

# **PUBLIC DISCLOSURE**

March 31, 2008

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Corridor State Bank  
RSSD# 3394670

2530 Corridor Way, Coralville, Iowa 52241

Federal Reserve Bank of Chicago

230 South LaSalle Street  
Chicago, IL 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.

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## INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING:

This institution's performance is rated **satisfactory**.

Corridor State Bank is satisfactorily meeting the credit needs of the community based upon an analysis of its lending activities and 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. A majority of the bank's commercial, consumer and residential real estate loans are originated in the assessment area. Lending reflects a satisfactory distribution to low- and moderate-income individuals as well as to small businesses. Residential real estate, commercial, and consumer loans are reasonably distributed throughout the assessment area; however, the geographic distribution of business loans in the low and moderate-income census tracts is low. The recent addition of the Iowa City branch should assist the bank in improving business loan penetration in the future as well as generate more residential real estate and consumer loan originations. The new branch is located in a moderate-income geography and is in close proximity to the lone low-income geography and a couple of the other moderate-income census tracts. There have been no CRA-related complaints received by the institution or this Reserve Bank since the bank opened on February 22, 2006.

## SCOPE OF EXAMINATION

Corridor State Bank's 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. A sample of commercial, 1-4 family residential real estate, and consumer loans was reviewed to determine performance within the designated assessment area. This was the first CRA Performance Evaluation conducted for the bank. The loans reviewed for this evaluation were originated between January 1, 2007 and December 31, 2007. Corridor State Bank was evaluated using *Small Bank Examination Procedures* based on the following performance standards:

- ***Loan-to-Deposit (LTD) Ratio***– Compared the bank's LTD ratio to its national peer group and to its local competitors for the seven-quarters ending December 31, 2007.
- ***Lending in the Assessment Area*** – Determined the percentage of loans originated in the assessment area through a review of the bank's commercial, residential real estate, and consumer loans.
- ***Geographic Distribution of Lending in the Assessment Area*** – Evaluated the extent to which the bank is making loans in all geographies within the assessment area.
- ***Lending to Borrowers of Different Incomes and to Businesses and Farms of Different Sizes*** – Analyzed a sample of residential real estate loans to assess the loan distribution among borrowers of different income levels. The June 30, 2007 Consolidated Report of Condition and Income was utilized for the distribution of small business loans with different revenue levels.

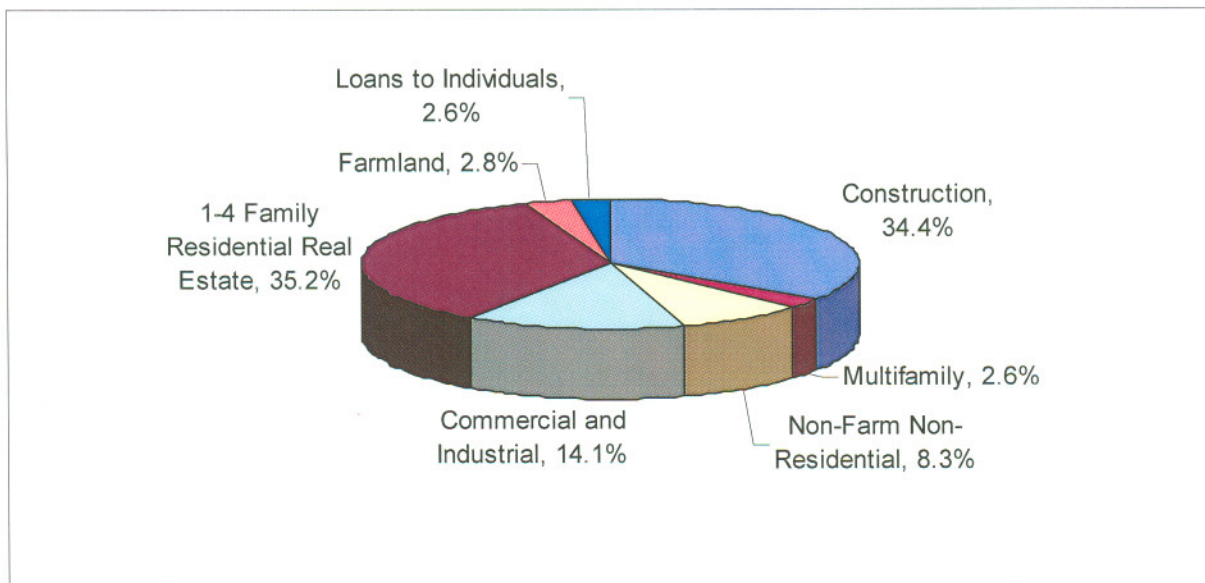


- **Response to Complaints** – Neither the bank nor this Reserve Bank has received any CRA-related complaints since the bank opened.

## DESCRIPTION OF INSTITUTION

Corridor State Bank is a subsidiary of AJJ Bancorp, Inc., a two-bank holding company located in Elkader, Iowa. The bank is a de novo institution that opened for business on February 22, 2006. The main office is located in Coralville, Iowa, a suburb of Iowa City, and is approximately 60 miles west of the Illinois border. A second branch opened in November 2007 and is located in Iowa City, Iowa. The bank utilizes drive-up facilities including a full service ATM located at each branch as well as a cash-only ATM located in North Liberty, Iowa.

As of the December 31, 2007 Uniform Banking Performance Report (UBPR), Corridor State Bank had total assets of \$40.9 million. Assets had increased by \$17.6 million from the previous year due to substantial residential real estate and commercial loan growth. The loan portfolio consists primarily of residential real estate, commercial, and construction loans as shown in Exhibit #1.



The bank's peer group includes all insured commercial banks having assets less than \$750 million established in 2006. Local competitors for loans and deposits include: Hills Bank & Trust Company, Hills, Iowa; Iowa State Bank and Trust Company, Iowa City, Iowa; Freedom Security Bank, Coralville, Iowa; First Trust and Savings Bank, Coralville, Iowa; and Farmers and Merchants Savings Bank, Iowa City, Iowa.

According to the June 30, 2007 FDIC Summary of Deposit Market Share Report, Corridor State Bank had 1.30% of the aggregate deposits in Johnson County, ranking 13th out of 17 financial institutions. For the Iowa City MSA, its market share is 1.05%, ranking it 16th out of 22 institutions.

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

**DESCRIPTION OF ASSESSMENT AREA**

Corridor State Bank’s assessment area includes all of Johnson County and is comprised of one low-income census tract, 5 moderate-income census tracts, 8 middle-income census tracts, and 8 upper-income census tracts. The assessment area is part of the Iowa City MSA, which includes all of Johnson and Washington County. The bank’s main office is located in an upper income tract (3.01), while the branch office in Iowa City is in a moderate income tract (11.00). Census tracts within the assessment area are shown in Exhibit #2. Refer to Appendix A for a map of the current assessment area.

Exhibit# 2 Census Tracts within the Assessment Area	
Tract Level	Census Tracts
Low	21
Moderate	2, 6, 11, 16, 18
Middle	3.02, 4, 14, 15, 17, 104, 103, 105
Upper	1, 3.01, 5, 12, 13, 23, 101, 102

**Population Changes**

According to the U.S. Census Bureau, as of July 1, 2006, the estimated population for Johnson County was 118,038. The estimated population of the Iowa City MSA was 139,567. Johnson County’s population has increased gradually every year since the 2000 U.S. Census was completed. With the addition of Washington County in 2004, the Iowa City MSA has also increased. The University of Iowa and the University of Iowa Hospital and Clinics continue to stabilize the entire area by providing numerous job opportunities. Each is considered to be a primary source of economic strength as their employment opportunities frequently attract individuals and families to the area.

**Income Characteristics**

Exhibit #3 compares the income levels for the assessment area to the Iowa City MSA and State of Iowa based on the 2000 U.S. Bureau of Census data. In contrast to the 2000 data, the 2007 HUD-adjusted median family income for the assessment area is \$68,200, the Iowa City MSA \$63,600 and the State of Iowa \$58,100.



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.

Exhibit #3						
Distribution of Families by Income Level						
Location	Median Family Income	Percent of Families				
		Low	Moderate	Middle	Upper	Below Poverty Level
Assessment Area	\$60,112	16.8	17.3	22.7	43.2	5.2
Iowa City MSA	56,018	17.6	19.3	24.1	39.0	5.2
State of Iowa	48,005	16.9	19.5	25.7	37.9	6.0

### Housing Characteristics and Affordability

Housing characteristics and affordability for the assessment area and the Iowa City MSA are very comparable. Exhibit #4 compares the housing characteristics and affordability of the assessment area to the Iowa City MSA and the State of Iowa.

Exhibit #4							
Housing Characteristics							
Location	Total Housing Units	Owner-Occupied Units (%)	Rental Units (%)	Vacant Units (%)	Median Age of Housing Stock	Median Housing Value	Affordability Ratio
Assessment Area	45,831	54.5	41.7	3.8	25	\$123,700	.32
Iowa City MSA	54,374	57.1	38.8	4.1	28	115,770	.34
State of Iowa	1,232,511	67.5	25.8	6.8	41	82,100	.48

Based on 2000 Census Data, U.S. Census Bureau

Owner-occupied units in the assessment area are less than that State of Iowa percentage; however, rental units are higher. This can be attributed to the large number of college students living in the assessment area. The University of Iowa Spring 2008 enrollment totaled 28,808.

*Affordability ratios, developed by dividing the median household income by the median household 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, the Iowa City MSA, and for the State of Iowa are .32, .34, and .48, respectively. This indicates that housing is equally affordable in the assessment area and in the Iowa City MSA; however, when compared to the State of Iowa, housing is much more

expensive in these areas with the newer housing stock also a contributing factor to the higher housing costs.

### Labor and Employment

As of January 1, 2008, the largest industry in Johnson County was education attributed largely to the presence of the University of Iowa which remains the county's top employer. As noted in Exhibit #5, Health Services is the second largest industry with the University of Iowa Hospitals and Clinics being the second largest employer in Johnson County.

#### Exhibit #5 – Major Employers in the Assessment Area

Company	Location	Employees	Description
University of Iowa	Johnson	14,777	Education
University of Iowa Hospital and Clinics	Johnson	7,638	Health Services
Heartland Express, Inc.	Johnson	3,029	Transportation
Iowa City Community School District	Johnson	1,400	Education
ACT, Inc.	Johnson	1,200	Education
Mercy Services Iowa City, Inc	Johnson	1,100	Health Services
Systems Unlimited, Inc.	Johnson	750	Health Services
Victor Plastics	Johnson	700	Manufacturing
Centro Inc.	Johnson	657	Manufacturing

Source: RECON and Employer Data

According to Iowa Workforce Development, since 2004, unemployment rates for Johnson County and the Iowa City MSA have been consistently lower than the State of Iowa. Bank management and community representatives contacted during the examination attributed this to the presence of the University of Iowa, University of Iowa Hospital and Clinics, ACT, Inc., and the Coral Ridge Mall. The unemployment rate increased slightly in 2007 in the assessment area, Iowa City MSA, and the State of Iowa; however, the assessment area's unemployment rate once again remained well below the State of Iowa's rate. Management and community representatives attributed the increases to the general state of the economy. Exhibit #6 shows the unemployment rates for the State of Iowa, Johnson County, and the Iowa City MSA during the past four years.



Exhibit #6			
Unemployment Statistics (As of December 31 <sup>st</sup> )			
Year	State of Iowa (%)	Johnson County (%)	Iowa City MSA (%)
2007	3.8	2.8	3.0
2006	3.5	2.5	2.5
2005	4.0	2.9	3.0
2004	4.6	3.6	3.8

Community representatives from the housing sector as well as the economic sector were contacted during the examination to determine the credit needs of the assessment area. Representatives indicated that local financial institutions are actively involved in the community and are adequately meeting the credit needs of the community.



## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

*Performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit (LTD) ratio, the percentage of loans and other lending-related activities located in the bank's assessment area, the record of lending to borrowers of different income levels and farms and businesses of different 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 is not limited to, comparative analyses of the assessment area and the state and the non-metropolitan portions 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 (LTD) Ratio

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

Compared to LTD ratios relative to its national peer group and local competitors, the bank's LTD ratio exceeds the standards for satisfactory performance under this criterion as it exceeds both peer and the majority of its local competitors. Exhibit #7 documents the comparisons of the ratios for seven quarters ending December 31, 2007.

Bank Name, City, 12/07 Assets \$(Millions)	6/06 (%)	9/06 (%)	12/06 (%)	3/07 (%)	6/07 (%)	9/07 (%)	12/07 (%)	Avg.
Corridor State Bank, Coralville, IA \$40.9	127.4	125.3	109.6	103.8	109.7	104.6	110.3	113.0
National Peer Data	90.3	77.3	82.5	85.9	88.2	87.8	93.4	86.5
Hills Bank & Trust Company Hills, IA \$1.6 billion	114.2	116.2	115.8	110.8	115.0	116.4	118.8	115.3
Iowa State Bank & Trust Company Iowa City, IA \$589.9	71.3	75.6	74.3	75.0	73.1	75.5	74.4	74.2
Freedom Security Bank Coralville, IA \$93.8	86.6	88.3	87.4	87.5	85.0	84.2	80.9	85.7
First Trust and Savings Bank, Coralville, IA \$55.2	67.3	72.9	57.3	62.2	63.4	69.5	61.9	64.9
Farmers and Merchants Savings Bank, Iowa City, IA \$118.5	97.2	96.9	89.2	92.9	99.2	102.4	96.1	96.3

### Lending in the Assessment Area

*To assess the extent of lending within the assessment area, commercial, consumer, and residential real estate loans were reviewed. The sample period for each loan product was January 1, 2007 through December 31, 2007. 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, was considered when evaluating the bank's performance.*

Overall, Corridor State Bank's lending within its assessment area meets the standards for satisfactory performance under this criterion. The loan category with the highest number of loans originated inside the assessment area was residential real estate loans at 85.3%. Exhibit #8 below indicates that the majority of residential real estate, commercial, and consumer loans were originated within the bank's assessment area.

Exhibit #8 Distribution of Loans in/out of Assessment Area (AA)			
Loan Type	Number of Loans		
	# in Sample	# in AA	% in AA
Residential Real Estate	116	99	85.3
Commercial	130	95	73.1
Consumer	49	37	75.5
Totals	295	231	78.3

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

*The distribution of loans among borrowers of different income levels was determined by reviewing commercial and residential real estate loans. The sample period for each loan product was January 1, 2007 through December 31, 2007. 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 bank's assessment area, the loan distribution across borrowers of different income levels and small businesses meets the standards for satisfactory performance under this criterion. The distribution of Corridor State Bank's loans reflects satisfactory penetration among borrowers of different income and revenue levels, supported by a review of residential real estate and commercial loans.

#### **Residential Real Estate Loans**

Exhibit #9 show the distribution of the sample of residential real estate loans originated during the year ended December 31, 2007, by income level. The percentage of residential real estate loans to low- and moderate-income borrowers is 32.0%. This figure compares favorably to the percentage of



low- to moderate-income families in the assessment area of 34.1%, reflecting a reasonable distribution of lending to low- and moderate-income borrowers.

**Exhibit #9 – Loan Distribution of Residential Real Estate Loans by Income Level**

Exhibit #9			
Loan Distribution of Residential Real Estate Loans by Income Level			
Income Level	Number of Loans		Percentage of Families in Assessment Area
	Number	Percent	
Low	7	14.0	16.8
Moderate	9	18.0	17.3
Middle	12	24.0	22.7
Upper	22	44.0	43.2
Total	50	100.0	100.0

\* HUD's estimated 2007 median family income for the Iowa City MSA was used to determine the income level of the applicants.

**Commercial Loans**

The distribution of commercial loans reflects a reasonable penetration among small businesses. The distribution of small business loans is based on information from the Consolidated Report of Condition as of June 30, 2007, shown in Exhibit #10. Emphasis is placed on this category of loans because the smaller loan amounts are most beneficial to small business operations and encourage small business and economic development within the assessment area.

Exhibit #10		
Distribution of Small Business Loans		
Original Dollar Amount	Outstanding Number	Outstanding Dollar Amount (000's)
<b>Loans Secured Non-Farm Nonresidential Properties</b>		
Less than or equal to \$100,000	9	307
Greater than \$100,000 through \$250,000	3	149
Greater than \$250,000 through \$1 million	8	3,078
Total	20	3,534
<b>Commercial and Industrial Loans</b>		
Less than or equal to \$100,000	11	487
Greater than \$100,000 through \$250,000	6	581
Greater than \$250,000 through \$1 million	6	2,125
Total	23	3,193
<b>Loans Secured Non-Farm Nonresidential Properties and Commercial and Industrial Loans</b>		
Grand totals	43	6,727

As Exhibit #10 shows, originations in the \$100,000 or less category represent 46.5% of the number and 11.8% of the dollar amount of small business loans. Many of the bank's small business customers are home builders who often request loan amounts in excess of \$100,000 for housing

construction. The commercial portfolio is comprised solely of small business originations in amounts of less than \$1 million.

According to community contacts, area financial institutions are meeting the needs of the business owners in the area.

### **Geographic Distribution of Loans**

*The distribution of lending among geographies of different income levels within the assessment area, particularly those defined as low- and moderate-income, was reviewed. To assess the bank's performance, the following were reviewed: commercial, consumer, and residential real estate loans. The sample period for each loan product was January 1, 2007, through December 31, 2007. Loans for which census tracts were unknown were not included in the analysis. Demographic characteristics of census tracts, such as housing types and income level, were considered in the evaluation.*

The geographic distribution of loans meets the standards for satisfactory performance under this criterion. The assessment area is comprised of one low-income geography, 5 moderate-income geographies, 8 middle-income geographies, and 8 upper-income geographies. An analysis of a sample of the bank's residential real estate, commercial, and consumer loans originated during the sample period indicated that loans are reasonably distributed throughout the assessment area with the exception of the low-income census tract which is discussed in further detail below. The geographic distribution of business loans in the low- and moderate-income census tracts is low when compared to area demographics. The recent opening of the Iowa City branch office is intended so expected to generate better penetration in not only business loans, but in the residential real estate and consumer installment portfolios as well.

The reason for the low distribution of lending in the low-income geography is largely attributed to fewer families, no owner-occupied housing, and a low number of businesses in this census tract. In addition, the University of Iowa Campus comprises a majority of this census tract as does the downtown business district. The main office is not located in close proximity to the low- or moderate-income census tracts which is the main reason why the Iowa City branch was opened in November 2007. This office is located in a moderate-income census tract just north of the aforementioned low income tract.

Exhibit #11 shows that no owner-occupied units are located in the low-income census tract therefore no real estate loans were originated in that tract. Approximately 12.6% of owner-occupied units in the assessment area are located in the five moderate-income geographies with 9 residential real estate loans, or 9.1% of the bank's total real estate loans, originated in these tracts. This represents a reasonable penetration given the bank's de novo status and the fact that it had no branch presence in close proximity to these census tracts until just recently.



Exhibit #11						
Geographic Distribution of Residential Real Estate Loans						
Census Tract	Assessment Area				Bank Loans	
	Census Tracts		Owner-Occupied Units		#	%
	#	%	#	%		
Low	1	4.5	0	0.0	0	0.0
Moderate	5	22.7	3,138	12.6	9	9.1
Middle	8	36.4	11,766	47.1	61	61.6
Upper	8	36.4	10,082	40.3	29	29.3
Total	22	100.0	24,986	100.0	99	100.0

\*\* The percentage of census tracts and owner occupancy is based on 2000 U.S. Bureau of Census data

Exhibit #12 shows approximately 6.7% of the businesses in the assessment area are located in a low-income geography and approximately 19.8% are located in moderate-income geographies. The bank did not originate any of its business loans in the low-income geography and originated only 7.3% of its business loans in moderate-income geographies. This represents a low penetration given the area demographics. The bank's strategy at the time it consummated activities was to market and lend to those commercial businesses surrounding its Coralville office. All of these businesses were located in middle- and upper-income census tracts. Lending in the low- and moderate-income census tracts is expected to improve with the opening of the new branch office. The more established banks in the area, a number of which are headquartered in the downtown business district, have a majority of the business relationships associated with these tracts.

Exhibit #12						
Geographic Distribution of Business Loans						
Census Tract	Assessment Area				Bank Loans	
	Census Tracts		Business		Number	
	#	%	#	%	#	%
Low	1	4.5	284	6.7	0	0.0
Moderate	5	22.7	840	19.8	7	7.4
Middle	8	36.4	1,944	45.8	54	56.8
Upper	8	36.4	1,176	27.7	34	35.8
Total	22	100.0	4,244	100.0	95	100.0

\*\* The percentage of total businesses and farms by tract is based on 2000 U.S. Bureau of Census data

Exhibit #13 shows that the bank did not originate any of its consumer loans in the low-income geography and originated approximately 8.1% of its consumer loans in a couple of the moderate-income geographies. This reflects reasonable penetration when compared to the number of families located in these tracts but there is an opportunity for improvement and the new branch location is expected to assist in gaining new loan customers.

However, the bank is primarily a residential real estate and commercial lender and does not originate a high number of consumer loans. The low penetration in the low- and moderate-income census tracts can be attributed to the fact that these tracts are located close to the University of Iowa. Many of the residents in these tracts are college students and many do not bank in the area.

Exhibit #13						
Geographic Distribution of Consumer Loans						
Census Tract	Assessment Area		Families by Tract Income		Bank Loans	
	Census Tracts		Number		Number	
	#	%	#	%	#	%
Low	1	4.5	52	0.2	0	0.0
Moderate	5	22.7	3,466	14.5	3	8.1
Middle	8	36.4	11,337	47.6	22	59.5
Upper	8	36.4	8,984	37.7	12	32.4
Total	22	100.0	23,839	100.0	37	100.0

\*\* The percentage of census tracts is based on 2000 U.S. Bureau of Census data

### Complaints

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

### Fair Lending

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. A sample of the bank's lending activity was reviewed to determine whether loan policies and lending standards were in compliance with the fair lending laws and regulations, and that these are being consistently applied to all applicants. No evidence of prohibited discriminatory or other illegal credit practices was detected.



### Appendix A

### Assessment Area Map

