

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 **Washington State Bank, Washington, Iowa**, prepared by the **Federal Reserve Bank of Chicago** as of **April 6, 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**.

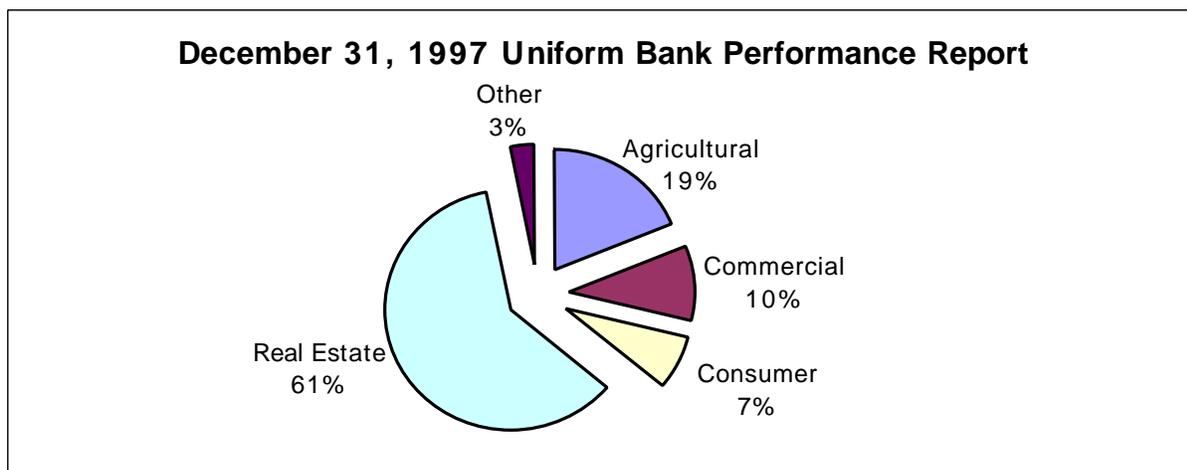
Management is responsive to identified needs within the community and offers credit products and services designed to meet those needs. The bank is predominately a real estate lender which is consistent with the primary credit needs of the community. The results of this evaluation indicate that the bank is serving the credit needs of its community in a satisfactory manner. The loan-to-deposit ratio is satisfactory and the majority of loans sampled were made within the assessment area. An analysis by applicant income based on 1990 U.S. Census data of a sample of loans revealed that lending to low- and moderate-income individuals is reasonable and lending to small businesses/farms within the assessment area is strong. All geographies located in the assessment area are classified as middle-income; therefore, an evaluation of the geographic distribution of loans based on geography income levels was not necessary. A majority of the agriculture and commercial loans are in amounts of \$100,000 or less, indicating a reasonable distribution of loans to small business and small farms. There were no CRA- related complaints received by the bank since the previous examination.

DESCRIPTION OF INSTITUTION

Washington State Bank, with total assets of \$113.1 million as of December 31, 1997, is a

subsidiary of WSB, Inc., a one-bank holding company. The main office, drive-up facility, and three 24-hour Automated Teller Machines (ATMs) are located in the City of Washington, the seat for Washington County. The drive up facility is located one block south of the bank. The ATMs are located at the main office, the drive-up facility, and Fareway Grocery, in Washington.

The bank offers a variety of deposit products and services, as well as residential real estate, consumer, commercial and agricultural loans. The December 31, 1997 Uniform Bank Performance Report (UBPR), showed that the majority of the loan portfolio is secured by real estate, with 41.6% of real estate loans secured by one-to-four family residences. The bank is also a strong agricultural lender. Commercial and industrial, and consumer loans comprise the remainder of the loan portfolio. The portfolio distribution is shown in the following chart:



The bank's primary competitors include a local branch of Mercantile Bank of Eastern Iowa in Waterloo, the main office of West Chester Savings Bank located in Washington, and Washington Federal Savings Bank. Additional competition is provided by financial institutions located in the surrounding communities.

The bank promotes economic revitalization and growth, consistent with its size, financial capacity, location and current economic conditions. There are no legal or regulatory impediments that would prevent the bank from meeting its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA

The assessment area is defined as Washington County, located in Southeastern Iowa approximately 40 miles south of Iowa City, and 110 miles southeast of Des Moines. The assessment area is comprised of five geographic Block Numbering Areas (BNAs): 9601.00, 9602.00, 9603.00, 9604.00 and 9605.00. According to the 1990 U.S. Census, all of the geographies are categorized as middle-income. The population in the assessment area is 19,612, with 7,209 individuals residing in the City of Washington. The racial makeup of the population in the assessment area is Whites - 19,326 or 98.5%; Hispanics - 156 or 0.8%; Blacks - 76 or 0.4%; Asian - 36 or 0.2%; and American Indians 16 or 0.1%. In addition, 26.5% of the assessment area population is 17 years of age or younger and 18.6% is 65 years of age or older, in comparison to 26.0% and 17.8% respectively, for all of nonmetropolitan Iowa.

Area housing consists of 7,866 total units. Of these, 68.0% are owner-occupied and 26.8% are rental units. The median housing value in the assessment area is \$42,809 and approximately 54% of the housing stock was built prior to 1950. In comparison, the median housing value for nonmetropolitan Iowa is \$38,521, with 48.9% of the housing stock built prior to 1950. Median monthly rent for the assessment area is \$297, compared to \$292 for rural Iowa.

The median family income is \$30,295 for the assessment area, \$31,659 for the State of Iowa and \$29,303 for nonmetropolitan Iowa. The distribution of families in the assessment area, by income level, is low-income - 708 or 13.5%, moderate-income - 1,023 or 19.6%, middle-income - 1,447 or 27.7% and upper income - 2,050 or 39.2%. The data also shows that the area has more young people and more elderly people as percentages of the total population in comparison to all nonmetropolitan Iowa.

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. Census data, the affordability ratio for the assessment area was .603% in comparison to .629% for nonmetropolitan Iowa.

Manufacturer and manufacturer-related industries comprise the economic base in Washington County along with agriculture and farming. Major employers in the area include the following:

EMPLOYER	LOCATION	# OF EMPLOYEES	PRODUCT/SERVICE
McCleery Cumming Co. Inc.	Washington	300	Calendar manufacturer
Modine Manufacturing	Washington	250	Heat transfer products, air & oil coolers
Fansteel Washington Mfg.	Washington	165	Misc. Metal products
Crane Valves	Washington	150	Iron castings & valves
Kiefer Built, Inc.	Kalona	150	Livestock equipment & cargo trailers
EMPLOYER	LOCATION	# OF EMPLOYEES	PRODUCT/SERVICE
Kalona Plastics, Inc	Kalona	135	Plastic injection moldings

The local economy appears strong. According to the Iowa Department of Employment Services, Washington County had an unemployment rate of 5.5% as of February 1997 and 3.8% as of February 1998. These ratio's are slightly higher than the averages reported by the State of Iowa of 4.5% and 3.2%, for the same corresponding periods.

The above data demonstrates that the assessment area has a stable and improving economy. Income, housing values, and rents are higher in the area than nonmetropolitan Iowa. The affordability ratio shows that housing may be less affordable in the assessment area than in

nonmetropolitan Iowa.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Washington State Bank was examined for compliance with fair lending laws and regulations. A sample of loans and denied applications were reviewed to ascertain 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 Act and the Fair Housing Act.

LOAN-TO-DEPOSIT RATIO

Washington State Bank's loan portfolio was reviewed to evaluate its lending volume, loan mix, and the bank's performance in comparison to its peer group and local competitors. According to the Consolidated Reports of Condition for the four quarters ending December 31, 1997, the bank has an average loan-to-deposit ratio (LTD) of 70.9%. As of December 31, 1997, the LTD ratio was 73.9%, compared to 65.6% for its principal competitor. The following chart reflects the bank's LTD ratios for year-end 1996 and 1997, as well as the respective LTD ratios for a local competitor and peer group.

Bank/Location Assets as of 12/30/97	December 1996	December 1997	Four Quarter Average LTD Ratio
Washington State Bank Washington, Iowa. \$113,139,000	64.1%	73.9%	70.9%
West Chester Savings Bank Washington, Iowa. \$24,885,000	74.0%	65.6%	68.1%
Washington Federal Savings Bank Washington, Iowa. \$66,015,000	99%	121%	112%
PEER GROUP	63.6%	66.7%	65.9%

As the preceding chart illustrates, the LTD ratio reflects a one-year increase since December 12, 1996, of 9.8%. A branch of Mercantile Bank of Eastern Iowa in Waterloo and Washington Federal Savings Bank, a savings & loan, offer additional local competition to the bank. However, LTD ratio comparisons were not done with either institution, as they are not financially similar in nature. The loan-to-deposit ratio meets the standards for satisfactory performance.

Lending in the Assessment Area

A sample of loans for a six-month period from September 1, 1997 to February 28, 1998, was used to determine the extent of lending within the assessment area. The sample consisted of 353 direct installment, 164 real estate mortgages, 290 agriculture and 148 commercial loans. The review 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
Installment (Direct)	353	299	84.7
Real Estate Mortgages	164	141	86.0
Agriculture	290	219	75.5
Commercial	148	126	85.1
Grand Totals	955	785	82.2

As the preceding chart illustrates 82.2% or a majority of sampled loans, by product and in aggregate, were made to borrowers within the assessment area. The bank's assessment area appears reasonable as loans made outside were widely scattered. The level of lending within the assessment area is reasonable and meets the standards for satisfactory performance. This data as also supported through discussions with community representatives, who indicated that area credit needs were being met.

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

A six-month loan sample, from September 1, 1997 to February 28, 1998, of 133 real estate and 353 direct installment loans were analyzed to determine the bank's loan distribution among borrowers of different income levels. Lending to borrowers of different incomes was analyzed in comparison to the 1990 U. S. Census income distribution of families in the assessment area: 13.5% low-income; 19.6% moderate-income; 27.7% middle-income; and 39.2% upper-income families. The real estate loan review was based on actual applicant income figures obtained from loan files. The installment loan distribution was analyzed based on a loan dollar amount proxy as borrower income was not available in sufficient detail to accommodate a direct analysis. The loan proxy was based on the 1990 U.S. Census median family income for the nonmetropolitan areas of Iowa.

The review of the loan sample revealed the following distribution among borrowers of different income levels:

LOAN TYPE	LOW- AND MODERATE-INCOME \$000's and #	MIDDLE-INCOME \$000's and #	UPPER-INCOME \$000's and #	TOTAL \$000's and #
Real Estate	\$584 16	\$1,207 34	\$4,752 83	\$6,543 133
Direct Installment	\$57 67	\$88 49	\$1,871 237	\$2,016 353
Total Dollars	\$641	\$1,295	\$6,623	\$8,559
Total Loans	83	83	320	486

As the chart illustrates, 833 of 486 or 17.1% of loans sampled were to low- and moderate-income borrowers. This percentage is lower than the low- and moderate-income makeup of the

assessment area, as defined by the 1990 U.S. Census. However, viewed in conjunction with the results of other criteria and statements obtained from representatives of the community, the performance meets the standards for satisfactory performance.

Small Farm and Small Business Loans

A six-month sample, consisting of 438 commercial and agricultural loans totaling \$12.9 million was reviewed. 437 loans or 99.7% totaling \$12.7 million were to small farms and small businesses with annual revenues of less than \$1.0 million. According to the June 30, 1997 Consolidated Report of Condition, the bank had 315 commercial loans and 78 agricultural loans outstanding and substantially all of these loans were in amounts of \$100,000 or less.

The distribution of loans is reasonable. The real estate and installment loan sample revealed a low, yet reasonable, level of lending among low- and moderate-income borrowers. The distribution of loans to small farms and businesses of different revenue sizes was strong. Overall, the distribution of loans meets the standards for satisfactory performance.

Geographic Distribution of Loans

There are no low- or moderate-income geographies within the assessment area. Therefore, analysis of loan distribution within geographies was not conducted.

Response to Substantiated Complaints

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