

## **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 **Columbus Junction State Bank, Columbus Junction, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **June 24, 1996**. 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 CRA performance is considered satisfactory. Evaluation of the bank's loan-to-deposit ratio revealed an average ratio of 52.85% over the past five quarters ending March 31, 1996. The bank originated 75.66% of loans made in the six months ending May 31, 1996 in its assessment area. A review of the income levels of consumer borrowers included in the examination loan samples revealed lending to low- , moderate- , middle- , and upper- income applicants. Review of the sizes of commercial and agricultural loans originated in the six months ending May 31, 1996 indicate that most of the bank's loans were in small dollar amounts. The bank's assessment area contains no low-income geographies nor are any such geographies located in the areas immediately surrounding the bank's assessment area. No CRA-related complaints were received by the bank or this Reserve Bank since the previous examination. The bank's assortment of governmentally guaranteed, subsidized or insured loans and its participation in such programs is commendable.

The following table indicates the performance level of **Columbus Junction State Bank, Columbus Junction, Iowa** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	COLUMBUS JUNCTION STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No Complaints were received since the previous examination		

## DESCRIPTION OF INSTITUTION

Columbus Junction State Bank is a subsidiary of CJSB Bancorporation, a one bank holding company formed on February 16, 1996. The bank has assets of \$30.7 million and is located in Louisa County, approximately 30 miles southeast of Iowa City and 45 miles southwest of Davenport in eastern Iowa. The bank operates one automated teller machine (ATM) and has no branches. The bank's primary competitors are Peoples Bank of Columbus Junction, Columbus Junction; Iowa State Bank, Wapello; and State Bank of Wapello, Wapello.

The bank offers deposit services, and commercial, agricultural, consumer and mortgage loan products. In addition to traditional loan products, the bank offers secondary market mortgages, adjustable rate mortgages (ARMs), student loans, and government-guaranteed, insured or subsidized loan programs through the following agencies: Veterans Affairs (VA), Federal Housing Administration (FHA), Small Business Administration (SBA), Farmers Home Administration (FmHA), the Iowa Guaranteed Student Loan Program and the Iowa Family Development Authority (IFDA). A review of the bank's portfolio revealed no concentrations of commercial, agricultural, consumer or real estate loans which exceeded 50% of the total portfolio. There are no factors which would inhibit the bank's ability to provide loans.

## DESCRIPTION OF THE BANK-S ASSESSMENT AREA

The bank has defined its assessment area as Louisa County, which consists of three BNAs. Louisa County's eastern border is the Mississippi River, thus it includes some areas which were affected by the floods of 1994. Louisa County is largely rural and agricultural, consisting of small communities, the largest of which are Wapello, population 2,013 and Columbus Junction, population 1,616. Its proximity to the larger communities of Iowa City, Muscatine and Davenport afford residents the opportunity to commute to these cities for employment. Review of economic data revealed that non-farm employment, such as manufacturing and construction, increased significantly between 1990 and 1993 while farm employment decreased modestly. The decrease in farm proprietors is a reflection of the consolidation of farm operations which has been occurring throughout the Midwest. Agricultural commodity prices have been extremely volatile over the past year, with crops such as grain, corn and beans setting new highs. The resulting cost of feed for cattle and hogs has caused some operators to sell their herds, increasing the supply of beef and pork and depressing livestock prices.

The following table contains information regarding some of the area's larger employers:

Employer	Product/Service	Annual Sales	# Employees
IBP, Inc.	Meat packing	>\$100 million	1500
Oakville Feed & Grain Inc.	Feed preparation	>\$25 million	25
L-W Service Co.	Fertilizers mixing	> \$10 million	43

Employer	Product/Service	Annual Sales	# Employees
Grimm Bros. Plastics Corp.	Plastics	Not available	60
Pallister Pallet Inc.	Sawmill	> \$1 million	35
River Products Co., The	Cut stone	> \$.5 million	14

The preceding table reveals that the three largest non-farm employers are processors of farm products. The area supports a substantial number of small and medium size companies with annual sales of less than \$25 million. According to Iowa Labor Services, the unemployment rate for Louisa County was 3.8% for May 1996, compared to 3.5% for the State of Iowa. These unemployment rates were virtually unchanged from May of 1995. A representative of Iowa Labor Services indicated that the Iowa unemployment rates are near historical lows.

Louisa County is comprised of three middle-income BNAs. According to 1990 U.S. Census Bureau figures, the population of 11,529 is 95.5% White and contains no minority concentrations. However, discussions with management and community contacts revealed that there is a large and growing Hispanic population in the area. Management indicated that the population of Columbus Junction is approximately 20% Hispanic while community representatives estimated 30%. The increase is largely due to hiring at the IBP, Inc. plant in Columbus Junction which has actively recruited Hispanics to its workforce.

Housing data derived from 1990 U.S. census data regarding the availability of housing showed that housing in Louisa County is generally older, with homes built prior to 1950 representing 42.5% of existing units. This is less than the percentage for the aggregate non-metropolitan State of Iowa rate of 48.9%. The affordability ratio (comparing the median income to the median housing value) for the area is 65.5%, higher than both the rural Iowa ratio of 63.0% and the Iowa State ratio of 57.6%. This means that homes are more affordable in Louisa County. However, Louisa County has a lower owner-occupancy rate and a higher overall vacancy rate. This anomaly appears to be the result of a higher number of housing units, per capita, in Louisa County than in other parts of the state, according to U.S. Census data. While housing in 1990 was available and affordable, management and community contacts asserted that local housing is currently scarce. The expansions and hiring at the IBP, Inc. plant may have contributed to the current situation. Management revealed that the community has unsuccessfully pursued housing developments through private investors and through IBP, Inc. Private investors failed to project sufficient profits in the ventures and a manufactured housing subdivision, which IBP, Inc. supported, was dropped after it met with opposition from some local residents and businesspeople.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The bank was examined for compliance with the fair lending laws and regulations. No evidence of discriminatory credit practices were detected. The bank is in compliance with applicable fair lending laws and regulations.

### Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio for the five quarters ending March 31, 1996, representing all quarters since the previous examination, is 52.85%. The loan-to-deposit ratio is increasing, primarily due to increases in the size of the bank's loan portfolio. A review of the bank's March 31, 1996 Consolidated Report of Condition revealed a loan-to-deposit ratio of 56.85%. The distribution by loan type was as follows:

LOAN TYPE	DOLLAR AMOUNT OUTSTANDING (000's)	PERCENT OF TOTAL LOANS
REAL ESTATE		
Construction	339	2.25%
Farmland	1,883	12.47%
Residential (1-4)	3,485	23.09%
Multi-family	105	.70%
Commercial	252	1.67%
AGRICULTURAL	3,672	24.33%
COMMERCIAL AND INDUSTRIAL	3,200	21.20%
CONSUMER		
Open-end Credit	21	.14%
All Other	2,001	13.26%
STATE AND POLITICAL OBLIGATIONS-OTHER	<u>132</u>	<u>.87%</u>
TOTAL	15,090	99.98%*

\* The difference is due to rounding

Based upon a comparison of the bank's loan portfolio with information contained in the previous report of examination, dated December 31, 1994, there has been little change in the structure of the bank's balance sheet. However, total loans have increased 19.86% from \$12.59 million to \$15.09 million during the period.

According to the Fall 1995 *McFadden American Financial Directory*, Iowa State Bank in Wapello had a loan-to-deposit ratio of 80.19% as of June 30, 1994, while the State Bank of Wapello's loan-to-deposit ratio was 52.83%. Mercantile Bank of Washington (formerly Hawkeye Bank of Washington County N.A.), with a branch in Ainsworth, had a loan-to-deposit ratio of 69.41%. Peoples Bank of Columbus Junction had a loan-to-deposit ratio of 43.64%. While the bank's loan-to-deposit ratio is lower than some of its local competitors, the ratio is increasing and reflects significant lending by the bank. The bank's loan-to-deposit ratio meets the standard for satisfactory performance under this criterion.

### Lending in Assessment Area

The following table represents the percentage of loans originated in the bank's assessment area and the geographic distribution of loans originated between December 1, 1995 and May 31, 1996.

GEOGRAPHIC DISTRIBUTION OF LOANS MADE DURING THE PAST SIX MONTHS							
County-BNA	Commercial	Consumer	Student Loans	Real Estate	Real Estate Contracts	TOTAL	% OF TOTAL
115-9501	41	28	0	10	0	79	17.48%
115-9502	115	102	7	14	1	239	52.88%
115-9503	9	13	1	1	0	24	5.31%
IN	165	143	8	25	1	342	75.66%
OUT	46	51	2	11	0	110	24.34%
TOTAL	211	194	10	36	1	452	100%
% IN	78.20%	73.71%	80.00%	69.44%	100.00%	75.66%	

The bottom row of the preceding table indicates the percentage of loans, by type, that the bank made in the assessment area. The aforementioned data indicates that the bank originates approximately 75% of its loans within its assessment area. The bank's performance meets the standard for satisfactory performance in this criterion.

### Lending to Borrowers of Different Incomes and to Business of Different Sizes

The bank's performance was evaluated by reviewing the income levels of consumer loan customers that were included in the fair lending review. The income levels are low-income, < \$14,652; moderate-income, <\$23,442; middle-income, <\$35,163; high-income, >\$35,303. These figures are based upon the non-metropolitan State of Iowa median family income of \$29,303. The median family income of the assessment area is \$29,266.

The following table details the income information for consumer loans reviewed during the examination:

LOAN TYPE	LOW-INCOME Number	MODERATE-INCOME Number	MIDDLE-INCOME Number	UPPER-INCOME Number	UNKNOWN
Mortgages	0	0	3	5	2
Installment (direct)	1	10	3	6	3

LOAN TYPE	LOW-INCOME Number	MODERATE-INCOME Number	MIDDLE-INCOME Number	UPPER-INCOME Number	UNKNOWN
Installment (indirect)	1	2	6	0	1
Ready Reserve	1	5	1	2	1
Single Payment	0	1	2	3	6
<b>Totals</b>	3	18	15	16	13
<b>Percent of Total (65)</b>	<b>4.6%</b>	<b>27.7%</b>	<b>23.1%</b>	<b>24.6%</b>	<b>20.0%</b>
<b>% of Families in Income Bracket*</b>	<b>17.5%</b>	<b>19.2%</b>	<b>25.8%</b>	<b>37.5%</b>	<b>NA</b>

\* refers to families in the assessment area.

The previous table illustrates that the bank makes loans to individuals of all income levels. Review of the income levels of applicants in conjunction with the fair lending review revealed an average salary of IBP employees of approximately \$1,600 per month or \$19,200 per year. This figure is significantly higher than the low-income amount of \$14,652. Additionally, because the bank originates 52.88% of its loans in the same tract as both the bank and IBP are located, it appears that a large percentage of the bank's customers have opportunities to obtain employment at wages in excess of the designated low-income level. Further, the designation of percentages of individuals in each income bracket are based upon 1990 U.S. census data, collected prior to much of the expansion at the IBP plant and subsequent income earning opportunities.

As discussed in the description of the institution, the bank participates in a number of governmentally guaranteed, funded or insured loan programs. The following chart summarizes the bank's activity in the above mentioned government sponsored loan programs.

PROGRAM	OUTSTANDING		SINCE PREVIOUS EXAMINATION	
	NUMBER	DOLLAR AMOUNT	NUMBER	AMOUNT
FHA	7	\$ 31,000	0	0
FmHA	15	\$2,069,000	3	\$360,000
SBA	3	\$411,000	0	0
Student	37	\$134,000	40	\$85,000
Other*	2	\$127,000	1	\$64,000

In addition, the bank has financed several homes via a new program offered by the Federal

Emergency Management Administration (FEMA). FEMA identified a subdivision which was

at risk of flooding from the Mississippi River and purchased the homes in the subdivision. The homes are then sold to individuals and families who move the homes to an area that is not located in a flood plain and reside in the homes for several years. The bank provided financing for costs associated with moving, construction of foundations and/or basements and the purchase of lots. The preceding chart and discussion reflect the bank's efforts to provide a variety of loan programs to meet the credit needs of its customers; such programs typically assist low- and moderate-income borrowers to obtain credit.

#### Small Farm and Small Business Loans

Small farms and small business loans made during the six-month period preceding the examination were reviewed to determine the bank's level of lending to these borrowers. The commercial files reviewed in conjunction with the fair lending portion of the examination revealed that the bank does not regularly collect income information on commercial and agricultural applicants. Therefore a proxy based upon the original loan amounts was utilized to determine the bank's performance in lending to small farms and small businesses. Small farm loans are defined as those with original amounts of \$500,000 or less and small business loans as those of \$1,000,000 or less. The review revealed that 100% of the bank's 211 commercial loans (including agricultural loans) were for original amounts of less than \$200,000; of these, only six were for amounts in excess of \$100,000.

Based upon the distribution of loans to borrowers of different income levels and the results of the proxy regarding small farm and small business loans, the bank's lending exceeds the standards for satisfactory performance under this criterion.

#### **Geographic Distribution of Loans**

The bank's assessment area consists of three middle-income BNAs. The areas contingent to the bank's assessment area were also determined to be middle-income areas. An analysis of loans originated in the past six months revealed that penetration was achieved in each of the three geographies. The smallest number of loans were in BNA 9503.00 where loans numbered 24 and represented 5.31% of the bank's total originations. BNA 9503.00 includes the community of Wapello, where two of the bank's competitors are located. The competition from those two banks and the absence of a Columbus Junction State Bank facility in Wapello contributed to the bank's decreased activity in the BNA. The bank's geographic distribution of loans meets the standards for satisfactory performance based upon the distribution of loans within the assessment area and the absence of low-income geographies in or around that area.

#### **Response to Substantiated Complaints**



No complaints were received by the institution or by the Federal Reserve Bank of Chicago regarding the bank's CRA performance since the previous examination.