

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 Security Trust and Savings Bank, Shenandoah, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 21, 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 assessment of the bank's efforts to meet the credit needs of its community indicates that the bank's performance remains satisfactory. The percentage of lending inside the assessment area is high. The bank's loan-to-deposit ratio is reasonable, given the institution's size and local economic conditions. Both lending to borrowers of different income levels and businesses of different sizes, and geographic distribution of loans are reasonable.

DESCRIPTION OF INSTITUTION

The Security Trust and Savings Bank, with total assets of \$36.8 million as of December 31, 1996, is a subsidiary of Security Bancshares, Inc., a one-bank holding company. The bank's main facility and its branch office are located in Shenandoah, Iowa. The institution is a retail bank offering traditional loan and deposit services. The bank's primary loan products are agricultural and commercial loans, which represent approximately 32% and 21% of the loan portfolio, respectively. Consumer loans account for approximately 12% of the loan portfolio.

The bank's competitors include City National Bank in Shenandoah; First National Bank in Shenandoah (branch of Farragut); First National Bank in Essex, Iowa; Fremont County Savings Bank and United National Bank of Iowa in Sidney, Iowa; and Citizens State Bank and Page County State Bank in Clarinda, Iowa. The bank also receives competition from First Federal Savings Lincoln Bank - Iowa (branch of Council Bluffs) and the Eaton Corporation Employees-Credit Union, both of which are located in Shenandoah.

DESCRIPTION OF ASSESSMENT AREA

The City of Shenandoah, Iowa, located in the southwest corner of the state, is located on the county line between Fremont and Page Counties. It is approximately 10 miles north of the Missouri state line and 25 miles east of the Missouri River. While agricultural production of corn, soybeans, hogs and cattle are the dominant industries in Fremont and Page counties, the area also has a stable industrial base. Major employers located within the area include: Eaton Corporation, employing 750; Pella Corporation, employing 453; Earl May Seed and Nursery LP, employing 225; Shenandoah Memorial Hospital, employing 150; Diamond D Trailer Manufacturing, employing 140; and Walmart, employing approximately 115. According to the U.S. Department of Labor, the December, 1996 unemployment rate for Page County was 5.4%, compared to the state unemployment rate of 3.6%.

The bank's assessment area consists of block numbering areas 9901, 9902, 9903 and 9906 in Page County, and block numbering area 9701 in Fremont County. Block numbering areas 9902 and 9906 are moderate-income areas, while block numbering areas 9903, 9901 and 9701 comprise middle-income geographies. According to 1990 census data, the population of the assessment area is 14,324, and the population of the City of Shenandoah is 5,610. The median family income for the assessment area is \$26,976. Low-income families represent 22.2% of all families in the assessment area, 19.8% are moderate-income, 24.7% are middle-income and 33.4% are upper-income. Minorities represent 1.4% of the assessment area population, and there are no areas in the assessment area with a high concentration of minorities.

The housing stock of the assessment area is 63.9% owner-occupied, with 90% consisting of one-to-four family residences. The median housing age in the assessment area is 47 years, compared to the nonmetro state median housing age of 38 years. According to 1990 census data, the median housing value for the assessment area is \$32,020. Approximately 65% of owner-occupied

housing units in the assessment area are valued at or below \$40,000, while approximately 32% are valued between \$40,000 and \$100,000. In 1995, a project to build homes for low- and moderate income individuals was completed. The project, which was financed by The Security Trust and Savings Bank, resulted in the construction of eight single-family homes.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The institution is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No prohibited discriminatory lending patterns or practices were detected during the examination.

Loan-to-Deposit Ratio

An analysis of Consolidated Reports of Condition since the previous examination revealed the following:

QUARTER ENDING	LOAN-TO-DEPOSIT RATIO
March 31, 1997	68.26%
December 31, 1996	67.81%
September 30, 1996	67.10%
June 30, 1996	65.46%
March 31, 1996	54.43%
December 31, 1995	55.12%
Average	63.03%

The analysis revealed more than a 16% increase in the bank's loan-to-deposit ratio since the previous examination. The December 31, 1996 ratio of 67.81% is reasonable when compared to the loan-to-deposit ratio for the bank's peer group of 66.39%.

The following chart reflects the loan-to-deposit ratios of the bank's competitors, according to the *McFadden American Financial Directory*:

Loan-to-Deposit Ratios of Competitors (Fall 1996)		
Name of Competition	Assets (000s)	L-T-D Ratio
City National Bank, Shenandoah, IA.	\$48,909	42.89%
First National Bank, Shenandoah, IA.	\$16,010	58.59%
First National Bank, Essex, IA.	\$39,044	59.08%
First Federal Lincoln Bank - Iowa (Shenandoah branch of Council Bluffs).	\$141,388*	54.16%
Page County State Bank, Clarinda, IA.	\$45,485	43.35%
Citizens State Bank, Clarinda, IA.	\$74,413	48.36%
United National Bank of Iowa, Sidney, IA.	\$30,658	75.38%
Fremont County Savings Bank, Sidney, IA.	\$18,630	72.46%
Average	\$51,817	56.78%

* Asset size representative of main bank location and all branches

As the preceding chart illustrates, the bank's loan-to-deposit ratio compares favorably to those of its local competitors. Discussions with management, as well as community representatives revealed that the bank is aggressive in its efforts to address the credit needs of the assessment area. Given the bank's size, financial condition, and assessment area credit needs, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

Lending in Assessment Area

In order to determine the bank's lending performance within its assessment area, loan originations from March, 1997 were reviewed. The examination loan sample revealed the following distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE LOCAL ASSESSMENT AREA	PERCENT OF TOTAL
Installment	22	18	82
Single Payment	20	20	100
Real Estate	11	11	100
Commercial/ Agriculture	10	10	100
Overdraft Protection	10	9	90
Loan Sample Total	73	68	93

To further demonstrate the bank's lending performance within its assessment area, records of all consumer installment loans were obtained for the six-month period preceding the examination date. The following chart indicates the results of this analysis:

Installment Loans Originated 10/1/97-3/31/97	Total Number Within Assessment Area	Percent of Loans Made in Assessment Area
420	374	89.05

As the preceding chart indicates, 89.05% of the installment loans originated during the six-month period were made to individuals within the bank's assessment area. Based upon the high percentage of loans within the assessment area, the bank's lending exceeds the standards for satisfactory performance under this criterion.

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

The bank's small business, small farm, consumer and real estate loans were reviewed to determine the bank's performance under this criterion.

Small Businesses and Small Farm Loans

Small business loans are defined as those with original amounts of \$1 million or less. Small farm loans are defined as those with original amounts of \$500,000 or less. Management stated that all commercial and agricultural loans in the portfolio are loans to small businesses and farms. A review of the bank's December 31, 1994, 1995, and 1996 Consolidated Reports of Condition showed the following trends regarding the dollar amount of loans outstanding to businesses and farms:

Loans Outstanding to Small Businesses/Small Farms	1994 (000s)	1995 (000s)	1996 (000s)
Loans Secured by nonfarm nonresidential properties	\$1,373	\$2,696	\$2,645
Loans secured by farmland (including farm residential)	\$621	\$823	\$733
Loans to finance agricultural production	\$5,142	\$6,424	\$6,980
Commercial and industrial loans	\$3,286	\$3,724	\$4,882

As the preceding chart illustrates, the bank's level of lending to farms and businesses has increased from December 31, 1994 to December, 1996, with a sharp increase in all categories from 1994 to 1995.

Consumer Loans

The bank does not consistently collect and record applicant income information for consumer installment and single payment loans. As a result, an analysis was conducted using loan amount as a proxy for borrower income to determine the bank's performance with respect to consumer loan originations. The bank prepared a report detailing all consumer installment loans made for the six-month period from October 1, 1997 to through March 31, 1997. Principal loan amounts of \$1,000 or less were used to analyze the bank's lending activity, because a loan of this size is characteristic of loan requests made by low- and moderate- income borrowers. The results of the review are as follows:

Total # of Loans Sampled 10/1/97-3/31/97	Total # of Loans Under \$1000	Percentage of Loans Under \$1,000
420	99	23.57%

The preceding chart shows that 23.57% of consumer loans sampled are representative of loans requested by low- and moderate-income borrowers, based on loan amount.

Consumer real estate loans for the same six month period were reviewed. Applicant income for real estate loans was reviewed and compared to median family income for the non-metropolitan portion of the state. The results of the review are as follows:

# of Real Estate Loans 10/1/97 - 3/31/97	# of loans with borrower income under median family income	Percent of Total	Median family income

24	13	54.17	\$29,303
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As the preceding chart indicates, the majority of borrowers had incomes that were less than the median family income. The analysis of the bank's lending to borrowers of different income levels and businesses of different sizes indicates that the bank meets the standards for satisfactory performance.

Geographic Distribution of Loans

Block numbering areas 9902 and 9906 are moderate-income areas, while block numbering areas 9903, 9901 and 9701 are middle-income geographies. An analysis of a six- month sample of installment loans (374) made within the bank's assessment area revealed the following loan distribution by block numbering area (BNA):

BNA #	# FROM SAMPLE	INCOME LEVEL OF BNA	PERCENT OF TOTAL
9902	137	Moderate	36.63
9906	26	Moderate	6.95
9901	41	Middle	10.96
9903	143	Middle	38.24
9701	27	Middle	7.22

As the preceding chart indicates, 43.58% of the sampled loans made within the bank's assessment area were in moderate-income geographies. The geographic distribution of loans is reasonable and meets the standards for satisfactory performance.

Response to Complaints

No CRA-related complaints were received since the previous examination.