

# **PUBLIC DISCLOSURE**

November 14, 2011

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Union State Bank  
RSSD# 409649

400 Main Street  
Rockwell City, Iowa 50579

Federal Reserve Bank of Chicago

230 South LaSalle Street  
Chicago, IL 60604-1413

NOTE: This document is an evaluation of this bank's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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**BANK'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This bank is rated Satisfactory.**

Union State Bank promotes economic growth and helps to meet the credit needs of the assessment area in a manner consistent with its asset size, location, and the assessment area's economic conditions. The bank meets these needs primarily through the origination of agricultural and commercial loans. The loan-to-deposit ratio is reasonable, and a majority of loans are made in the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment, and the distribution of loans reflects reasonable penetration among businesses and farms of different sizes. There were no CRA-related complaints received by the institution or this Reserve Bank since the previous evaluation.

**SCOPE OF EXAMINATION**

Union State Bank's CRA Performance was evaluated in the context of information about the institution and assessment area, such as asset size, financial condition, competition, and economic and demographic characteristics. The evaluation focuses on the bank's small farm and small business loans, the bank's primary loan products. Small farm loans are weighted more heavily than small business loans, because the bank's volume is higher for small farm loans. While assessment area credit needs include affordable housing, local demographics and competition are barriers to the bank's involvement in making home mortgage loans. Thus, the bank's home mortgage lending activity is minimal and does not significantly contribute to its performance. Union State Bank was evaluated using the small bank, full scope examination procedures based on the following performance standards:

- ***Loan-to-Deposit Ratio*** – A 16-quarter average loan-to-deposit ratio was calculated from December 2007 to September 2011 for the bank and compared to its national peer and a sample of local competitors.
- ***Lending in the Assessment Area*** – Small business and small farm loans originated from July 1, 2010 to June 30, 2011 were reviewed to determine the percentage of loans originated within the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** - Small business and small farm loans originated within the assessment area, from July 1, 2010 to June 30, 2011, were analyzed to determine the extent to which the bank is making loans in geographies of different income levels, particularly those designated as low- and moderate- income.
- ***Lending to Businesses and Farms of Different Sizes*** - Small business and small farm loans originated within the assessment area, from July 1, 2010 to June 30, 2011, were reviewed to determine the distribution to businesses and farms with different revenue sizes.
- ***Response to Substantiated Complaints*** – Neither Union State Bank nor this Reserve Bank received any CRA-related complaints since the prior evaluation.

In addition, information received from two community contacts was considered in the context of assessing community credit needs.

## DESCRIPTION OF BANK

Union State Bank is a subsidiary of Union-Calhoun Investments, Ltd., a bank holding company in Rockwell City, Iowa. Union State Bank is also located in Rockwell City, Iowa, approximately 110 miles northwest of Des Moines, Iowa. The bank operates one office and no automated teller machines. The bank ranks fourth out of seven institutions serving Calhoun County, IA with a 12.3% deposit market share, according to the FDIC as of June 30, 2011.

As of September 30, 2011, the bank's total assets were \$37.5 million with net loans and leases totaling \$18.2 million. The bank offers standard deposit and loan products, with agricultural representing the largest loan category, followed by commercial loans.

Composition of Loan Portfolio as of 9/30/2011 (000's)			
Category	Type	\$	%
Real Estate Secured	1-4 Family and Multi-Family Residential	2,362	12.8
	Farmland	3,204	17.3
	Non-farm, Non-residential	1,197	6.5
	Total Real Estate Secured	6,763	36.6
Agricultural	Agricultural	7,071	38.2
Commercial	Commercial and Industrial	3,132	16.9
Consumer	Loans to Individuals	1,525	8.3
	Total	18,491	100

There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its community. The bank was rated satisfactory under the CRA at its previous evaluation conducted on November 17, 2007.

## DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is comprised of Calhoun County, Iowa, in its entirety. The assessment area consists of four middle-income tracts (9501.00, 9502.00, 9503.00, and 9504.00) and has not changed since the previous evaluation. All four tracts are designated underserved due to Calhoun County's remote and rural location. See Appendix B for a map of the assessment area.

Assessment Area Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	575	18.8
Moderate-income	0	0	0.0	0.0	0	0.0	627	20.5
Middle-income	4	100.0	3,053	100.0	218	7.1	851	27.9
Upper-income	0	0	0	0.0	0	0.0	1,000	32.8
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>4</b>	<b>100.0</b>	<b>3,053</b>	<b>100.0</b>	<b>218</b>	<b>7.1</b>	<b>3,053</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	5,219	3,495	100.0	67.0	1,018	19.5	706	13.5
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>5,219</b>	<b>3,495</b>	<b>100.0</b>	<b>67.0</b>	<b>1,018</b>	<b>19.5</b>	<b>706</b>	<b>13.5</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	647	100.0	584	100.0	27	100.0	36	100.0
Upper-income	0	0.0	0	0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>647</b>	<b>100.0</b>	<b>584</b>	<b>100.0</b>	<b>27</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			<b>90.3</b>	<b>4.2</b>	<b>5.6</b>		
	<b>Total Farms by Tract</b>	<b>Farms by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	294	100.0	291	100.0	2	100.0	1	100.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>294</b>	<b>100.0</b>	<b>291</b>	<b>100.0</b>	<b>2</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>
	<b>Percentage of Total Farms:</b>			<b>99.0</b>	<b>0.7</b>	<b>0.3</b>		

*Population Characteristics*

The population in the assessment area decreased 13 percent since the 2000 Census. The state of Iowa population, in contrast, grew 4.1 percent over the same time period. The county's population decrease can be explained by its aging demographic and lack of younger generations moving in to the county.

Population Changes 2000 Census vs. 2010 Estimate			
Area	2000 Census	2010 Estimates	Percentage Change
Assessment Area	11,115	9,670	-13.0
Iowa	2,926,324	3,046,355	4.1
<i>Source: U.S. Census Bureau</i>			

*Income Characteristics*

Median family income for the assessment area has risen at a slightly lower rate than the median family income for the entire State of Iowa since the 2000 U.S. Census, per 2010 U.S. Department of Housing and Urban Development estimates. Additionally, Median family income in the assessment area trails the statewide average, as well as the non-MSA average throughout Iowa.

Median Family Income Changes 2000 Census vs. 2011 Estimates			
Area	2000 Census	2011 Estimates	Percentage Change
Assessment Area	\$41,432	\$52,700	27.2
Iowa	\$48,005	\$64,000	33.3
<i>Source: U.S. Department of Housing and Urban Development</i>			

*Bankruptcy Rates*

Calhoun County's bankruptcy filing rate is relatively low. In 2010, Calhoun County had a 2.59 percent bankruptcy rate compared to 3.09 percent for the state of Iowa and 4.92 percent for the United States.

*Housing Characteristics*

Calhoun County has 5,219 housing units; 67.0 percent are owner-occupied, 19.5 percent are rental units, and 13.5 percent are vacant. In comparison, 67.5 percent of the State of Iowa housing units are owner-occupied while 25.8 percent are rental units and 6.8 percent are vacant. The median age of housing stock in the assessment area is 55 years, much higher than the State of Iowa at 41 years. The assessment area's median housing value in is \$56,720, which is lower than the state of Iowa at \$82,100.

The affordability ratios for the assessment area and the state of Iowa are .58 and .48 respectively, indicating that affordability of housing in the bank's assessment is more affordable than that of the state of Iowa as a whole. Please reference Appendix A for a description of the affordability ratio calculation.

According to RealtyTrac, the foreclosure rate in Calhoun County is 0.09 percent. This compares favorably to both the foreclosure rate in Iowa at 0.13 percent and the national rate of 0.18 percent.

Housing Costs				
Location	Median Housing Value	Median Gross Rent	Fair Market Rent *	Affordability Ratio
Assessment Area	\$56,720	315	\$534	58
State	\$82,100	470	N/A	48

*2000 United States Census Data;  
\*Department of Housing and Urban Development*

### *Employment Conditions*

Agriculture is a key part of the local economy in the assessment area. According to 2007 USDA census data corn and soybeans are the principal cash crops, with hog and cattle operations also prevalent throughout the assessment area. As shown in the table below, non-profit, healthcare, education, and government are key non-agricultural employers.

Largest Employers in the Assessment Area		
Company	# Employed	Industry
Opportunity Living	250-499	Non-Profit Organization
North Central Correctional Facility	100-249	State Government Correctional Institution
Farmers Cooperative Co.	100-249	Feed-Manufacturers
McCrary-Rost Clinic	100-249	Clinics
Shady Oaks	100-249	Nursing & Convalescent Homes
Calhoun County Public Health	50-99	County Government-Public Health
Manson Good Samaritan Center	50-99	Non-Profit Organization
Pomeroy-Palmer Community School	50-99	School
Prairie Valley Elementary	50-99	School

*Source: Iowa Workforce Information Network*

### *Unemployment*

The unemployment rate in Calhoun County has increased since 2008, but it is still slightly less than the state average and much lower than the national average.

Unemployment Statistics				
Region	September 2011	2010	2009	2008
United States	9.1	9.6	9.3	5.8
State	5.6	6.1	5.6	4.3
County	5.0	5.4	4.5	3.6

Source: United States Department of Labor – Bureau of Labor Statistics  
\*Preliminary

### *Community Representatives*

Information obtained through two community representatives was considered for the evaluation of community credit needs in the assessment area. Community representatives stated high unemployment is affecting the assessment area; the workforce is skilled, but open positions are lacking in Calhoun County. In addition, quality affordable housing is needed. Much of the housing available to low-income households is considered substandard. Representatives stated that while unemployment has been higher within the assessment area, the agricultural industry has fared well.

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

### **Loan-to-Deposit Ratio**

Union State Bank's loan-to-deposit (LTD) ratio is reasonable, given the institution's size, financial condition, and assessment area credit needs. The bank's peer group consists of insured commercial banks, located outside of metropolitan statistical areas, with assets under \$50 million, and operating one full service banking office. At 61.7 percent, Union State Bank's 16-quarter LTD ratio average is comparable to the peer group's 16-quarter LTD ratio average of 63.6 percent. In addition, the bank's ratio average is similar to the LTD ratio averages of most of its competitors. Furthermore, Union State Bank increased its average LTD, 55.7 percent, from the previous evaluation, dated November 17, 2007.



Comparative Loan-to-Deposit Ratios		
Institution	Asset Size as of 9/30/2011 (millions)	Loan-to-Deposit Ratio (%) 16- Quarter Average
Union State Bank- Rockwell City, IA	\$37.6	61.7
National Peer Group 15		63.6
Competitors		
Citizens Bank- Sac City, IA	\$48.2	60.3
First Community Bank- Newell, IA	\$54.7	77.9
Heartland Bank- Somers, IA	\$103.6	79.1
Iowa Savings Bank- Carroll, IA	\$158.7	62.7
Manson State Bank- Manson, IA	\$37.1	45.3
Security Saving Bank- Gowrie, IA	\$96.8	58.7
United Bank Iowa- Ida Grove, IA	\$1,142.4	107.3

### Assessment Area Concentration

A majority of the bank's loans are made in the assessment area. The distribution of a sample of the bank's primary loan products is illustrated below. Overall, the bank originated 59.5 percent of loans by number of originations and 56.4 percent by dollar amount, showing a commitment to actively lending within the assessment area.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial Loans	27	50.0	1,532	42.9	27	50.0	2,038	57.1
Agricultural Loans	61	64.9	5,273	62.1	33	35.1	3,213	37.9
Total Loans	88	59.5	6,805	56.4	60	45.5	5,251	43.6

### Geographic Distribution of Loans

This analysis was not meaningful because the assessment area consists entirely of middle-income census tracts. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

### Lending to Businesses and Farms of Different Sizes

The distribution of lending reflects, given the demographics of the assessment area, reasonable penetration among businesses and farms of different sizes.

Small Farm Loan Distribution By Revenue and Loan Size (000's)					
Category	Bank Loans				Farms By Annual Revenues
	#	%	\$	%	# %
<b>By Revenue</b>					
\$1 Million or Less	59	96.7	\$4,873	92.4	99.0
Over \$1 Million	2	3.3	\$400	7.6	0.7
Not Known	0	0	0	0	0.3
Total	61	100.0	\$5,273	100.0	100.0
<b>By Loan Size</b>					
\$100,000 or less	40	65.6	\$1,417	26.9	
\$100,000 - \$250,000	17	27.9	\$2,491	47.2	
\$250,000 - \$500,000	4	6.5	\$1,365	25.9	
Total	61	100.0	\$5,273	100.0	
<b>By Loan Size and Revenue \$1 Million or Less</b>					
\$100,000 or less	39	66.1	\$1,317	27.0	
\$100,000 - \$250,000	17	28.8	\$2,491	51.1	
\$250,000 - \$500,000	3	5.1	\$1,065	21.9	
Total	59	100.0	\$4,873	100.0	

The distribution of loans to small farms reflects reasonable penetration among farms of different sizes. Most farm tracts in the assessment area earn revenues of less than \$1 million. Small farm loans are agricultural loans with an origination amount of \$500,000 or less. Small farms typically seek loans in smaller amounts than large farms. Accordingly, a higher volume of smaller loans indicates stronger performance in meeting the credit needs of small farms.

Loans to small farms with revenue of \$1 million or less make up 96.7 percent of the loan portfolio by number of loans and 92.4 percent of the loan portfolio by dollar amount. Also, loans of \$100,000 or less made to small farms with \$1 million or less in revenue made up only 66.1 percent of loans by number and 27.0 percent by dollar amount. Loans to the smallest borrowers make up a reasonable portion of the distribution.

Small Business Loan Distribution By Revenue and Loan Size (000's)					
Category	Bank Loans				Businesses By Annual Revenues
	#	%	\$	%	# %
<b>By Revenue</b>					
\$1 Million or Less	26	96.3	\$1,332	87.0	90.3
Over \$1 Million	1	3.7	\$200	13.0	4.2
Not Known	0	0	0	0	5.5
Total	27	100.0	\$1,532	100.0	100.0
<b>By Loan Size</b>					
\$100,000 or less	24	88.9	\$712	46.5	
\$100,000 - \$250,000	1	3.7	\$200	13.1	
\$250,000 - \$1 Million	2	7.4	\$620	40.4	
Total	27	100.0	\$1,532	100.0	
<b>By Loan Size and Revenue \$1 Million or Less</b>					
\$100,000 or less	24	92.3	\$712	53.5	
\$100,000 - \$250,000	0	0	0	0.0	
\$250,000 - \$1 Million	2	7.7	\$620	46.5	
Total	26	100.0	\$1,332	100.0	

The distribution of loans to small businesses reflects reasonable penetration among businesses of different sizes. Loans to small businesses are business loans with an origination amount of \$1 million or less. Small businesses typically seek smaller loans than large businesses. Therefore, a higher volume of loans in smaller loan sizes indicates stronger performance in meeting the credit needs of small businesses. All but one of the 27 commercial loans can be classified as loans to small businesses. Loans to small business of \$1 million or less represents 96.3 percent of the total number of business loans and 87.0 percent of the total business loans by dollar amount. This percentage is comparable to the demographics of the assessment area in which businesses with revenue less than \$1 million make up 87.7 percent of total businesses.

### Response to Complaints

The bank or this Reserve Bank has not received any CRA-related complaints since the previous evaluation.

### FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

## CRA APPENDIX A

### GLOSSARY

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Affordability ratio:** To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

**Aggregate lending:** The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

**Census tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Consumer loan:** A loan to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

**Fair market rent:** Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to

permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

**Geography:** A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

**Home mortgage loans:** Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area:** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs. A metropolitan statistical area that crosses into two or more

bordering states is called a multistate metropolitan statistical area (**MMSA**). Performance within each MMSA is analyzed separately as a full-scope review and receives its own ratings under the Lending, Investment and Service Tests provided the financial institution has its main office, branch, or deposit-taking ATM located in each applicable state making up the MMSA.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Small loans to business:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small loans to farms:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

### Appendix B

The following map shows the assessment area. It has four middle-income tracts which are all classified as underserved.

