the State of Iowa, and the State of Wisconsin are as follows:

Area	August 1997	August 1996
Clayton County	3.5%	4.6%
Allamakee County	2.4%	3.4%
State of Iowa	2.5%	3.5%
Crawford County	3.1%	3.1%
State of Wisconsin	3.2%	3.1%

From August 1996 to August 1997, there were significant decreases in unemployment rates throughout the State of Iowa. The unemployment rates in Crawford County and the State of Wisconsin remained stable.

The river-boat casino, Miss Marquette, opened in Marquette, Iowa in December 1994. This enterprise employs approximately 700 persons. However, most of the assessment area's economic support is provided by manufacturers situated in Prairie du Chien, Wisconsin. According to the 1997 Iowa Manufacturers Register and the 1998 Wisconsin Manufacturers Register, major employers located within the assessment area are as follows:

Employer	# Employed	Product/Service
Elkader Wire & Display Mfg. Co., Elkader, IA	45	Wire manufacturing display racks and pegboard hooks
Great Plains Supply Co., Elkader, IA	40	Portable livestock confinement & farm buildings
Lands= End, Inc., Elkader, IA	60	Luggage
Bituma Corp., Marquette, IA	250	Asphalt plant equipment & storage silos
Swiss Valley Farms, Luana, IA	100	Cheese, cream & dried whey products
The following companies are located in Prairie du Chien, WI		
DSC Technologies	100	Speaker cone assembly
Design Homes, Inc.	300	Modular homes
McGregor Loudspeaker Mfg., Inc.	150	Automobile stereo speakers
Miniature Precision Components	240	Automobile parts assembly
Quality Wood Treating Co., Inc.	180	Pressure-treated wood
3M Company	600	Industrial Abrasives

According to information on economic patterns obtained from the Regional Economic Information System, from 1990 to 1994 full- and part-time establishment jobs increased by 6.3% (from 7,774 to 8,260) in Allamakee County, 1.4% in Clayton County (from 9,910 to 10,053) and 12.1% in Crawford County (from 8,284 to 9,286). During the same period, full- and part-time

establishment jobs increased by 5.5% in non-Metro State Iowa and 9.9% in non-metro State of Wisconsin. Additionally, the 1993 County Business Patterns census data reported 13,273 employees working in 1,289 establishments in the assessment area; almost 97% of these establishments employed less than 50 persons.

Information gained from interviews conducted with two community representatives indicated that affordable housing programs and low down-payment home loans were products needed in the assessment area. The representatives indicated that there were opportunities for financial institutions to originate low down-payment loans as well as participate in affordable housing programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank is in compliance with the substantive provisions of the fair lending laws and regulations, including the Equal Credit opportunity Act and Fair Housing Act. Discussions of the bank's loan-to-deposit ratio, performance relating to lending within the assessment area and lending to borrowers with different incomes follow.

LOAN-TO-DEPOSIT RATIO

As of June 30, 1997, the bank's loan-to-deposit (L/D) ratio was 58.0% and the peer group's L/D was 72.1%. The bank's average L/D ratio for the six quarters which ended June 30, 1997 was 55.0%. The following table presents the bank's L/D ratio and total assets as of June 30, 1997 and December 31, 1997 compared to those of other local financial institutions.

Institution	6/30/97 Total Assets	6/30/97 L/D Ratio	12/31/97 L/D Ratio
Central State Bank, Elkader, IA	\$66,486,000	58.0%	51.2%
Peoples State Bank, Elkader, IA	\$44,986,000	47.7%	44.8%
Union Bank & Trust Company, Strawberry Point, IA	\$39,747,000	66.1%	56.6%
Union State Bank, Monona, IA	\$45,424,000	70.1%	66.3%
Luana Savings Bank, Luana, IA	\$54,133,000	84.2%	74.8%
Peoples State Bank, Prairie du Chien, WI	\$123,001,000	76.5%	75.6%

The preceding table shows that the bank's L/D ratio is adequate in comparison to financial institutions of comparable assets.

The following table depicts the distribution of the bank's loan portfolio, by loan type, according to the Consolidated Report of Condition and Income as of June 30, 1997:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
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LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	733	2.3
Residential (1-4)	7,220	16.9
Commercial	5,657	23.0
Agricultural	5,280	1.5
Multi-family	468	18.1
CONSUMER	2,761	14.7
COMMERCIAL AND INDUSTRIAL	4,399	14.0
AGRICULTURAL	4,599	8.8
OTHER	228	0.7

A comparison of this loan distribution to the bank's September 30, 1995 Consolidated Report of Condition showed that total loans increased approximately \$4.0 million or 14% since the previous examination. Significant increases were noted with respect to commercial real estate, consumer, commercial and industrial, and other loans. The increase in loans was attributed to the bank's business strategy to increase calling and marketing efforts and also to a strong local demand for credit.

Conclusion

Although the bank's loan-to-deposit ratio is lower than the ratios of its competitors and peer group, the bank's loan-to-deposit ratio is considered reasonable and meets the standard for satisfactory performance. A comparison of the bank's loan portfolio to that of the previous examination indicated that overall lending has increased.

LENDING IN ASSESSMENT AREA

A review of a six month sample of commercial and agricultural loans (March 1, 1997 through August 31, 1997) and a three month sample of retail installment and single payment loans (June

1, 1997 through August 31, 1997) revealed the following level of lending within the assessment area:

LOAN TYPE	TOTAL # of LOANS SAMPLED	# OF LOANS WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL LOANS WITHIN THE ASSESSMENT AREA
Commercial/Agricultural Single Payment	201	187	93.0
Commercial/Agricultural Installment	36	36	100.0
Consumer Single-Payment	42	36	85.7
Consumer Installment	104	98	94.2
Total	383	357	93.2

The preceding table shows that a majority of total loans were made within the assessment area. The total dollar value of the 383 loans was \$6.7 million, of which approximately \$5.8 million or 87% was extended in the assessment area.

Conclusion

A substantial majority of loans sampled, by number and dollar value, were made in the assessment area. The bank's performance exceeds the expectation for satisfactory performance.

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

The bank does not record borrower income information for retail loans or revenue data for commercial loan originations; therefore, loan proxies were used to test for distribution of loans among borrowers of different income ranges. Loan amounts of \$3,000 for retail loans and \$7,500 for commercial/agriculture loans were selected as benchmarks to evaluate the bank's performance in lending to borrowers of different income levels and businesses of different revenue sizes. These amounts were determined to be the size of a loan generally needed and obtained by low- and moderate-income individuals within the assessment area.

The analysis of 134 retail single-payment and installment loans revealed that 70 loans or 52% were in amounts of \$3,000 or less. In comparison, approximately 43% of the families within the assessment area are low- or moderate-income. The analysis of 223 commercial/agricultural loans revealed that 129 loans or 57% were in amounts of \$7,500 or less; two commercial/agricultural loans were in amounts greater than \$100,000.

According to the June 1995, 1996 and 1997 Consolidated Reports of Condition and Income, the distribution of the bank's small farm loan portfolio, by number and loan amount, within certain

dollar categories was as follows:

Small Farm Loans	1995 Number of Loans	1995 Amount (\$ 000)	1996 Number of Loans	1996 Amount (\$ 000)	1997 Number of Loans	1997 Amount (\$ 000)
Less than or equal to \$100,000	506	\$8,228	467	\$6,139	444	\$5,956
Greater than \$100,000 through \$250,000	16	\$2,138	18	\$2,337	18	\$2,301
Greater than \$250,000 through \$1 million	6	\$1,581	4	\$1,410	6	\$1,622
Total	528	\$11,947	489	\$9,886	468	\$9,879

As the preceding table illustrates, small farm loans were primarily in amounts less than \$100,000.

As of June 30, 1997, small farm loans (amounts less than \$500,000) represented 100% of the agriculture loan portfolio; agriculture loans are loans secured by farmland and loans to finance agriculture production and other loans to farmers.

According to the June 1995, June 1996 and June 1997 Consolidated Reports of Condition, the distribution of the bank's small business loan portfolio, by number and loan amount, within certain dollar categories was as follows:

Small Business Loans	1995 Number of Loans	1995 Amount (\$ 000)	1996 Number of Loans	1996 Amount (\$ 000)	1997 Number of Loans	1997 Amount (\$ 000)
Less than or equal to \$100,000	159	\$2,491	161	\$3,324	155	\$2,930
Greater than \$100,000 through \$250,000	20	\$2,512	18	\$2,671	18	\$2,146
Greater than \$250,000 through \$1 million	7	\$2,242	6	\$1,996	8	\$2,641
Total	186	\$7,245	185	\$7,991	181	\$7,717

As the preceding table illustrates, small business loans were primarily in amounts less than \$100,000. As of June 30, 1997, small business loans (amounts less than \$1 million) represented 76.7% of the commercial loan portfolio; commercial loans consist of loans secured by nonfarm/nonresidential properties, and commercial and industrial loans.

Conclusion

A significant percentage of retail loans and commercial/agriculture loans were in small dollar amounts, which are frequently needed by low- and moderate-income borrowers and small businesses and farms. According to the Consolidated Reports of Condition and Income, the small business/farm portfolio has remained stable and small business/farm loans represented a significant percentage of overall business lending. The distribution of loans reflect reasonable penetration among individuals of different income levels, and businesses and farms of different sizes. The bank meets the expectation for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

A geographic distribution analysis was not conducted. There are no low- or moderate-income census tracts or BNAs in the bank's assessment area.

RESPONSE TO COMPLAINTS

There were no CRA-related complaints received since the previous examination.