

PUBLIC DISCLOSURE

March 8, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank Iowa
RSSD# 612346

1805 North Broadway
P.O. Box 115
Red Oak, Iowa 51566

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, Illinois 60604-1413

NOTE: This document is an evaluation of this institution'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 institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

Institution's Community Reinvestment Act (CRA) Rating.....	1
Scope of Examination	1
Description of Institution	2
Description of Assessment Area.....	3
Conclusions with Respect to Performance Criteria.....	7
Loan-To-Deposit Ratio.....	7
Lending in the Assessment Area.....	8
Lending To Borrowers of Different Incomes and to Businesses and Farms of Different Sizes.....	8
Geographic Distribution of Loans.....	11
Response to Complaints.....	12
Fair Lending or Other Illegal Credit Practices	12
Appendix A: Map of Assessment Area.....	13

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING:

The institution's performance is rated **Satisfactory**.

Bank Iowa is meeting the needs of its community based upon an analysis of lending activities and economic conditions of the assessment area, which is supported by information from community representatives. The loan-to-deposit ratio is reasonable given the characteristics of the bank, local competition, and the credit needs of the assessment area. Lending in the assessment area is satisfactory, as a majority of the loans are originated in the assessment area. Lending to borrowers of different income levels reflects an excellent distribution to low- and moderate-income individuals and a reasonable distribution of loans to small businesses and small farms. Furthermore, the loans are reasonably dispersed throughout the assessment area. There were no CRA-related complaints received by this institution or this Reserve Bank since the previous evaluation.

This institution was rated Satisfactory under the CRA at its previous evaluation conducted on December 12, 2005.

SCOPE OF EXAMINATION

CRA Performance was evaluated in the context of information about the institution and its assessment area such as asset size, financial condition, competition, and economic and demographic characteristics. The samples for the evaluation included agricultural, commercial, and residential real estate loans originated between December 1, 2007 and November 30, 2009. Performance within the designated assessment area was evaluated using *small bank, full-scope examination procedures* based on the following performance standards:

- ***Loan-to-Deposit Ratio*** – The average loan-to-deposit (LTD) ratio since the prior evaluation is based on quarterly data for the period December 31, 2005 to December 31, 2009 was compared to the national peer group and local competitors.
- ***Lending in the Assessment Area*** – A sample of agricultural, commercial and residential real estate loans was reviewed to determine the percentage of loans originated in the assessment area.
- ***Lending to Borrowers of Different Incomes and Businesses and Farms of Different Sizes*** – An analysis was conducted using a sample of residential real estate loans to assess the loan distribution among borrowers of different incomes. The June 30, 2009 Consolidated Report of Condition and Income was utilized to assess the distribution of loans to businesses and farms with different revenue levels.

- **Geographic Distribution of Lending in the Assessment Area** – The assessment area contains 11 census tracts; 1 moderate- and 10 middle-income geographies. An analysis was conducted using agricultural, commercial, and residential real estate loans originated within the assessment area to assess the extent to which the bank is making loans to all geographies within the assessment area.
- **Complaints** – Neither Bank Iowa nor this Reserve Bank has received any CRA-related complaints since the previous evaluation.

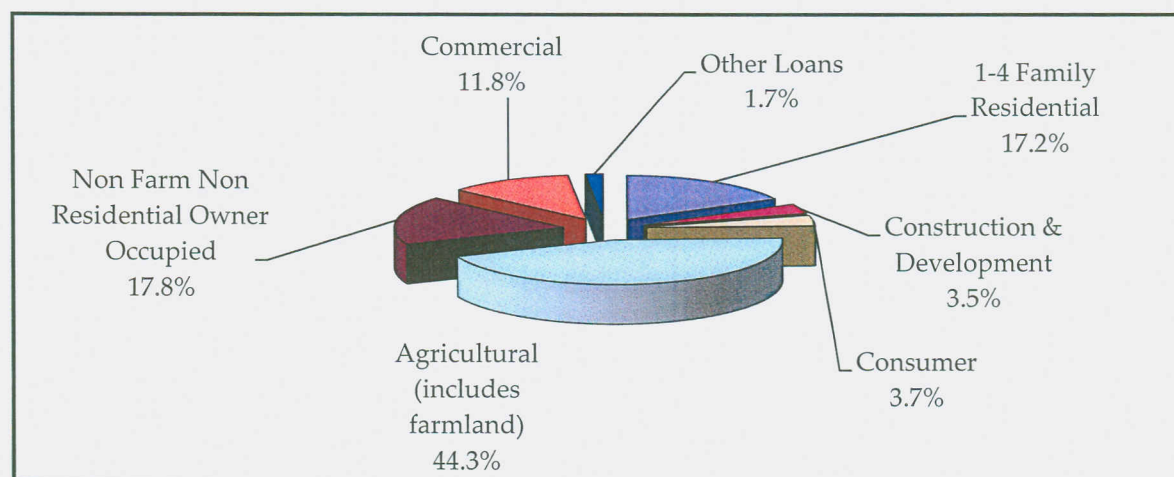
In addition to the above criteria, information obtained through discussions with two community representatives was considered in the overall evaluation.

DESCRIPTION OF INSTITUTION

Bank Iowa is a subsidiary of Bank Iowa Corporation, a multi-bank holding company located in West Des Moines, Iowa. The main office is located in Red Oak, Iowa, which is approximately 120 miles southwest of Des Moines. Branch offices are located in Shenandoah and Essex, and a drive-up facility is also located in Shenandoah. In addition, each location has automated teller machines (ATMs). An ATM is also operated at the Viking View convenience store in Stanton, Iowa. Since the previous evaluation the ATM at the Shenandoah branch office is new and two ATMs were closed at local convenience stores in Shenandoah and Percival, Iowa. No branch offices have opened or closed since the previous evaluation.

As of the December 31, 2009 Uniform Bank Performance Report, the bank reported total assets of \$129.0 million. The bank offers standard, non-complex loan and deposit products from all locations. As shown in Exhibit 1, the loan portfolio consists primarily of agricultural loans including those for the purchase of farmland followed by commercial loans including commercial real estate loans.

Exhibit 1 – Bank Iowa’s Loan Portfolio as of 12/31/2009



The bank's peer group includes commercial banks having total assets between \$100 million and \$300 million located in a non-metropolitan area with three or more full service offices.

Local competitors for loans and deposits as identified by the bank include: City National Bank, Shenandoah; First National Bank, Shenandoah; Houghton State Bank, Red Oak; branch offices of Tri-Valley Bank, Randolph, IA; Tier One Bank, Lincoln, NE; Great Western Bank, Clive, IA; U.S. Bank, N.A., Minneapolis, MN.

According to the June 30, 2009 FDIC Deposit Market Share Report, Bank Iowa holds 14.1% of the deposits in Page, Montgomery, and Fremont Counties. The bank ranks 2nd out of the 13 financial institutions located in the assessment area.

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

DESCRIPTION OF ASSESSMENT AREA

An institution's assessment area(s) will include towns, counties, or other political subdivision where its branches are located and a substantial portion of its loans are made. Assessment area(s) must consist of one or more geographies defined by census tracts, which are statistical subdivisions of a county. The 2000 U.S. Bureau of Census data is used in this evaluation, unless stated otherwise.

Bank Iowa's assessment area, shown in Appendix A and detailed by census tract and income level in Exhibit 2, is comprised of one moderate- and ten middle-income census tracts. It is comprised of all of Montgomery and Page Counties; and one census tract in Fremont County. The main bank is located in the moderate-income tract located in Montgomery County. The assessment area has changed since the previous evaluation. The previous assessment area did not include tracts 9904 and 9905 in Page County which encompasses the City of Clarinda. The tracts were previously not taken because of competitive reasons. In addition, all the middle-income tracts in Page County are considered under-served. Nonmetropolitan middle-income geographies are designated as underserved based on criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs. The assessment area is appropriate and does not arbitrarily exclude low- or moderate-income geographies.

Exhibit 2		
Bank Iowa's Assessment Area		
County	Tract/Income Level	
	Moderate	Middle
Montgomery	9803	9801, 9802, 9804
Page		9901, 9902, 9903, 9904, 9905, 9906
Fremont		9701
Totals	1	10

Population

According to 2000 U.S. Census data, the total population of the assessment area is 31,193, while the populations of Montgomery County, Page County, and Fremont County in their entirety are 11,771, 16,976, and 8,010, respectively. Bank Iowa only includes tract 9701 in Fremont County which, based on 2000 Census data, had a population of 2,446. Based on the 2008 U.S. Census estimate, the population of each county has decreased to 10,870, 15,664, and 7,446, respectively.

Income Characteristics

Exhibit 3 compares the income levels for the assessment area to the State of Iowa based on the 2000 U.S. Census Bureau data. In contrast to the 2000 data, the 2009 Housing and Urban Development (HUD) adjusted median family income for Montgomery County, Page County, Fremont County and Non-Metropolitan Iowa is \$51,800, \$54,800, \$60,100, and \$56,600, respectively.

Exhibit 3						
Distribution of Families by Income Level						
Location	Median Family Income (\$)	Percent of Families				
		Below Poverty Level	Low	Moderate	Middle	Upper
Assessment Area	42,024	7.3	18.9	18.8	27.0	35.3
Non-Metropolitan Iowa	43,887	6.4	16.4	19.5	26.3	37.8

Low-income is defined as less than 50% of median family income; moderate-income as 50% to less than 80% of median family income; middle-income as 80% to less than 120% of median family income; and upper-income as 120% or more of median family income.

Housing Characteristics and Affordability

The assessment area has 13,788 total housing units of which 66.1% are owner-occupied, 25.1% are rental units, and 8.8% are vacant. In comparison, Non-Metropolitan Iowa has 68.6% of total housing units that are owner occupied, 22.7% are rental units, and 8.7% are vacant. The median age of

housing stock in the assessment area is somewhat older than Non-Metropolitan Iowa at 57 versus 48 years, and the median housing value is also slightly lower at \$60,601 versus \$69,296 for Non-Metropolitan Iowa.

Affordability ratios, developed by dividing the median household income by the median housing value for a given area or groups of geographies, are helpful in comparing costs for different areas. An area with a high ratio generally has more affordable housing than an area with a low ratio.

The affordability ratios for the assessment area and Non-Metropolitan Iowa are .57 and .52, respectively, indicating that housing is more affordable in the assessment area than that of the rest of Non-Metropolitan Iowa.

Labor and Employment

According to the Iowa Workforce Development, the unemployment rates for the counties in the assessment area are higher than that of the State of Iowa, and all have seen an increase of 2% or more over the past year. The increase in unemployment is indicative of the current state of the economy. Community representatives attributed the increase to layoffs at some major employers including one major employer in Montgomery County that moved its operations to Mexico.

Exhibit 4		
Unemployment Figures		
Location	December 2009	December 2008
Fremont County	7.9%	5.1%
Montgomery County	8.8%	6.4%
Page County	8.3%	5.7%
State of Iowa	6.6%	4.4%

The major employers in the assessment area are depicted below. The labor force throughout the three counties included in the assessment area is primarily retail trade, health care, construction, and other services. In addition to the list of major employer below, local representatives indicated the area has a strong agricultural and manufacturing sector and mentioned a few other major employers in the area including Pella Corporation, windows and door; Eaton Corporation, transmissions; and Parker-Hannifin Corporation, industrial hoses.

Exhibit 5		
Major Employers in the Assessment Area		
Company	# of Employees	Description of Industry
Fremont County		
County of Fremont	159	Executive
Community Hospital, Inc	100	General Medical & Surgical Hospital
Tabor Manor Care Center, Inc	83	Intermediate Care Facility
Montgomery County		
Red Oak Community School District	462	Elementary & Secondary Schools
Montgomery County Memorial Hospital	275	General Medical & Surgical Hospital
Oakview Construction Inc	150	Non-Residential Construction
Stanton High School	147	Elementary & Secondary Schools
Page County		
Earl May Seed & Nursery	500	Retail Nurseries & Garden Stores
Clarinda Treatment Center	400	Psychiatric Hospital Facilities
City of Clarinda	366	Executive
Lisle Corporation	248	MFG Hard/Edge Tools

*Hoovers.com

Community Representatives

Information obtained through two community representatives was considered for this evaluation. The contacts included representatives of economic development or chamber groups.

Community representatives indicated the assessment area's large manufacturing sector has been impacted by the economic conditions over the past few years with several major employers either closing or laying-off staff. The agricultural sector has seen strong prices and yields which has helped buffer the impact. The manufacturing sector is improving with businesses now occupying most of the facilities of those that moved or closed, which ultimately provides additional jobs in the communities. Both representatives stated the demographics of the area have not changed significantly even though population is declining.

Representatives stated the local financial institutions are meeting the needs of the community, are very active in the communities, have a good sense of the community needs and recognize opportunities that exist to meet those needs in the assessment area. The majority of the institutions in the area are involved in Small Business Administration (SBA) programs to help provide loans to small businesses. One of the contacts indicated there was a need for affordable housing in Montgomery County and there is always a need for improvement in the access to credit for low- and moderate-income (LMI) individuals.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit ratio (LTD), the percentage of loans located in the bank's assessment area, the record of lending to borrowers of different income levels and businesses and farms of different revenue sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, the preceding standards are analyzed and evaluated within the assessment area context, which includes, but not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portion of the state, demographic data on median income, nature of housing stock, housing costs, and other relevant data pertaining to the bank's assessment area.

Loan-to-Deposit Ratio

The bank's average LTD ratio, calculated from data contained in the Consolidated Reports of Condition, was evaluated giving consideration to its capacity to lend, loan-to-deposit ratio of competitors and national peer, as well as demographic factors, economic conditions and lending opportunities present in the assessment area.

Bank Iowa's LTD ratio is reasonable given its asset size and financial condition, and the credit needs of the assessment area. Exhibit 6 shows the comparison of average LTD ratios for each bank and national peer based on quarterly data beginning December 31, 2005 through December 31, 2009. The bank's average LTD ratio of 85.0% is above its national peer group and fairly similar to the majority of local competitors.

Exhibit 6		
LTD Ratios Comparison to National Peer and Area Competitors		
Bank Name, City, State	Assets as of 12/31/2009	Avg. LTD Ratio(%)
Bank Iowa, Red Oak	\$129,018,000	85.0
National Peer Group	N/A	80.2
City National Bank of Shenandoah, Shenandoah, Iowa	\$64,707,000	61.5
First National Bank, Shenandoah, Iowa	\$34,322,000	65.2
Great Western Bank, Clive, Iowa	\$5,322,471,000	90.4
Houghton State Bank, Red Oak, Iowa	\$137,082,000	91.5
Tri-Valley Bank, Randolph, Iowa	\$58,802,000	85.7
U.S. Bank, NA, Minneapolis, Minnesota	\$276,376,130,000	105.5

Lending in the Assessment Area

To assess the extent of lending within the assessment area, the following were reviewed: agricultural, commercial, and residential real estate loans. The sample period for the loans reviewed was December 1, 2007 through November 30, 2009. Information from the performance context, such as economic conditions present within the assessment area, loan demand, bank size, financial condition, branching network, and business strategies, were considered when evaluating the bank's performance.

A majority of Bank Iowa's loans are originated within the assessment area, with an overall penetration of 81.4%, showing the bank is committed to meeting the lending needs of consumers, businesses, and farms in the assessment area. The distribution of a sample of the bank's primary loan products is illustrated below.

Exhibit 7			
Distribution of Loans Within the Assessment Area			
Loan Type	Number of Loans		
	# in Sample	# in AA	% in AA
Agricultural	423	320	75.7
Commercial	298	251	84.2
Residential RE	141	131	92.9
Totals	862	702	81.4

Lending to Borrowers of Different Income Levels and to Businesses and Farms of Different Sizes

The distribution of loans among borrowers of different income levels was determined by reviewing a sample of residential real estate loans. The June 30, 2009 Consolidated Report of Condition was used to determine the distribution of loans to businesses and farms of different sizes. Information from the performance context, such as economic conditions present within the assessment area, demographics, loan demand, bank size, financial condition, branching network, and business strategies, was considered when evaluating the bank's performance.

Given the demographics of the assessment area, the residential real estate loan distribution across borrowers of different income levels reflects an excellent penetration to low- and moderate-income borrowers within the assessment area. Commercial and agricultural loan data reflects a reasonable penetration to small businesses and small farms of different income levels.

Residential Real Estate Loans

Exhibit 8 shows the distribution of residential real estate loans by income level. As shown, the penetration of loans to low- and moderate-income borrowers is excellent compared to income demographics of the assessment area. Based on the 2009 HUD adjusted median family income for Non-Metropolitan Iowa, the bank originated 44.0% of loans to LMI borrowers within the assessment area compared to 37.7% of families in the assessment area being LMI. The percentage of loans to LMI borrowers has declined slightly from the previous evaluation, but is still above area demographics. Bank Iowa also offers loans through secondary market investors for 1st time home buyers and consumers looking for longer term fixed-rate loans. From 2006 – 2009 approximately 107 loans totaling \$9,583,679 have been originated through various programs.

Exhibit 8			
Loan Distribution of RE Loans by Income Level			
Income Level	Total Number of Loans	Percent of Total Loans	Percent of Families by Income
Low	11	22.0%	18.9%
Moderate	11	22.0%	18.8%
Middle	14	28.0%	27.0%
Upper	14	28.0%	35.3%
Totals	50	100.0%	100.0%

Loans to Small Businesses and Small Farms

The distribution of agricultural and commercial loans reflects a reasonable penetration to small farms and small businesses. Loans to small farms are defined as those with original amounts of \$500,000 or less, while loans to small businesses are viewed as those with original amounts of \$1 million or less. Lending to small businesses and small farms has remained consistent with Bank Iowa's past performance.

Small Business Loans

As Exhibit 9 shows lending to small businesses is reasonable as originations equal to or less than \$100,000 represent 72.6% of the number and 18.3% of the dollar amount of small business loans. Emphasis is placed on this category because loans for \$100,000 or less are most beneficial to small businesses. According to the June 30, 2009 Consolidated Report of Condition, small business loans represent 84.2% of the dollar amount in the commercial and industrial portfolio.

Exhibit 9		
Distribution of Small Business Loans		
Original Dollar Amount	Outstanding Number	Outstanding Dollar Amount (000's)
Loans Secured by Non-Farm Non-Residential Properties		
Less than or equal to \$100,000	36	1,376
Greater than \$100,000 through \$250,000	22	3,215
Greater than \$250,000 through \$1 million	14	6,365
Total	72	10,956
Commercial and Industrial Loans		
Less than or equal to \$100,000	176	2,622
Greater than \$100,000 through \$250,000	28	2,820
Greater than \$250,000 through \$1 million	16	5,413
Total	220	10,855
Loans Secured by Non-Farm Non-Residential Properties and Commercial and Industrial Loans		
Grand Totals	292	21,811

Small Farm Loans

As Exhibit 10 shows lending to small farms is reasonable as originations equal to or less than \$100,000 represent 76.7% of the number and 37.0% of the dollar amount of small farm loans. Emphasis is placed on this category because loans for \$100,000 or less are considered most beneficial to small farms. According to the June 30, 2009 Consolidated Report of Condition, small farm loans represent 72.9% of the bank's overall agricultural loan portfolio.

Exhibit 10		
Distribution of Small Farm Loans		
Original Dollar Amount	Outstanding Number	Outstanding Dollar Amount (000's)
Loans Secured by Farmland		
Less than or equal to \$100,000	86	3,264
Greater than \$100,000 through \$250,000	55	5,829
Greater than \$250,000 through \$500,000	18	3,696
Total	159	12,789
Loans to Finance Agricultural Production and Other Loans to Farmers		
Less than or equal to \$100,000	353	7,481
Greater than \$100,000 through \$250,000	36	3,704
Greater than \$250,000 through \$500,000	24	5,041
Total	413	16,226
Loans Secured by Farmland and Loans to Finance Agricultural Production and Other Loans to Farmers		
Grand Totals	572	29,015

Geographic Distribution of Loans

The distribution of lending among geographies of different income levels within the assessment area was reviewed. To assess the bank's performance, the following loans were reviewed: agricultural, commercial, and residential real estate. The sample period for the loan products reviewed was December 1, 2007 through November 30, 2009. Demographic characteristics of census tracts, such as housing types and income level, were considered in the evaluation.

The assessment area is comprised of 11 census tracts. The geographic distribution of lending shows that loans are reasonably dispersed throughout the one moderate-income and ten middle-income tracts, given the demographics of the assessment area and the level of competition, with 13 institutions servicing the assessment area. Lending in tracts 9904 and 9905 is limited due to competition from a sister bank located in Clarinda, which encompasses these two census tracts.

Residential Real Estate Loans

The distribution of residential real estate loans is reasonable. Census data shows owner-occupied dwellings in the moderate-income tract represent 10.9% of the owner-occupied units in the assessment area. Bank Iowa originated 13.7% of residential real estate loans in the moderate-income tract, which is in line with the demographics of the tract. Loans are also reasonably dispersed throughout the ten middle-income census tracts within the assessment area, given the location of the offices and competition.

Exhibit 11						
Geographic Distribution of Residential Real Estate Loans						
Census Tracts	Assessment Area				Bank Residential Real Estate Loans	
	Census Tracts		Owner-Occupied Units			
	#	%	#	%	#	%
Low	0	0	0	0.0	N/A	N/A
Moderate	1	9.1	996	10.9	18	13.7%
Middle	10	90.9	8,116	89.1	113	86.3%
Upper	0	0	0	0.0	N/A	N/A
Total	11	100.0	9,112	100.0	131	100.0%

Commercial Lending

The distribution of commercial loans is considered excellent in comparison to the number of businesses in the area. The bank originated 25.5% of its business loans in the moderate-income census tract which is comparable to the number of businesses located in this tract. In addition, loans are reasonably dispersed throughout the middle-income tracts within the assessment area, given the location of the offices, demographics of the tracts, and competition in the area.

Exhibit 12						
Geographic Distribution of Commercial Loans						
Census Tract	Assessment Area				Commercial Loans	
	Census Tracts		Businesses			
	#	%	#	%	#	%
Low	0	0	0	0.0	N/A	N/A
Moderate	1	9.1	237	17.2	64	25.5%
Middle	10	90.9	1,143	82.8	187	74.5%
Upper	0	0	0	0.0	N/A	N/A
Totals	11	100.0	1,380	100.0	251	100.0%

Agricultural Lending

The distribution of agricultural loans is reasonable compared to the number of farms in the area. The bank originated 4.1% of its loans in moderate-income census tract, which is consistent with area demographics with 2.9% of farms in moderate-income tracts within the assessment area. In addition, loans are reasonably dispersed throughout the middle-income tracts within the assessment area given the location of the offices, demographics of the tracts, and competition in the area.

Exhibit 13						
Geographic Distribution of Agricultural Loans						
Census Tract	Assessment Area				Agricultural Loans	
	Census Tracts		Farms			
	#	%	#	%	#	%
Low	0	0	0	0.0	N/A	N/A
Moderate	1	9.1	18	2.9	13	4.1%
Middle	10	90.9	593	97.1	307	95.9%
Upper	0	0	0	0.0	N/A	N/A
Totals	11	100.0	611	100.0	320	100.0%

Response to Complaints

Neither Bank Iowa nor this Reserve Bank has received any CRA-related complaints since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES

Bank Iowa is in compliance with substantive portions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. A review of loan policies and procedures, articulated lending standards, forms, denied loan applications, and a sample of loans originated during the sample period revealed no evidence of patterns or practices of prohibited discriminatory treatment or other illegal credit practices on a prohibited basis.

Appendix A

Bank Iowa's Assessment Area

