

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 **Iowa State Bank, Sheldon, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **March 31, 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 **Outstanding**.

The bank promotes economic revitalization and growth, consistent with its size, financial capacity, location and current economic conditions. These efforts are evidenced by a high loan-to-deposit ratio in comparison to peer, a substantial majority of loans originated within the assessment area, and a strong performance of lending to businesses and farms of different sizes and to consumers of different income levels.

DESCRIPTION OF INSTITUTION

Iowa State Bank, with total assets of \$42.6 million as of December 31, 1996 is a subsidiary of Vogel Bankshares Corp., a two-bank holding company. The bank has two offices; the main office in Sheldon, Iowa and a branch office in Hull, Iowa. In June of 1996, after acquiring a state, nonmember bank, the bank moved its charter to Sheldon and designated the Hull location as its branch office. Although Sheldon is the main office, all files are maintained and the majority of the bank's personnel are located at Hull. Both offices are full-service, offering loan and deposit products. In addition, the bank maintains a 24-hour automated teller machine (ATM) at the branch.

The bank offers various deposit products and services, and real estate, commercial, agricultural, credit card, installment and single-payment loans. The bank is primarily an agricultural lender; of the total loans outstanding (according to the December 31, 1996 Consolidated Report of Condition), 46.37% are agricultural loans and 27.64% are commercial loans. Asset growth, which exceeded 15% in 1996, is attributed to the acquisition of the Sheldon office. The bank's primary competitors include American State Bank and First National Bank of Sioux Center, Sioux Center, Iowa; Farmers Savings Bank, Boyden, Iowa; Peoples Bank and Trust, Rock Valley, Iowa; Citizens State Bank, Security State Bank, and First Federal Savings Bank of Siouxland, all located in Sheldon, Iowa.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank is located in Sheldon which is a rural, agricultural community in the northwest corner of Iowa. The City of Sheldon, located in O'Brien County, is approximately 60 miles northwest of Sioux City, Iowa, 50 miles southwest of Sioux Falls, South Dakota, and 15 miles from Hull, Iowa. The assessment area consists of all of Sioux County, Lyon County and portions of O'Brien County. There are 12 block numbering areas (BNAs) within the assessment area. One BNA (9501) is considered moderate-income, while the remaining 11 BNAs are middle-income.

According to the 1990 census information, the assessment area has a population of 51,080, of which 99% is White. According to the Department of Employment Services for Iowa, the unemployment rates for Sioux, Lyon and O'Brien Counties are 3.1%, 2.9% and 3.0%, respectively, compared to 3.5% for the State of Iowa. The median family income for the assessment area is \$29,115. Of the total families within the assessment area, 16.1% are low-income; 20.8% are moderate-income; 28.9% are middle-income; and 34.2% are upper-income. There are 18,609 housing units within the assessment area; 13,592 or 73% are owner-occupied and 4,105 or 22.01% are rental units.

Economic activity is primarily agricultural-related, with corn and soy beans being the major crops. Local, nonfarm employment opportunities are provided by the Foreign Candy

Company, Hull (41 employees); Hull Co-op Assn., Feed Division, Hull (32 employees); OldenKamp, Inc., Hull (30 employees); AALFS Manufacturing Co., Sheldon (100 employees); and Dethmers Manufacturing Co., Boyden, (300 employees).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and the Fair Housing Acts.

Loan-to-Deposit Ratio

The bank's quarterly loan-to-deposit ratios from September 30, 1995 to December 31, 1996 (according to the Consolidated Reports of Condition) averaged 84.96%. According to the December 31, 1996 Uniform Bank Performance Report (UBPR), the bank's net loan-to-deposit ratio of 79.54% is higher than its peer group's ratio of 66.39%. In addition, bank management indicated that the bank has sold approximately \$4 million in loans on the secondary market.

According to the bank's consolidated reports of condition, the bank's loan-to-deposit ratio decreased from 84.34% as of September 30, 1996 to 79.54% as of December 31, 1996. Management attributes this decrease to the bank's aggressive efforts to build deposits by increasing deposit rates and matching the competitors' certificate of deposit rates.

The bank's loan portfolio is comprised mainly of agricultural and commercial-related loans. According to the December 31, 1996 UBPR, the bank's performance compared to the peer group is as follows:

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	0.00	1.20
1 - 4 Family Residential	11.92	26.80
Home Equity	0.00	0.03
Other Real Estate	13.52	19.20
Farmland	10.13	7.55
Multi-family	0.00	0.19
Commercial	3.39	8.71
TOTAL REAL ESTATE LOANS	25.44	50.24
LOANS TO INDIVIDUALS	12.99	15.53
CREDIT CARD LOANS	0.47	0.10
COMMERCIAL & INDUSTRIAL LOANS	22.43	13.66
AGRICULTURAL LOANS	39.06	12.88
MUNICIPAL LOANS	0.08	0.22

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
OTHER LOANS*	0.00	0.16
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

The preceding chart indicates that 39.06% of the bank’s loan portfolio consists of agricultural loans. This concentration, which is significantly higher than the peer group’s concentration of 12.88%, is consistent with the makeup and credit needs of the community. Given its capacity to lend, demographic and economic factors, as well as lending opportunities available in the assessment area, the bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance.

Lending in Assessment Area

A sample of 247 loans (133 agricultural and 114 installment loans) made between August 1996 and January 1997 were reviewed to determine the bank’s level of lending within its assessment area. Of the 247 agricultural and installment loans reviewed, 230 or 93.12% were made within the assessment area. By product, 131 or 98.49% of the agricultural and 99 or 86.84% of the installment loans were made within the assessment area.

The bank has a substantial level of lending within its assessment area and exceeds the standards for satisfactory performance under this criterion.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The 247 sampled agricultural and installment loans were also used to assess the bank’s performance in lending to consumers of different incomes and businesses of different sizes; the borrowers’ income information was available for 72 of the 114 installment loans. When compared to the assessment area’s median family income, the distribution of the 72 installment loans among borrowers of different income levels is as follows: 16.67% were made to low-income borrowers; 19.44% were made to moderate-income borrowers; 43.06% were made to middle-income borrowers; and 20.83% were made to upper-income borrowers. Review of the agricultural loan sample revealed that all loans (with the exception of one) were small farm loans (defined as those loans with original amounts of \$500,000 or less).

The examination loan sample reflects a strong penetration of loans among individuals of different income levels and farms of different sizes, indicating that the bank’s performance under this criterion exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

Review of the CRA loan sample indicates that the bank had loan activity in 83.33% (10 of 12) of the BNAs within its assessment area. The majority of the loans were made in three BNAs; two of these BNAs are where the branch and the main office are located. Approximately 57% of the loans are concentrated in the BNA in which the Hull Branch is located. This concentration is reasonable, as Iowa State Bank is the only financial institution located in Hull and this location has a more established customer base than the Sheldon office. The one moderate-income BNA had 1.74% of the lending activity. There were, however, five BNAs with less loan activity than the moderate-income BNA. Overall, the bank's geographic distribution of loans is considered reasonable and meets the standards for satisfactory performance.

Response to Substantiated Complaints

No CRA-related complaints were received since the bank became a member of the Federal Reserve System.