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## 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 **First State Bank, Churdan, Iowa**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **September 22, 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.

The bank's loan-to-deposit ratio is considered satisfactory based on substantial improvement during the twelve-month period since the previous examination. During this same period, loan volume has increased approximately 38%, with a corresponding increase in the bank's loan-to-deposit ratio from 31.82% to 44.40%, or near a 40% improvement.

A review of a nine-month sample of loans indicated that the majority of these loans were made within the bank's assessment area, which includes only moderate and middle-income geographies. Loan distribution between middle and moderate-income geographies was reasonable, and a significant percentage of the bank's loans were to low- and moderate-income borrowers. A substantial majority of the bank's agriculture and commercial loans are in amounts of \$100,000 or less, indicating a more than reasonable distribution of loans to small businesses and small farms. There is no evidence of prohibited discriminatory lending practices or policies intended to discourage individuals from applying for loans offered by the bank. No CRA related complaints were received by the bank since the previous examination.

**DESCRIPTION OF INSTITUTION**

First State Bank, Churdan, Iowa, had total assets of \$17 million as of June 30, 1997. The bank serves the assessment area through a single local office. First State Bank is the only financial institution in Churdan. Local competitors include: Home State Bank, Jefferson, Iowa; Community State Bank, Paton, Iowa; Peoples Trust and Savings Bank, Grand Junction, Iowa, with branches in Jefferson and Scranton; First Bank and Trust Company, Glidden, Iowa, with a branch in Lohrville; and Security Savings Bank, Gowrie, Iowa, with offices in Farnhamville and Harcourt. Competition for consumer and real estate loans is also provided by the Jefferson branch of Brenton Bank, Des Moines, Iowa. In addition, competition also is provided by Farm Credit Services.

The bank provides traditional deposit and loan services, and is predominantly an agricultural lender. Based upon information contained in the June 30, 1997 Uniform Bank Performance Report (UBPR), 64.46% of the bank's loan portfolio is concentrated in agricultural products. Consumer, real estate and commercial loans comprise 17.30%, 13.43% and 4.81%, respectively. All other loans totaling 14% of the portfolio are included in the consumer category.

There are no factors relative to the bank's financial condition, size or local economic conditions which would prevent the bank from meeting community credit needs.

**DESCRIPTION OF ASSESSMENT AREA**

Churdan, with a population of 423 according to the 1990 U.S. Census Bureau, is situated in the northwest quarter of Greene County, approximately 75 miles northwest of Des Moines. The bank has defined its assessment area as the western half of Greene County, which consists of two of the four block numbering areas (BNAs) that comprise Greene County: BNAs 9803 and 9804.

According to the 1990 U.S. Census Bureau data, the median family income for the assessment area is \$27,624. The median family income for BNA 9803 is \$28,657, while the median family income for BNA 9804 is \$23,333. By comparison, the median family income for the rural nonmetropolitan portions of the State of Iowa is \$29,303. Comparisons between the median family income for the assessment area and the rural nonmetropolitan median family income, results in BNA 9803 being classified as middle-income and BNA 9804 being classified as moderate-income. The total population of the assessment area is 5,040, of which 71.4% reside in BNA 9803 and 28.6% in BNA 9804. The racial composition of the assessment area is 99.8% white, and 0.2% Asian. The breakdown of families in the assessment area, by income level, is as follows: low-income - 287 or 19.6%; moderate-income - 312 or 21.3%; middle-income - 448 or 30.6%; and upper-income - 416 or 28.4%. The census data also revealed that 24.2% of the assessment area's population is 17 years of age or younger and 23.7% is 65 years of age or older.

The assessment area's housing market consists of 2,380 total housing units: 1,470 (61.8%) are owner occupied, 670 (28.2%) are rental units and 240 (10.1%) are vacant. The median housing value in the assessment area is \$28,030, with 54.9% of the housing stock built prior to 1950. By comparison, the median housing value for the rural portions of the State of Iowa is \$38,521, with 48.9% of the housing stock built prior to 1950. Median monthly rent for the assessment area is \$263, compared to \$292 for the nonmetropolitan median for the State of Iowa.

As noted previously, this is a rural area with the local economy largely dependent upon

agriculture for financial prosperity. Area farming operations focus on corn, soybean, hog, and cattle production. Residents not employed in agriculture commute to nearby Jefferson, Boone, and Carroll for employment with county government, light manufacturing organizations and small businesses.

According to the Iowa Department of Employment Services, Greene County had a unemployment rate of 2.8% as of August 1996 and 1.7% as of August 1997, which compares favorably to the state's unemployment rates of 3.8% and 2.7%, respectively for the same time periods.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The bank was examined for compliance with fair lending laws and regulations. A sample of the bank's approved and denied loan application files were reviewed in order to ascertain whether the bank's loan policy and articulated lending standards were in compliance and being implemented with fairness and consistency. No evidence of prohibited discriminatory credit practices was detected. This review is detailed in the Report of Examination. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

**LOAN-TO-DEPOSIT RATIO**

First State Bank's loan portfolio was reviewed to evaluate its lending volume, loan mix, and how the bank's performance compares to its peer group and local competitors. Assessment area demographic data also was considered to enable a more balanced analysis of the bank's loan-to-deposit ratio (LTD) performance. The bank's LTD ratio averaged 40.08% for the four quarters ended June 30, 1997, compared to 61.80% for the peer group. As of June 30, 1997, the bank's LTD ratio was 44.40%, compared to an average of 70.09% for its competitors. Bank and peer group LTD ratio history is illustrated in the following chart:

<b>LOAN TO DEPOSIT RATIO HISTORY</b>		
<b>RATIO DATE</b>	<b>BANK RATIO(%)</b>	<b>PEER RATIO(%)</b>
06/30/97	44.40	63.80
3/31/97	38.78	59.89
12/31/96	40.20	60.91
9/30/96	36.92	62.59
<b>FOUR QUARTER AVE.</b>	<b>40.08</b>	<b>61.80</b>

According to the June 30, 1996 and June 30, 1997 call report, the bank and a sample of its competitor's LTD ratios are as follows:

<b>INSTITUTION</b>	<b>Total Assets as of June 30, 1997 (\$000)</b>	<b>LTD as of June 30, 1996 (%)</b>	<b>LTD as of June 30, 1997 (%)</b>	<b>Four Quarter Average LDT Ratio(%)</b>

INSTITUTION	Total Assets as of June 30, 1997 (\$000)	LTD as of June 30, 1996 (%)	LTD as of June 30, 1997 (%)	Four Quarter Average LTD Ratio(%)
First State Bank, Churdan, Ia.	17,149	31.82	44.40	40.08
Community State Bank, Paton, Ia.	25,788	54.18	61.03	60.21
First Bank&Trust Co., Glidden, Ia.	48,109	61.97	64.44	65.44
Peoples Trust & Savings Bank, Grand Junction, Ia.	89,658	83.81	92.59	86.39
Home State Bank, Jefferson, Ia.	85,627	72.84	83.26	77.58
Security Savings Bank, Gowrie, Ia.	36,824	49.80	49.14	54.68

As indicated in the preceding chart, the bank's LTD ratio has increased substantially in the twelve-month period since the previous examination data as of June 30, 1996. As of June 30, 1997, the bank's LTD ratio has increased from 31.82% to 44.40, or approximately 40%. A comparison of the bank's current loan distribution with information as of the previous examination revealed a substantial overall increase in loan volume of approximately 38%, from \$4.2 million to \$5.8 million. In dollar terms, the largest increase occurred in agricultural loans. Of the total \$1.6 million increase in loans, agricultural loans accounted for approximately \$1.1 million of the increase. Deposits have decreased slightly (.74%) since the previous examination. According to management, the loan increase is primarily attributable to the bank's new aggressive strategy for generating loan production, which includes word-of-mouth advertising and, to a lesser extent meetings held in the local community to promote the bank's products. The review also noted that the bank has a high level of competition for loans in the assessment area. The bank's primary competitors for loans consist of Farm Credit Services and the five financial institutions listed in the preceding chart, all of which are larger than the subject bank.

While this LTD ratio is below the peer group ratio and those reported by the bank's competitors, the bank's LTD ratio performance meets the standards for satisfactory performance based on the substantial increase in loan volume over a relatively short time-frame (12 months), and the mitigating factors discussed above. While the bank is encouraged to increase its loan-to-deposit ratio, it is also important that it continue to do so only in a safe and sound manner.

### Lending in Assessment Area

First State Bank is not required to report Home Mortgage Disclosure Act information. Therefore, a sample of the bank's agriculture, commercial, installment, single payment, automobile and real estate loans for the nine-month period ended September 30, 1997, was utilized to determine the

extent of lending within the assessment area. A review of the loan sample revealed that the bank originated a total of 551 loans of all types, of which 404 or 73.32% were within the bank's assessment area. The review indicated the following geographic distribution:

LOAN TYPE	TOTAL SAMPLED	NUMBER WITHIN ASSESSMENT AREA	PERCENT OF TOTAL
Real Estate (1-4 family units)	7	7	100.00
Commercial	41	34	82.93
Agricultural	285	225	78.95
Single-Payment	87	62	71.26
Automobile	64	38	59.38
Installment	67	38	56.72
Totals	551	404	73.32

As illustrated in the preceding chart, the highest concentration of loans within the assessment area is real estate, followed by commercial, agricultural, single payment, automobile and installment. The review demonstrated that the bank conducts the majority of its loan origination activity within its assessment area. The bank's lending within its assessment area meets the standards for satisfactory performance.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The bank's small farm, small business, consumer and real estate loans, for the nine-month period from January 1, 1997 to September 30, 1997, were reviewed to determine the extent of the bank's loan distribution among borrowers of different incomes and businesses and farms of different sizes. The bank does not consistently collect income information for loan applicants. Therefore, analyses were based on original loan amounts which were used as proxies for income to evaluate the bank's performance.

#### Consumer Loans

The nine-month loan sample of consumer installment, single payment and automobile loans was reviewed to determine the bank's loan distribution to borrowers of different incomes. The lack of income information required that loan amount be used as a proxy for annual income. A loan amount of \$1,000 was used as a proxy for the bank's personal lending activity, and a loan amount of \$5,000 was used as a proxy for automobile lending activity. Bank management acknowledged that use of these amounts as proxies for income establishes personal and automobile loan amounts typically sought by low- and moderate-income customers.

The following chart illustrates the distribution of consumer loans by loan amount.

<b>CONSUMER LOAN AMOUNT ANALYSIS</b>							
LOAN PROXY AMOUNTS (\$)	INSTALMENT LOANS		SINGLE PAYMENT LOANS		AUTOMOBILE LOAN PROXY AMOUNTS (\$)	AUTOMOBILE LOANS	
	#	%total	#	%total		#	%total
500 or less	2	5.27	21	33.87	2500 or less	9	23.69
501 - 1000	8	21.05	13	20.97	2501-5000	15	39.47
1001-2500	14	36.84	14	22.58	5001-10000	7	18.42
2501-5000	6	15.79	11	17.74	10001-20000	5	13.16
5001 or more	8	21.05	3	4.84	20001 or more	2	5.26
<b>TOTAL</b>	<b>38</b>	<b>100.0</b>	<b>62</b>	<b>100.0</b>	<b>TOTAL</b>	<b>38</b>	<b>100.0</b>

The total dollar amounts associated with the bank's consumer loan distribution is as follows:

<b>CONSUMER LOAN AMOUNT ANALYSIS</b>							
LOAN PROXY AMOUNTS (\$)	INSTALMENT LOANS		SINGLE PMT. LOANS		AUTOMOBILE LOAN PROXY AMOUNTS (\$)	AUTOMOBILE LOANS	
	\$ Total	%total	\$Total	%total		\$Total	%total
500 or less	600	.48	7,536	6.08	2500 or less	15,371	6.62
501 - 1000	6,100	4.87	10,530	8.49	2501-5000	56,229	24.24
1001-2500	24,062	19.20	25,553	20.61	5001-10000	50,124	21.61
2501-5000	22,600	18.03	43,338	34.95	10001-20000	57,757	24.90
5001 or more	71,956	57.42	37,030	29.87	20001 or more	52,500	22.63
<b>TOTAL</b>	<b>125,318</b>	<b>100.0</b>	<b>\$123,987</b>	<b>100.0</b>	<b>TOTAL</b>	<b>231,981</b>	<b>100.0</b>

As illustrated in the preceding charts, the bank is making consumer loans in amounts typical of those requested by low- and moderate-income borrowers. Ten or 26.32% of the installment and 34 or 54.84% of the single payment loans are at or below the \$1,000 proxy established for these products, which accounts for 9.93% of the total dollars originated for these products. Twenty-four or 63.16% of the automobile loans are at or below the \$5,000 proxy established for this product, which accounts for 30.86% of the dollars originated for this product.

A nine-month sample of seven residential real estate loans, totaling \$190,747 also was reviewed for distribution to borrowers of different incomes. Two or 28.57% of these loans, totaling \$50,360 or 26.40% were made to low- or moderate-income borrowers.

Small Farm and Small Business Loans

Annual revenue information was not readily available for loans to small farms and small

businesses. The lack of this information required that original loan amount be used as a proxy for annual revenue. In this regard, original loan amounts similar to those used for reporting small business and small farm loans on the Consolidated Report of Condition was used as a guideline to stratify the bank's nine-month CRA loan sample of 225 agriculture loans, totaling \$2,623,200 and 34 commercial loans totaling \$382,640.

The bank's lending to small businesses and small farms is summarized as follows:

DISTRIBUTION OF SMALL BUSINESS AND SMALL FARM LOANS BY LOAN AMOUNT								
LOAN TYPE	\$100,000 or less		Greater than \$100,000 to \$250,000		Greater than \$250,000 and less than \$1 million		Total	
	Number & Percent	\$ (000's) Amount & Percent	Number & Percent	\$ (000's) Amount & Percent	Number & Percent	\$ (000's) Amount & Percent	Number & Percent	\$ (000's) Amount & Percent
<b>SMALL BUSINESS</b>	34 100%	\$383 100%	0 0.00	0 0.00	0 0.00	0 0.00	34 100%	\$383 100%
<b>SMALL FARM</b>	223 99.11%	\$2,272 86.62%	2 .89%	\$351 13.38%	0 0.00	0 0.00	225 100%	2,623 100%

As illustrated in the preceding chart, approximately 99% of the bank's commercial and farm loans were in amounts of \$100,000 or less.

Consolidated Report of Condition

The bank's 1997 and 1996 Consolidated Reports of Condition (as of June 30) were used to further determine the distribution of the bank's loans to small farms and small businesses. A review of these reports revealed that all or substantially all of the bank's commercial and agriculture loans (529) were in amounts of \$100,000 or less.

Overall, the bank's distribution of loans to borrowers of different incomes and small farms and small businesses exceeds the standards for satisfactory performance. This is evidenced by the high percentage of loans made to individuals at or below established proxy amounts and by the fact that the bank's entire commercial and agricultural loan portfolios consist of loans to small businesses and farms.

**Geographic Distribution of Loans**

The bank's assessment area is defined as two whole BNAs: one moderate-income (9804) and one middle-income (9803). The bank's nine-month CRA loan sample of 551 agriculture, commercial, installment, single payment, automobile and real estate (1-4 family unit) loans was reviewed to determine the geographic distribution of the bank's loans. A total of 404 of the 551 loans were within the bank's assessment area. Loan distribution by product type within the respective BNAs is summarized in the following chart:

<b>Loan Type</b>	<b>Moderate-Income BNA (9804) # &amp; \$</b>	<b>Middle-Income BNA (9803) # &amp; \$</b>	<b>Product Totals # &amp; \$</b>
Agriculture Loans	43 - 746,385	182 - 1,876,815	225 - 2,623,200
Commercial Loans	0 - 0	34 - 382,640	34 - 382,640
Installment Loans	1 - 4,500	37 - 120,818	38 - 125,318
Single Payment Loans	1 - 3,000	61 - 120,987	62 - 123,987
Automobile Loans	2 - 10,737	36 - 221,244	38 - 231,981
Real Estate Loans (1- 4 family unit)	0 - 0	7 - 144,571	7 - 144,571
<b>BNA Totals</b>	47 - 764,622	357 - 2,867,075	404 - 3,631,697
<b>Percent Number - \$</b>	11.63% - 21.05%	88.37% - 78.95%	100% - 100%

The preceding chart illustrates that the bank is making loans in the two BNAs within its assessment area. Eighty-eight percent of the total number, and 79% of the total dollar volume of loans during the sample period were in BNA 9803, a middle-income area. By comparison, 12% of the total number, and 21% of the total dollar volume of loans during the sample period were in BNA 9804, a moderate-income area. This concentration of lending indicates that the bank's single office in Churdan is located in BNA 9803 and most loans are within this BNA. It also shows that 71.4% of the assessment area's population resides in BNA 9803. The geographic distribution of the bank's loans throughout the assessment area is reasonable and meets the standards for satisfactory performance.

### **RESPONSE TO COMPLAINTS**

No complaints were received by the institution regarding its CRA performance since the previous examination.