

GENERAL INFORMATION

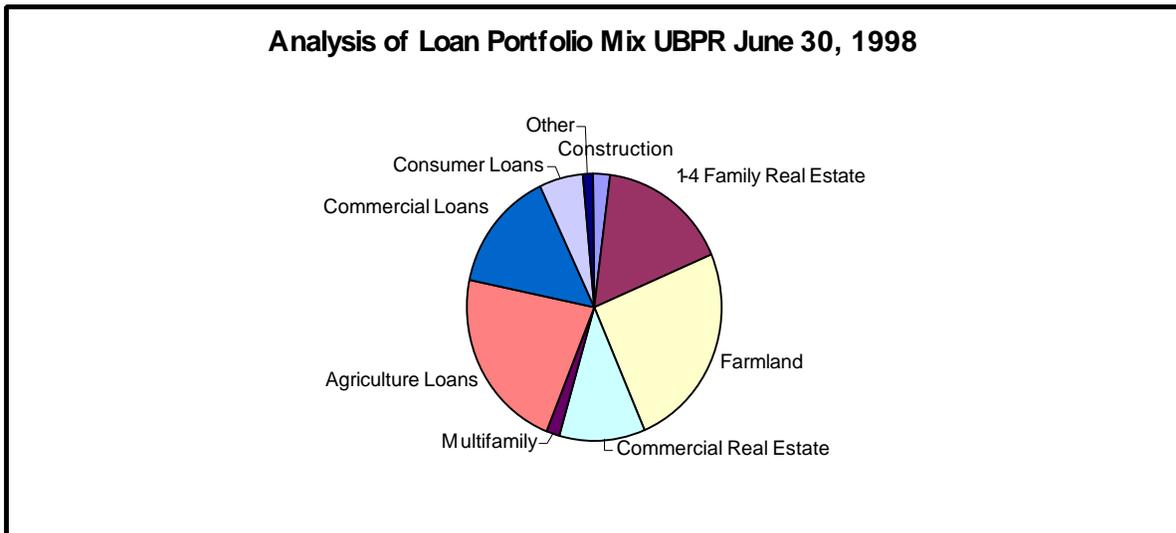
The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, 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 **Le Mars Bank & Trust Company, Le Mars, Iowa**, prepared by the **Federal Reserve Bank of Chicago** as of **July 31, 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 **Outstanding**. The results of this evaluation indicate that the bank is serving the credit needs of its community in an outstanding manner consistent with its capacity. Management acts in a leadership capacity to address identified credit needs within the community. The bank's primary loan products are agriculture and real estate loans, offered in conjunction with a variety of other consumer, commercial and specialized loan products. Analysis has shown that management modifies its credit products to meet specific credit needs in the community, including those of low- and moderate-income individuals. The bank's products are consistent with the needs identified during this examination through a review of area demographics and in discussions with representatives of the community. The loan-to-deposit ratio is very strong and is consistent with other area institutions that were similarly rated. A majority of loans sampled were located within the assessment area. An analysis of a sample of loans by applicant income revealed that lending to individuals and small businesses/small farms within the assessment area is strong in all income levels. Additionally, lending to low- and moderate-income individuals is very strong as a percentage of total lending. This is a result of loan programs tailored to meet the specific credit needs of applicants. A majority of the agriculture and small business loans are in amounts of \$100,000 or less, indicating a strong response to the credit needs of small businesses and small farms. There were no CRA-related complaints received by the bank since becoming a member of the Federal Reserve System.

DESCRIPTION OF INSTITUTION

Le Mars Bank & Trust Company, a subsidiary of Le Mars Bancorporation Inc., became a member of the Federal Reserve System on December 17, 1997. As of June 30, 1998, its total assets were \$117.3 Million. The bank is located in the Town of Le Mars, population 8,454 in Plymouth County, 25 miles northeast of Sioux City in northwestern Iowa. The bank primarily serves the credit needs of the agricultural community, although the portfolio of loans is well diversified. Services include a variety of deposit products, as well as agriculture, real estate, consumer and commercial loans. According to the June 30, 1998 Uniform Bank Performance Report (UBPR), the composition of the loan portfolio was as shown in the following chart:



As depicted in the above chart, approximately 56% of the portfolio is real estate secured. Forty-eight percent of the portfolio is agricultural related; loans to finance farm production or operating loans represent approximately 23% of the portfolio, and 25% represents loans secured by farmland. The remaining loan composition includes 17% 1-4 family residential loans, and 11% commercial loans secured by real estate. Approximately 5% represents consumer loans, 15% is commercial and industrial loans. Approximately 2% is comprised of real estate construction loans, 2% is multifamily real estate loans.

The bank's primary local competitor is the First National Bank of Le Mars. Additional competition for real estate loans in Le Mars includes American Bank, National Association and a local branch of First Federal Savings Bank of Siouxland, Sioux City, Iowa. Other financial institutions of a similar nature are located in nearby communities, such as Sheldon, Cherokee and Sioux Center, in northwestern Iowa.

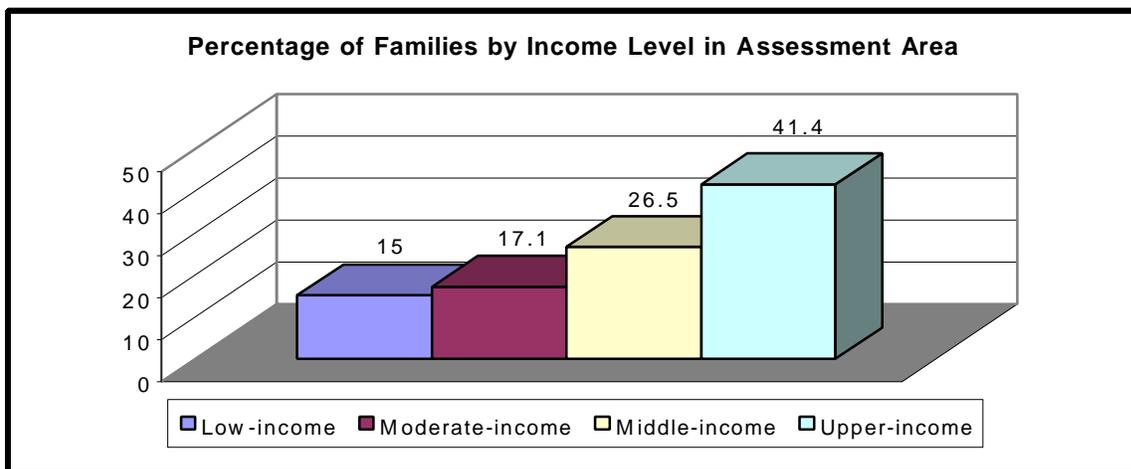
DESCRIPTION OF ASSESSMENT AREA

The bank’s assessment area is Plymouth County, in northwestern Iowa. The assessment area is defined as six geographies, or Block Numbering Areas (BNAs) 9701 to 9706. According to the 1990 U.S. Census data, the total population of the assessment area is 23,388, and all of the geographies are classified as middle-income. The racial makeup of the population in the assessment area is as follows: Whites 99.5%, Hispanic 0.1%, Blacks 0.1%, American Indian 0.1% and Other 0.2%. Approximately 29% of the population is 17 years of age or younger and 16% is 65 years or older.

The assessment area has 8,806 total housing units: 71.5% are owner-occupied and 24.1% are rental units. In comparison to nonmetropolitan Iowa, on a percentage basis, the assessment area has more owner-occupied units and fewer rentals. The median housing value in the assessment area is higher at \$48,059 in comparison to \$38,521 for nonmetropolitan Iowa. The median gross rent for the area is also higher, \$298 compared to \$292 for nonmetropolitan Iowa. The lower percentage of rentals combined with the above average rent cost may suggest an unmet demand for additional housing units. This data suggests that the average family net worth in the assessment area may be higher than the average for nonmetropolitan Iowa due to a higher percentage of homeowners, higher housing values and costs, and higher incomes.

A readily available means of verifying housing costs uses housing values in conjunction with household income. An affordability ratio developed by dividing the median household income by the median household value for a given area or group of geographies is helpful in comparing housing costs for different areas. An area with a higher ratio generally has more affordable housing than an area with a lower ratio. According to the 1990 U.S. Census data, the affordability ratio for the assessment area was .56. In comparison, this is well below .63, the average for all of nonmetropolitan Iowa. This supports a conclusion that average housing costs in the assessment area are significantly higher than the average for all nonmetropolitan areas of the state.

The median family income is \$31,011 for the assessment area, in comparison to \$29,303 for nonmetropolitan Iowa. The distribution of total families in the assessment area by income level is shown in the following chart:



The distribution in the above chart shows that the assessment area has fewer low- and moderate-income families and more middle- and upper-income families on a percentage basis than nonmetropolitan Iowa. The median family income levels for nonmetropolitan Iowa, were 17.5%, 19.2%, 25.8% and 37.5%, respectively.

Farm related activities comprise a significant aspect of the local economy with the production of feeder cattle, corn, soybeans, and other cash crops the primary commodities produced. Cash rent farming is becoming a popular method of income for elderly or retired farmers, enabling emerging farmers and others to rent tillable soil and enter or increase their farm production. The major non-farm employers in Le Mars include the following:

Wells' Blue Bunny Quality Dairy Foods with approximately 1,600 employees; Harkers Distribution Inc., with 250; Le Mars Community Schools, with 200 and Floyd Valley Hospital, also with 200 employees. Community representatives stated that prospective employees have avoided moving into the area due to high housing costs.

According to the Iowa Department of Employment Services, Plymouth County had an unemployment rate of 2.4% as of July 1998, and 2.2%, one-year ago. These ratios are more favorable over the last year than the averages of 2.8%, and 2.2%, reported by the State of Iowa for the same corresponding periods

These demographics show that the economy in the assessment area is stable with strong net worth and above average income. Housing is considered expensive in comparison to the average for all other rural Iowa areas, and a reasonable demand for additional housing units currently exists. According to the results of contacts with representatives in the community, housing is expensive and demand is strong. The average new housing costs were estimated at \$100 per square foot and prices range from \$150,000 to \$175,000 for most newly constructed homes in the area. Area representatives indicated loan programs to finance housing for low-income residents is a credit need. Additionally, contacts mentioned the need to construct additional units for elderly families; the need for assisted living quarters was also mentioned. Construction of these types of units would increase the availability of older housing units which may be more affordable to first-time homebuyers, as the elderly relocate into newer units that better meet their needs.

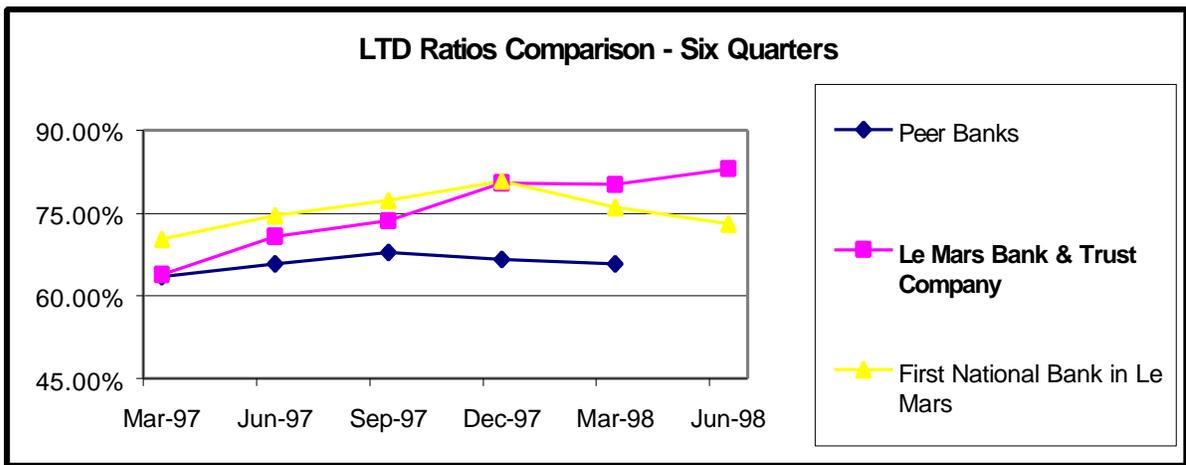
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FAIR LENDING

Le Mars Bank & Trust Company was examined concurrently for compliance with fair lending laws and regulations. A sample of loan transactions was reviewed to determine whether loan policies and lending underwriting standards and practices were in compliance and administered 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.

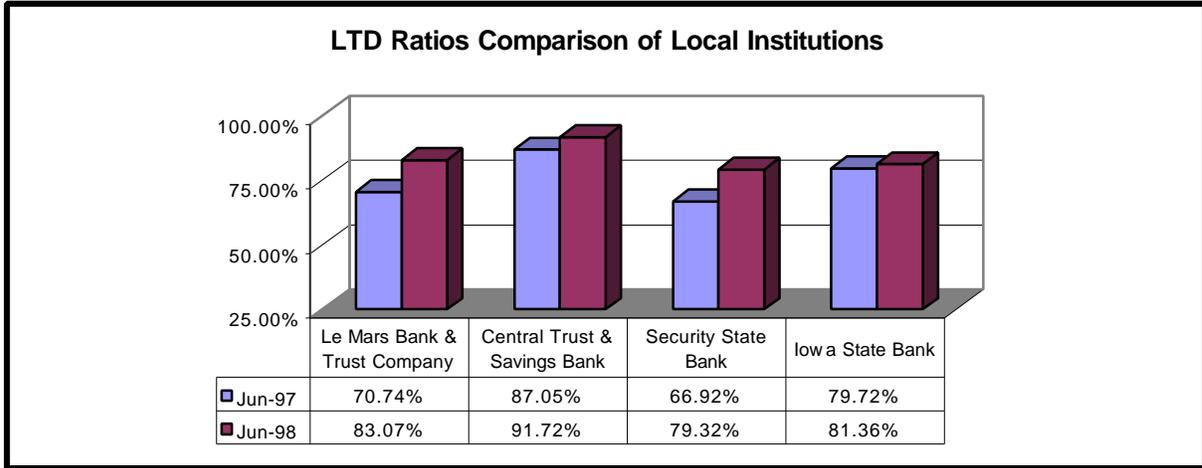
LOAN-TO-DEPOSIT RATIO

The content of the loan portfolio was reviewed to assess volume, mix, and the bank's performance in comparison to its peer group and local competitors. The Consolidated Reports of Condition for the quarters ending March 31, 1997 through June 30, 1998 were used to chart the bank's Loan-to-Deposit (LTD) ratios in comparison to the peer group and local competitors. The bank's June 30, 1998 LTD ratio was 83.07%. It has shown a steady increase for the previous six quarters, while peer and a local competitor have not kept pace. The following chart shows the comparative ratios:



As shown in the above chart, the LTD trend for Le Mars Bank & Trust Company's Loan-to-Deposit Ratio is well above peer. Peer was not yet available for June 30, 1998. The bank's LTD trend has been consistently improving and for the most recent two quarters has exceeded its local competitor, First National Bank in Le Mars, who was rated outstanding as of its most recent evaluation.

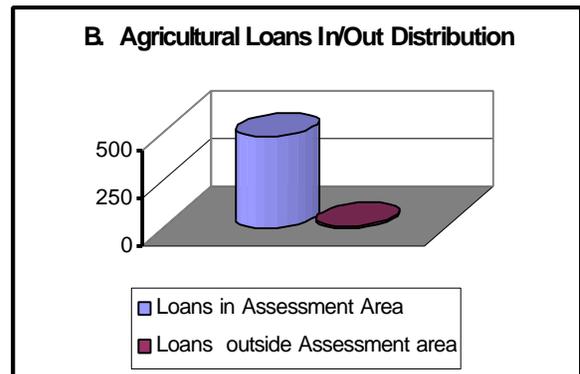
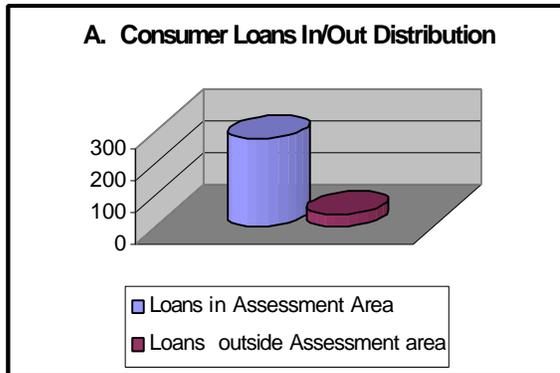
The next chart compares the loan-to-deposit ratios of three similarly structured area banks based on their most recent public evaluation, to the Le Mars Bank & Trust. Comparative institutions depicted are the Central Trust & Savings Bank, Cherokee, Iowa, and Security State Bank and Iowa State Bank, Sheldon, Iowa:



All of the above institutions show substantially similar performances and each received a rating of Outstanding as of their most recent evaluation. The loan-to-deposit ration exceeds the standard for satisfactory performance.

LENDING IN THE ASSESSMENT AREA

A sample of 795 loans, or all loans originated from January 1, 1998 through June 30, 1998, was used to determine the extent of lending within the assessment area. The sample included 484 agriculture loans and 311 consumer loans. The level of lending, according to the number of loans within the assessment area in comparison to those originated outside, are as shown in the following Charts A and B:

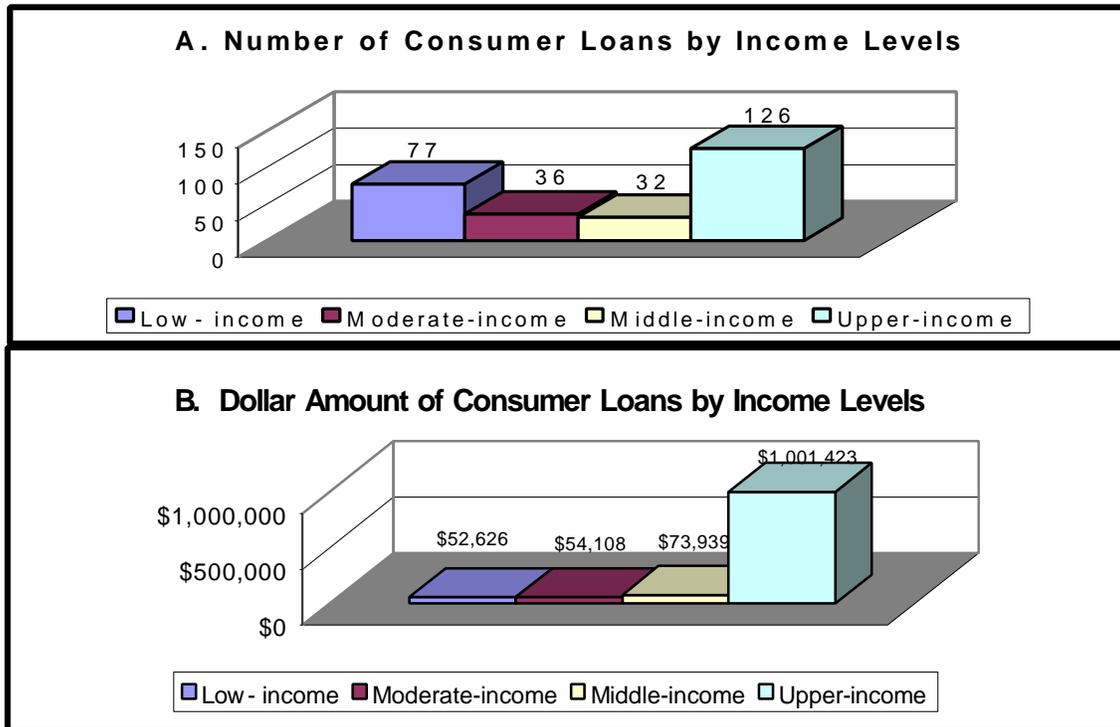


As the above charts illustrate, 88.1% of consumer loans, and 98.6% of agricultural loans were made to borrowers within the assessment area. Discussions were held with four community representatives of local agricultural, real estate and community development interests. It was learned that credit needs in the community include new housing construction and residential purchase loans. Overall, the level of lending within the

assessment area based on loan volume was deemed sufficient to meet the credit needs of the assessment area. The distribution of lending exceeds the standard for satisfactory performance.

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

A total of 748 loans, or all consumer and agriculture loans originated within the assessment area between December 16, 1997 and August 7, 1998, were reviewed to determine the bank's loan distribution among borrowers of different income levels. The bank does not retain applicant income information as a part of loan documentation; therefore, a proxy based on loan amount was developed using the U.S. Census data median family income to analyze the distribution of consumer loans. Included in the analysis were 271 consumer loans totaling approximately \$1.1 million, 66 residential real estate loans totaling approximately \$6 million and 477 agriculture loans totaling approximately \$13.1 million. The results of the consumer loan analysis are shown in the following charts, A and B:



The preceding charts illustrate that lending, by number of loans and by loan amount, was distributed among all income levels. The percentage of total loans made to low- and moderate-income level applicants was 41.69%. That exceeded the percentage of low- and moderate-income families of 32.1% in the assessment area, according to all of the demographics that were shown on page 3 of this evaluation. The distribution of the dollar amount of loans was concluded to be a reasonable reflection of the high-income and high net-worth levels noted within the assessment area.

The analysis of 477 agriculture loans showed a strong distribution, with an average loan of \$27,500. Only 19 loans, or 4% of total loans, exceeded \$100,000 in loan amount.

Additionally, the June 30, 1998, Consolidated Report of Income showed the loan portfolio contained 162 loans secured by farmland of which 71% were in amounts less than \$100,000, and 659 loans to finance agricultural production or other loans to farmers of which 96% were in amounts less than \$100,000. The report also showed 61 loans secured by commercial properties of which 66% were in amounts less than \$100,000, and 240 loans to small businesses of which 92% were in amounts less than \$100,000. The analysis of real estate loans showed an average loan of approximately \$90,000. Twenty-four loans or 36% of the sample were loans in the amount of \$50,000 or below, and 12 loans or 18% were loans in amounts between \$50,000 and \$100,000. According to contacts in the community, housing priced in the \$50,000 to \$80,000 dollar range might be most attractive to first-time and low-income homebuyers.

Le Mars Bank & Trust Company offers a wide variety of government sponsored or subsidized loan products designed to expand the underwriting procedures for certain loan products without increasing the risk for the bank. These include Linked Investments For Tomorrow (LIFT) loans, a program sponsored by the State of Iowa Treasurers office utilizing deposits to allow a below market rate of interest for the consumer. In April of 1998, a \$20,000 LIFT loan was originated for a local minority-owned business. Loans for beginning farmers are offered in conjunction with the Iowa Agricultural Development Authority (IADA); eleven loans have been originated under the program for approximately \$600,000. The bank also offers loans in association with the Small Business Administration (SBA) loan program. In June of 1998, a loan for \$433,000 was originated under the 504 Loan Program in cooperation with the Siouxland Economic Development Corporation. A total of five SBA loans have been originated since October of 1997. Although there has been no recent requests for Farmers Home Administration (FmHA) loans, the bank still offers them and presently services two FmHA loans in the portfolio.

The need for additional low-income housing units has been addressed in a leadership role by the bank. Management extended credit to develop the infrastructure and lots for a new subdivision for low-income homebuyers, where units are priced in the \$30,000 to \$50,000 range. A \$1,000,000 agreement has been coordinated with the Federal National Mortgage Association (FNMA) to sell non-traditional loans. These loans require only a down payment of \$1,000 and are restricted to low- and moderate-income applicants. In conjunction with the Le Mars Housing Review Board, management assisted in the development of a loan program that provides down payment and closing cost assistance to finance the purchase of area homes for qualified low-income applicants. The program involves a loan of \$10,000 (\$20,000 for first-time homebuyers) at 0% interest, which is forgiven after 20 years. The bank has originated approximately 12 loans for \$600,000 under this program in the prior two years, and a total of 17 since its inception. This represents 40% of all loans originated under the Le Mars Housing Review Board program.

In October of 1997, the bank originated a \$1.5 million loan to construct a 30-room assisted living project in Le Mars adjacent to the local hospital. This project significantly increased the number of local residential units designated as assisted living quarters for the elderly.

This distribution of lending demonstrates the bank's willingness to meet the needs of low-income homebuyers, small business/small farmers and specialized credit needs in the assessment area. The results of this analysis showed a distribution of lending

among individuals of different income levels and small businesses/small farms which exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of the distribution of loans across geographies was not considered beneficial to the overall evaluation, as there are no low- and moderate-income geographies in Le Mars Bank & Trust Company's assessment area.

RESPONSE TO SUBSTANTIATED COMPLAINTS

No complaints were received by the institution regarding its CRA performance since becoming a member of the Federal Reserve System on December 17, 1997.