

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 the **Iowa Trust & Savings Bank, Emmetsburg, Iowa**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 5, 1997**. 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**.

Iowa Trust & Savings Bank serves the credit needs of its assessment area consistent with its size, financial capacity, location, and current economic conditions. The bank's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance and is consistent with the LTD ratios of other financial institutions in the area. A high percentage of the bank's loans are made within the assessment area, and the distribution of loans reflects strong penetration among individuals of various income levels, and businesses and farms of different sizes. Additionally, lending in the one moderate-income area in the bank's assessment area is adequate.

DESCRIPTION OF INSTITUTION

Iowa Trust & Savings Bank, with total assets of \$47.5 million as of December 31, 1996, is a subsidiary of Emmetsburg Bank Shares, Inc., a one-bank holding company. The bank is one of two financial institutions in the town of Emmetsburg, Iowa, which is located in Palo Alto County, approximately 25 miles east of Spencer, Iowa. The bank operates from one office and offers a full range of deposit and loan services. Brenton Bank (a branch of the Des Moines bank) is the bank's only competitor in Emmetsburg. Other financial institutions within the bank's assessment area include Cylinder State Bank located in Cylinder and Ruthven State Bank located in Ruthven.

The bank is primarily an agricultural and real estate lender. According to the December 31, 1996 Uniform Bank Performance Report (UBPR), the majority (30.59%) of the bank's loan portfolio consists of agricultural loans, a concentration that has consistently exceeded its peer group over the past four years. Other major loan concentrations are in one-to-four family residential loans (27.02%) and loans secured by farmland (14.38%).

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank's assessment area encompasses Palo Alto County and includes the towns of Emmetsburg, Cylinder, Curlew, Graettinger, Mallard, Ayrshire, Marathon, Ruthven, and West Bend. The area is more specifically defined as block numbering areas (BNAs) 9601, 9602, 9603, and 9604. One of the four BNAs (9602) is designated as moderate-income, while the other three are middle-income. According to 1990 census data, the assessment area has a population of 10,669, of which 99.4% are Whites.

The median family income for the assessment area is \$25,712, compared to \$29,303 for the non-metro State of Iowa. The assessment area median housing age is 37 years and the median housing value is \$28,935; community representatives, however, estimate that housing values range between \$35,000 to \$90,000. Owner-occupied housing units account for 61.5% of the assessment area housing stock, while rental units account for 25.2%.

According to community representatives, agriculture and manufacturing are the primary industries in the assessment area. Corn and soybeans are the main crops, while hogs and cattle are the main livestock enterprises. Major employers in the area include Skyjack Manufacturing, SNC Manufacturing, Iowa Lakes Community College, the local hospital, and the local school system. According to the Iowa Workforce Development Office, the February 1997 unemployment rate was 4.4% for Emmetsburg, 3.4% for Palo Alto County, and 3.5% for the State of Iowa.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

A review of loans and denied credit applications revealed that the bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. In addition, management has developed adequate policies, procedures, and training programs to support fair lending activities. No prohibited discriminatory lending practices or policies intended to discourage loan applicants were detected during the examination.

LOAN-TO-DEPOSIT RATIO

According to the bank's consolidated reports of condition, the bank's LTD ratios for the most recent five-quarters (ending December 31, 1996) averaged 55.71%. According to the December 31, 1996 UBPR, the bank's LTD ratio of 54.55% is less than its peer group's ratio of 61.52%. The bank's LTD ratio compared to those of its competitors= (institutions within a 15 mile radius of the bank's office) is illustrated in the chart below (data as of December 31, 1996).

LOAN-TO-DEPOSIT (LTD) RATIO ANALYSIS				
Bank Name	Main office location	Competitive Location (s)	Asset Size (\$000s)	LTD Ratio
Cylinder State Bank	Cylinder, IA	Cylinder, IA	\$18,457	71.59%
Iowa Trust & Savings Bank	Emmetsburg, IA	Emmetsburg, IA	\$47,507	54.55%
Ruthven State Bank	Ruthven, IA	Ruthven, IA	\$28,886	48.19%

Although the bank's LTD ratio is lower than peer and one of its competitors, the ratio is considered reasonable, based upon the bank's size, financial condition, and current economic conditions, and meets the standard for satisfactory performance.

LENDING IN ASSESSMENT AREA

In order to determine the level of lending activity within the bank's assessment area, the examination loan sample was reviewed. The chart below illustrates the distribution of these loans:

Loan Type	Total number of loans sampled	Number of loans within the assessment area	Percent of Total
Commercial	10	10	100%
Installment	28	25	89%
Agriculture	10	8	80%
Real Estate	10	8	80%

Loan Type	Total number of loans sampled	Number of loans within the assessment area	Percent of Total
Single-Payment	10	8	80%
Credit Cards	20	14	70%
Total	88	73	83%

As the preceding chart illustrates, a significant level commercial and installment loans and the majority of the total sampled loans were made within the bank's assessment area. This level of lending demonstrates the bank's willingness to serve the assessment area's credit needs, indicating that the bank's performance under this criterion exceeds the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

To assess the bank's lending performance under this criterion, an analysis of commercial, farm and consumer loans was performed. Because the bank does not always collect borrower income information or have current borrower financial information, loan amount was used as a proxy. Installment and single-payment loans originated between November 1996 and April 1997 were used for the analysis. Of the 116 installment and single-payment loans made within the bank's assessment area, 39 or 34% were for original amounts of \$1,000 or less, and 25 or 22% were for original amounts of greater than \$1,000 but less than \$2,500. This activity demonstrates the bank's willingness to make small dollar amount loans which are usually associated with low-income borrowers.

Commercial and agricultural loans made within the bank's assessment area during the six-month period from November 1996 to April 1997 were also reviewed to assess the bank's lending performance. Of the 28 commercial loans reviewed, all 28 were for original amounts of \$100,000 or less. Of the 140 agricultural loans reviewed, 135 or 96% were for original amounts of \$100,000 or less. According to the bank's June 30, 1996 Consolidated Report of Condition, all or substantially all of the outstanding farm and business loans in the bank's portfolio were for original amounts of \$100,000 or less. These agricultural loans are consistent with the rural makeup of the assessment area and comments made by community representatives, who indicated that farm loans within the community are in demand.

In the absence of borrower income and revenue information, the number of loans in small dollar amounts reflects strong penetration among individuals of different income levels and businesses/farms of different sizes. This lending is consistent with the bank's size and type of assessment area, and exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's assessment area consists of four (BNAs), one of which is moderate-income (9602) and three are middle-income. Commercial, direct and indirect installment, single-payment, real estate,

and agricultural loans originated between November 1996 and April 1997 were reviewed to assess the geographic distribution of loans.

Of the 460 loans the bank made within the assessment area during this period, 26 or 5.6% were made in the moderate-income BNA (9602) and 434 or 94.4% were made in the middle-income BNAs (79 or 17.2% in 9601; 328 or 71.3% in 9603; and 27 or 5.9% in 9604). By product, one real estate, five installment/single-payment, and 20 commercial/farm loans were made in the moderate-income BNA. The moderate-income BNA, a largely rural area, includes the town of Graettinger which has a significant number of retirees, according to bank management, and is served by one other bank.

Given the economic and competitive factors that affect the area, the geographic distribution of loans is considered reasonable and meets the standards for satisfactory performance.

RESPONSE TO SUBSTANTIATED COMPLAINTS

No CRA-related complaints have been received by the institution since the previous examination.