

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 **Citizens Bank and Trust Company, Hudson, Iowa**, prepared by the **Federal Reserve Bank of Chicago** as of **September 8, 1998**. 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**.

Citizens Bank and Trust Company has a satisfactory CRA program through which it responds to identified credit needs within the assessment area. The bank is predominately a real estate lender, consistent with the identified credit needs of the community. The bank's lending activities include the origination of real estate loans for small business/small farm and residential purposes. The loan-to-deposit ratio exceeds the standards for satisfactory performance, and a high percentage of loans were in the assessment area. While lending to borrowers of different income levels is reasonable, lending to low-income borrowers was low in comparison to the distribution of low-income families in the assessment area. The loan distribution to small businesses and small farms was considered to be reasonable based on a proxy by loan size. The geographic distribution of the bank's loans in the assessment area is rated needs to improve. This is due, in large part, to the bank's low level of lending in low- and moderate-income geographies. In November of 1997, the bank opened an office in Waterloo, adding two low-income and two-moderate-income geographies to the assessment area. To date, there has been no additional emphasis in the lending program to identify opportunities for lending, or to originate loans in these geographies. Only one percent of total loans was made in low- and moderate-income geographies. In comparison, 19% of the geographies in the bank's assessment area are classified as low- and moderate-income. There were no residential real estate loans made in low- and moderate-income geographies. There were no CRA-related complaints received by the bank since the previous examination.

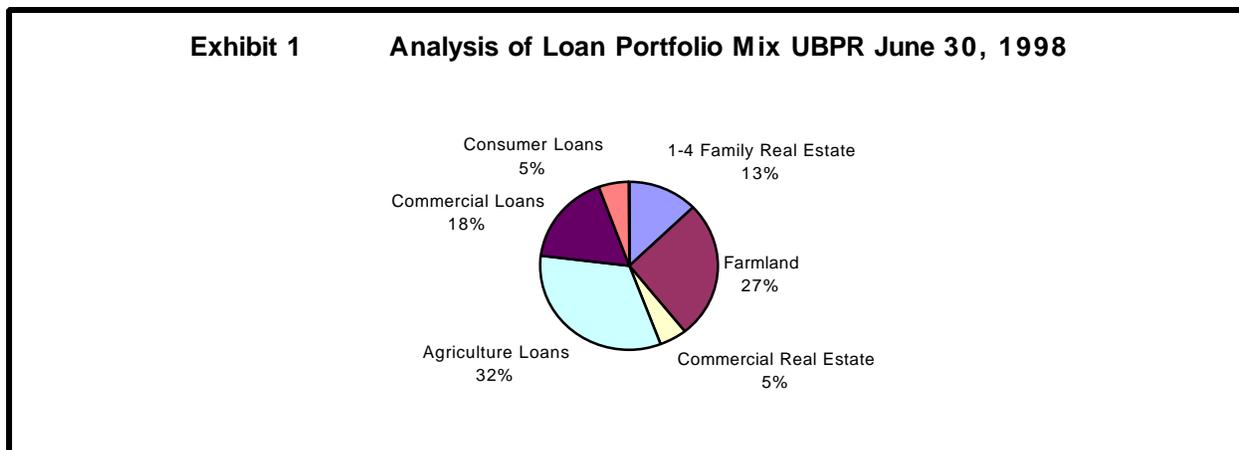
The previous examination, as of October 17, 1996, evaluated the bank's CRA performance as outstanding.

DESCRIPTION OF INSTITUTION

Citizens Bank and Trust Company, with total assets of \$61,156,000 as of June 30, 1998, is a subsidiary of Belle Plaine Service Corporation, a one-bank holding company located in Belle Plaine, Iowa. The bank's office network consists of its main office located in Hudson, Iowa, a full-service office in Belle Plaine, Iowa, and a limited-service office in Waterloo, Iowa. The Waterloo office was opened on November 4, 1997, and the Hudson office was opened on December 16, 1997. According to management, these offices were opened to allow the bank to expand its commercial and consumer lending in an effort to reduce the bank's concentration of agricultural lending. In addition, the bank operates three automatic teller machines (ATMs), two in Belle Plaine and one at the Hudson location. The bank also provides drive-through services

at its Hudson office and a stand-alone drive-through facility in Belle Plaine. The bank's main office in Hudson is approximately 65 miles northwest of Cedar Rapids, Iowa.

The bank provides traditional deposit and loan products as well as brokerage services, and is predominantly a real estate lender. Based upon information contained in the June 30, 1998 Uniform Bank Performance Report (UBPR), approximately 45% of the bank's loan portfolio is concentrated in real estate, including 13% 1-4 family real estate, 27% farmland and 5% commercial. Agricultural and commercial loans comprise 32% and 18%, respectively, of the loan portfolio. The distribution of the portfolio is shown in Exhibit 1:



The bank's primary competitors are Chelsea Savings Bank (Belle Plaine), State Bank of Toledo (Toledo), Poweshiek City Savings Bank (Brooklyn), Grinnell State Bank (Marengo), Watkins Savings Bank (Watkins), Keystone Savings Bank (Marengo), Benton County State Bank (Blairstown) and Hartwick State Bank (Hartwick). Competition also is provided by John Deere and Iowa Community credit unions.

There are no apparent factors relating to the bank's financial condition and size, products offered, prior performance, legal impediments, or local economic conditions that would prevent the bank from meeting the community credit needs.

DESCRIPTION OF ASSESSMENT AREA

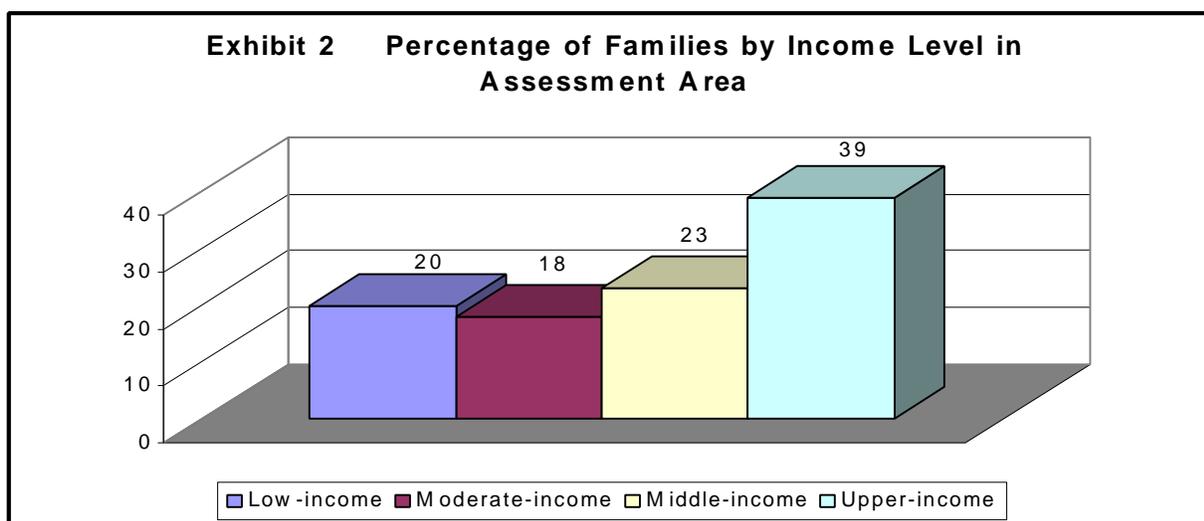
The assessment area includes portions of Benton, Blackhawk, Grundy, Iowa, Poweshiek and Tama Counties. Citizens Bank and Trust Company has defined its assessment area as fourteen census tracts in the Waterloo-Cedar Falls Metropolitan Statistical Area (MSA 8920) and nine block numbering areas (BNAs) outside the MSA. The assessment area is defined as census tracts 2.00, 7.00, 8.00, 9.00, 10.00, 13.01, 15.01, 20.00, 26.01, 26.03, 29.01, 29.02, 30.01, 30.02 in Blackhawk County (the MSA), and BNAs 9802, 9806, 9807 and 9902 in Benton County; 9901 in Grundy County; 9701 in Poweshiek County 9902 in Iowa County and 9901 and 9906 in Tama County. According to the 1990 U.S. Bureau of Census data, two or 13% of the fourteen census tracts (7.00 and 9.00) are low-income and two (2.00 and 8.00) or 13% are moderate-income. All nine BNAs are classified as middle-income geographies.

According to the 1990 U.S. Bureau of Census data, the median family income for the assessment area is \$31,085. In comparison, the MSA median family income is \$32,438 and the average for nonmetropolitan areas is \$29,303. This indicates that income in the assessment

area is below the average for the MSA, yet significantly above the average for nonmetropolitan areas of the state. The median family income in the assessment area appears to benefit from its proximity to the MSA.

The total population in the bank's assessment area is 71,632. Whites constitute 96% of the assessment area's population. Approximately 26% of the assessment area's population is 17 years of age or younger and 16% is 65 years of age or older. In comparison to demographics for the MSA and nonmetropolitan areas of the state, the assessment area has a higher percentage of both younger and older residents in comparison to the MSA, but less older adults than the nonmetropolitan areas. According to representatives from the community, there has been a large increase in the population of individuals of Bosnian and Hispanic descent.

The distribution of families, by income level in the assessment area, is shown in Exhibit 2:



The above distribution is more reasonably consistent with the distribution of family income within the MSA, than that for nonmetropolitan Iowa.

The assessment area's housing market consists of 30,179 total housing units. Approximately 64% of these units are owner occupied, 29% are rental units, and 7% are vacant. The median housing value in the assessment area is \$40,393 and approximately 38% of the housing stock was built prior to 1950. In comparison, the median housing value for the MSA is \$44,010, with approximately 35% of the housing stock built prior to 1950. Median gross monthly rent for the assessment area is \$313, compared to \$326 for the MSA. Housing within the assessment area is predominately single-family, and approximately 76% of the housing stock consist of one-to-four family units (22,935 of 30,179 total units).

An affordability ratio can be developed by dividing the median household income by the median household value for a given area or group of geographies. This ratio is useful in comparing housing costs for different areas. An area with a higher ratio generally has more affordable housing than areas with lower ratios. According to the 1990 U.S. Bureau of Census data, the affordability ratio for the bank's assessment area is 77%, compared to 87% for the MSA, indicating that housing in the assessment area is less affordable than in the MSA as a whole.

The assessment area's economy is based primarily on agricultural and manufacturing. The communities of Belle Plaine, Hudson and Waterloo serve as the main centers of economic activity in the assessment area. Belle Plaine is primarily supported by agriculture with several small firms offering non-farm employment. Corn and beans are the primary cash crops while cattle and hogs are the principal livestock produced. Hudson is a bedroom community as most local residents commute to nearby Waterloo and Cedar Falls for employment. Waterloo's economy consists primarily of manufacturing, with the local economy being dominated by John Deere Waterloo Works, a large farm implement manufacturer.

In Exhibit 3, a list of the major employers in the bank's assessment area is shown:

Exhibit 3			
MAJOR ASSESSMENT AREA EMPLOYERS			
EMPLOYER	LOCATION	NUMBER OF EMPLOYEES	PRODUCT/SERVICE
John Deere Waterloo Works	Waterloo	2,200	Tractor Parts
John Deere Waterloo Works	Waterloo	1,800	Sheet Metal & Assembly
John Deere Waterloo Works, Foundry Operations	Waterloo	850	Iron Casting
Viking Pump, Inc.	Cedar Falls	750	Pumps
John Deere Engine Works	Waterloo	700	Diesel Engines
Benco Manufacturing	Belle Plaine	250	Oil Pumps & Furnace brazing
Eagle Tanning Co.	Waterloo	175	Leather
Beef Products, Inc.	Waterloo	130	Beef Processing
Exhibit 3			
MAJOR ASSESSMENT AREA EMPLOYERS			
EMPLOYER	LOCATION	NUMBER OF EMPLOYEES	PRODUCT/SERVICE
Wayne Engineering Corp.	Cedar Falls	105	Engineering
Blackhawk Engineering	Cedar Falls	90	Engineering

According to the Iowa Work Force Development, the unemployment rates for the assessment area are as follows:

Exhibit 4		
ASSESSMENT AREA UNEMPLOYMENT RATES		
COUNTY	June 30, 1997	June 30, 1998
Benton	2.7%	2.4%
Blackhawk	4.0%	3.2%
Grundy	2.5%	1.9%
Iowa	2.0%	1.6%
Poweshiek	3.3%	2.6%
Tama	2.9%	2.2%
State of Iowa	3.2%	2.5%

As indicated in the preceding table, unemployment is low in the assessment area with the exception of Blackhawk and Poweshiek Counties, and the trends compare favorably to the rates for the State of Iowa.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

A sample of the bank's loans and denied applications were reviewed to determine whether loan policies and lending standards were in compliance and implemented on a fair and equitable basis. No evidence of prohibited discriminatory credit practices was detected. 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

Citizens Bank and Trust Company's loan portfolio was reviewed to evaluate its lending, loan mix and how the bank's performance compares to peer banks and a sample of local competitors. The bank's net loan-to-deposit ratio (LTD) averaged 83% for the seven quarters ended June 30, 1998, compared to 68% for the bank's peer group, and to 69%, 53%, 71%, 65% and 58%, respectively, for five area competitor banks. The LTD ratios and trends for the bank, peer banks and a sample of five competitors are shown in Exhibit 5:

Exhibit 5				
LOAN-TO-DEPOSIT RATIO SUMMARY				
FINANCIAL INSTITUTION	Total Assets As of June 30, 1998 (000's)	LTD Ratio as of June 30, 1997	LTD Ratio as of June 30, 1998	Seven- Quarter Average LTD Ratio
Citizens Bank & Trust Company	\$61,156	84%	86%	83%
Chelsea Savings Bank	\$51,069	70%	71%	69%
State Bank of Toledo	\$62,165	52%	59%	53%

Citizens Bank and Trust Company, Hudson, Iowa

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Poweshiek City Savings Bank	\$39,231	71%	78%	71%
Grinnell State Bank	\$101,931	66%	68%	65%
Watkins Savings Bank	\$32,332	58%	59%	58%
Peer Group	N/A	68%	69%	68%

As indicated in the preceding chart, the bank's seven-quarter average LTD ratio significantly exceeds that of peer banks and the sample of five competitors. The bank's loan-to-deposit ratio exceeds the standard for satisfactory performance.

Lending in the Assessment Area

A sample of 450 loans for the six-month period from January 1, 1998 through June 30, 1998 was reviewed to determine the bank's level of loans in the assessment area. The sample consisted of 30 residential real estate loans totaling \$1,368,466, 132 commercial loans totaling \$9,712,038 and 288 agricultural loans totaling \$13,941,364. The distribution of these loans within the bank's assessment area is shown in Exhibit 6:

Exhibit 6			
CITIZENS BANK & TRUST COMPANY			
LENDING WITHIN THE ASSESSMENT AREA			
LOAN TYPE	TOTAL SAMPLE	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
Residential Real Estate	30	22	73
Commercial Loans	132	91	69
Agricultural Loans	288	233	81
Totals	450	346	77

As shown in Exhibit six, 346 or 77% of the bank's loans were within the assessment area. Although not shown in Exhibit six, \$17,585,172 or 70% of the total dollar amount of loans was within the assessment area. The bank's agricultural loans represent the largest number (233), dollar volume (\$9,581,628) and percentage (81%) of loans in the assessment area. Residential real estate loans represent the lowest number (22) and dollar volume (\$1,007,690) of loans in the assessment area. The bank's level of lending activity within the assessment area is reasonable.

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

Consumer Loans

A six-month sample of 22 residential real estate loans was relied upon to determine the distribution to individuals of different income levels in the assessment area. In the six-month period from January 1, 1998 to June 30, 1998 the bank originated 30 residential real estate loans totaling \$1,368,466. Of these totals, 22 loans totaling \$1,007,690 were secured by properties located in the bank's assessment area. The distribution of these loans among the different income categories as defined by U.S. Census data is shown in Exhibit 7:

Exhibit 7 CITIZENS BANK AND TRUST COMPANY DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY APPLICANT INCOME CATEGORY				
Borrower Income Category	Number of Families	Percent of Total Families	Number of Loans	Percent of Total Loans
Low - 0 to 49%	4,044	20%	1	5%
Moderate – 50 to 79%	3,480	18%	4	18%
Middle – 80 to 119%	4,502	23%	4	18%
Exhibit 7 CITIZENS BANK AND TRUST COMPANY DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS BY APPLICANT INCOME CATEGORY				
Borrower Income Category	Number of Families	Percent of Total Families	Number of Loans	Percent of Total Loans
Upper - > 120%	7,813	39%	13	59%
Totals	19,839	100%	22	100%

As shown in the preceding table, one loan or 5% of total loans was made to low-income borrowers, four loans or 18% to moderate-income borrowers and 4 loans or 18% to middle-income borrowers. The distribution of loans to low- and moderate-income and middle-income borrowers was below the percentage distribution for low- and moderate-income (38%) and middle-income (23%) families in the assessment area. Thirteen or 59% of the 22 residential real estate loans were made to upper-income borrowers, which significantly exceeded the 39% distribution of upper-income families in the assessment area.

Small Business and Small Farms Loans

Small business loans are those loans with an original loan balance of less than \$1 million made to businesses with less than \$1 million in gross annual revenues. Small farm loans are those loans with an original loan balance of less than \$500,000 made to farms with less than \$1 million in gross annual revenues.

A six-month sample of 324 commercial and agricultural loans was reviewed to determine the bank's level of lending to small businesses and small farms. Since income information was not readily available, the original loan amount was used as a proxy to determine the distribution for these loans. Of the 324 total commercial and agricultural loans made in the assessment area, 312 or 96% were in original loan amounts of less than \$100,000, indicating that the bank is making loans in amounts that appeal to small businesses and small farms. According to management, all of the 233 agricultural loans originated in the assessment area were made to farms with gross annual incomes of less than \$1.0 million. Seventy-five or 82% of the 91 commercial loans originated in the assessment area were made to businesses with gross annual revenues less than \$1.0 million.

According to the June 30, 1998 Consolidated Report of Condition and Income, all of the bank's 223 commercial and 684 agricultural loans in the portfolio had balances below \$100,000.

Overall, the bank's distribution of loans to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance.

Geographic Distribution of Loans

A sample of 346 loans, originated between January 1, and June 30, 1998, were reviewed for their geographic distribution within the assessment area: 22 residential loans, 91 commercial loans and 233 agricultural loans. The review revealed that four or 4.4% of the commercial loans were originated in low- and moderate-income geographies. No residential real estate or agricultural loans were originated in these geographies. This represents one percent of total lending by the bank in low- and moderate-income geographies. In comparison, four or 19% of the twenty-one geographies in the assessment area are classified as low- or moderate-income. These four census tracts are located in the portion of the bank's assessment area that includes the Waterloo office, which was opened in November 1997. The results of discussions with community representatives identified a need in the assessment area for low-income housing. They also indicated that housing values in the assessment area are high relative to median family income. As previously discussed, the affordability ratio suggests that housing in the assessment area is less affordable compared to housing in the MSA. According to management, the bank has not had sufficient time to improve its performance in these census tracts. The geographic distribution of the bank's loans within the assessment area is rated needs to improve.

Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.