

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 **Ossian State Bank, Ossian, Iowa**, prepared by the **Federal Reserve Bank of Chicago** as of **July 24, 1998**. 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 **Needs to Improve**.

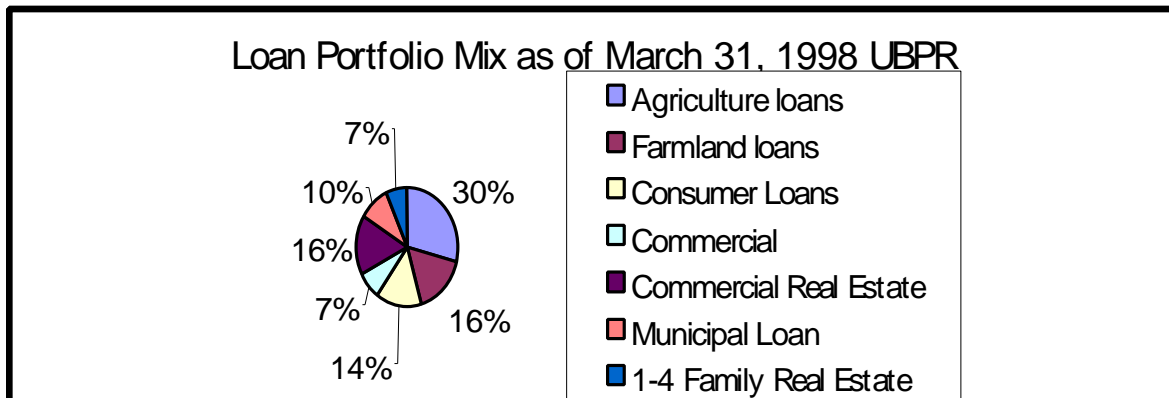
The bank's average net loan-to-deposit ratio is unreasonable when compared to banks in its peer group and local competitor banks based on its size, financial condition, and unmet credit needs in the assessment area. Its credit products and services offered are consistent with local competition, yet total loan volume is substantially below the peer group average area. The bank offers agricultural, consumer, 1-4 family residential real estate and commercial loans. These products are consistent with the credit needs of the assessment area; however, the bank is not proactive in seeking opportunities to meet area credit needs. In addition, the bank's credit products and underwriting standards lack the flexibility to meet local credit needs. According to area representatives, state and federal loan programs are available to supplement basic loan products without additional credit risk, but the bank does not offer them. The bank's record of lending within the assessment area is outstanding since a substantial majority of lending within the assessment area was evident. However, this analysis was based on current loan volume, which was determined to be insufficient to meet the credit needs of the area. An analysis by applicant income revealed that lending to low- and moderate-income individuals, as a percentage of total lending, exceeded area demographics; yet there was an unusually high concentration of lending to high net-worth individuals. The analysis demonstrated that high net worth customers are being served. While low-income individuals with high net worth may be included, the credit needs of low-income, low net-worth individuals were not being adequately served. The results of contacts with community representatives revealed that unmet credit needs include loans to emerging farmers, small business entrepreneurs, and first-time homebuyers. An analysis of the geographic distribution of loans was not conducted or considered in this evaluation due to the homogeneous nature of the assessment area. There were no CRA-related complaints received by the bank for the scope of this examination.

DESCRIPTION OF INSTITUTION

Ossian State Bank, a subsidiary of Figge Bancshares, Inc., which is a subsidiary of Rigler Investment Company, New Hampton, Iowa, became a member of the Federal Reserve System on December 5, 1996. As of June 30, 1998, its total assets equaled

\$20.5 Million. The bank is located in the town of Ossian, in Winneshiek County, 25 miles south of the Iowa-Minnesota State line, in Northeast Iowa. Services include a variety of deposit products, as well as agriculture, consumer, and commercial loans. The bank is predominately an agricultural lender. According to the March 31, 1998 Uniform Bank Performance Report (UBPR), the composition of the loan portfolio was as shown in Exhibit 1.

Exhibit 1



The bank's primary local competitors include Citizen's Savings Bank, Spillville, along with its branch in Fort Atkinson; Farmers & Merchants Bank in Waukon; Luana Savings Bank, Luana, along with its Loan Production Office in Ossian; and Postville State Bank located in Postville. These banks are substantially similar to Ossian State Bank in asset size and type of loan products. In nearby Decorah, competition for loans and deposits include Community First National Bank, Security Bank & Trust Co., and Viking State Bank & Trust.

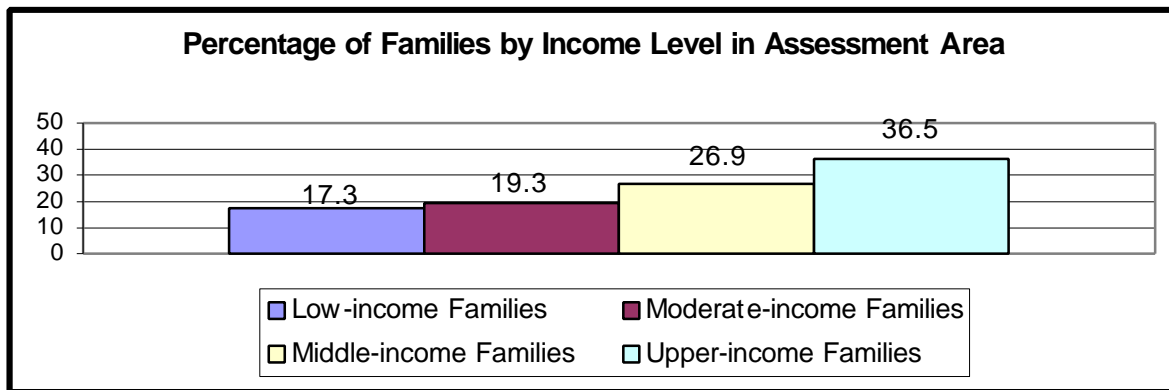
DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area is Winneshiek County, in Northeastern Iowa. The assessment area is defined as five geographies, or Block Numbering Areas (BNAs) 9501 to 9505. All of the geographies are classified as middle-income. According to the 1990 U.S. Census data, the total population of the assessment area is 20,847. The racial makeup of the population in the assessment area is as follows: Whites 98.7%, Asian 1.0%, Blacks 0.1%, and Hispanic 0.2%. Approximately 25% of the population is 17 years of age or younger and 15.4% is 65 years or older. The assessment area has 7,726 total housing units: 66.7% are owner-occupied and 27.2% are rental units, substantially similar to the averages for all of nonmetropolitan Iowa on a percentage basis. The median housing value in the assessment area is \$50,911 compared to \$38,521 for nonmetropolitan Iowa. The median gross rent for the area is \$276 compared to \$292 for nonmetropolitan Iowa and \$336 for the entire state. This data indicates that, while the percentage of owner-occupied units and rentals in the assessment area are similar to all of rural Iowa, housing costs and values are significantly higher. Housing values, used in conjunction with household income, can provide insight into the economies of an area. To illustrate, an affordability ratio developed by dividing the median household income by the median household value for a given area or group of geographies is helpful in comparing housing costs for different

areas. An area with a higher ratio generally has more affordable housing than an area with a lower ratio. According to the 1990 U.S. Census data, the affordability ratio for the assessment area was .4%, in comparison to .63% for nonmetropolitan Iowa. This was also well below the average of .5% for the entire state of Iowa. This suggests that housing costs in the assessment area are significantly higher than state averages, yet rents are lower. Based on this data, the population in the assessment area is stable, and housing is considered expensive in comparison to rural Iowa. According to the results of contacts with representatives of farm and community development interests in the assessment area, the credit needs of the entire community are not being met. Community representatives stated that the credit needs of emerging farmers, first-time homebuyers, the elderly, small business entrepreneurs, and low-income individuals are not being met. Contacts suggested that government sponsored programs such as loans guaranteed by the Small Business Administration (SBA), Linked Investments for Tomorrow (LIFT) and other lending programs designed to meet these needs should be made available through local institutions. Yet such programs that afford flexibility in lending criteria are not available at the subject bank.

The median family income for the assessment area is \$28,880, \$29,303 for nonmetropolitan Iowa, and \$31,659 for the entire state of Iowa. The distribution of total families in the assessment area by income level is shown in Exhibit 2.

Exhibit 2



The distribution shown in Exhibit 2 is substantially similar to nonmetropolitan Iowa on a percentage basis. The median family income levels for nonmetropolitan Iowa, were 17.5%, 19.2%, 25.8% and 37.5%, respectively.

The local economy is largely dependent upon agriculture and related industry for economic prosperity. The production of dairy products, feeder cattle, hogs, corn, soybeans, and alfalfa are evident in the assessment area. Elderly or retired farmers rely on cash rent as a principal source of income, enabling emerging farmers to rent tillable soil and produce crops. The major non-farm employers in the area include the following:

In Ossian: Reilly Construction, Inc.; Postville: Iowa Turkey Products, Inc., Agri Processors, Inc.; West Union: Excel, Inc.; Calmar: Northeast Iowa Community College, Calmar Manufacturing Co. and Calmar Foods; Decorah: Camcar Textron, Inc., DeCo Products, Rockwell Collins and Gemini, Inc.

According to the Iowa Department of Employment Services, Winneshiek County had an unemployment rate of 2.9% as of June 1998, and 3.0%, one-year ago. The State of Iowa reported a slightly better unemployment ratio of 2.5%, and 3.3%, respectively, for the same corresponding periods. However, representatives of the community stated that the low unemployment has caused missed opportunities to attract new companies due to a lack of available employees.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

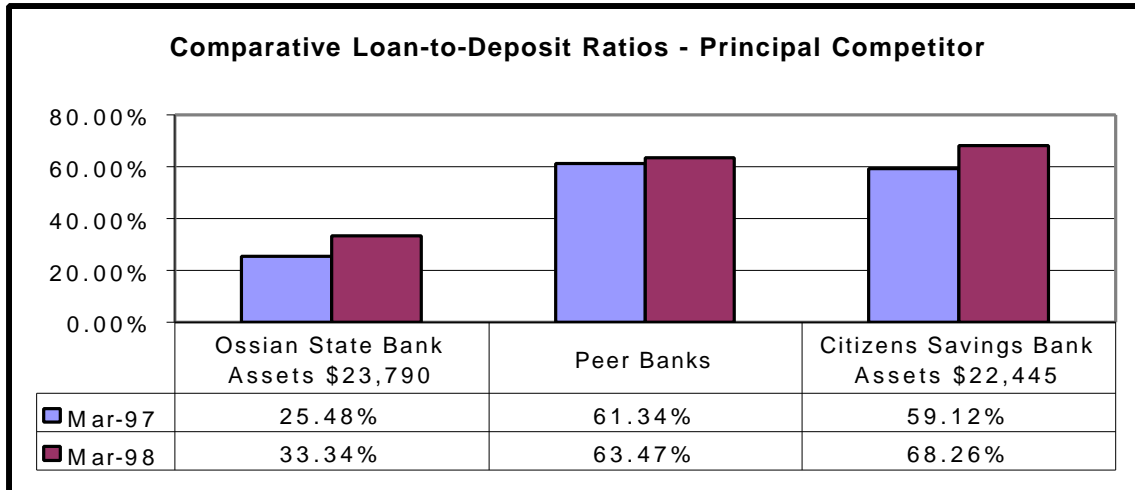
FAIR LENDING

Ossian State Bank was examined concurrently for compliance with fair lending laws and regulations. A sample of loan transactions was reviewed to determine whether loan policies and lending underwriting standards and practices were in compliance and administered on a fair and equitable basis. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

LOAN-TO-DEPOSIT RATIO

The content of the loan portfolio was reviewed to assess volume, mix, and the bank's performance in comparison to its peer group and local competitors. The Consolidated Reports of Condition for the quarters ending December 31, 1996 through March 31, 1998 were used to average the bank's loan-to-deposit ratios in comparison to peer and local competitors. Exhibit 3 shows comparative ratios between Ossian State Bank and its principal competitor, Citizens Savings Bank, Spillville, Iowa.

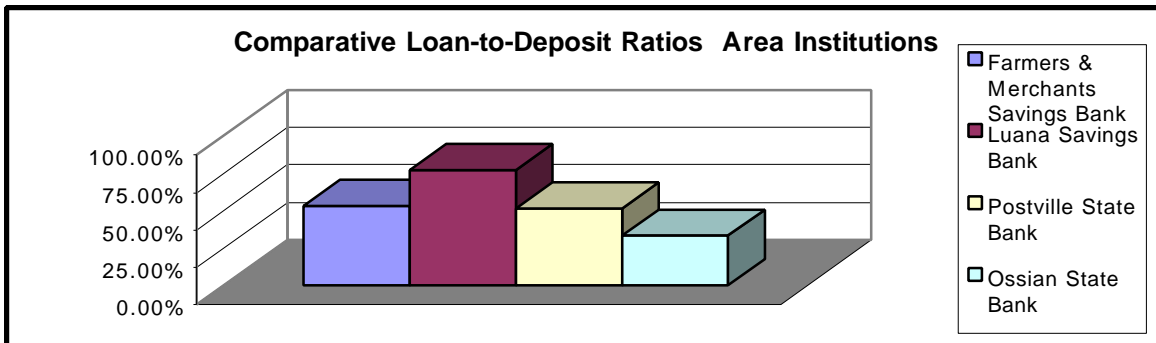
Exhibit 3



Ossian State Bank’s loan-to-deposit ratio is well below the peer group average, and the ratio reported by Citizens Savings Bank. Although, Citizens Savings Bank is an active agricultural lender with 33% of the portfolio in agricultural loans, 40% of the loan portfolio consists of 1-4 family residential loans as of March 31, 1998, in comparison to 6.5% for Ossian State Bank.

Exhibit 4 represents the loan-to-deposit ratios of three other area banks based on the most recently available public evaluation:

Exhibit 4



The three area financial institutions shown in Exhibit 4 are primarily agricultural lenders located in Northeastern Iowa that offer similar loan products and have loan portfolios commensurate with Ossian State Bank. The loan-to-deposit ratios of the three comparable institutions exceed that of Ossian State Bank at each time period. The **Farmers & Merchants Savings Bank of Waukon** received an evaluation of **Satisfactory** with a loan-to-deposit ratio of 53.26%. The loan portfolio included 43% agricultural loans, 17% commercial loans, 23% 1-4 residential real estate, and 17% consumer loans. The **Luana Savings Bank** received an evaluation of **Outstanding** with a loan-to-deposit ratio of 77.06%. The loan portfolio included 56% agricultural loans, 17% 1-4 residential real estate, 14% commercial loans, 9% consumer loans, and 1% construction loans. The **Postville State Bank** received an evaluation of **Satisfactory** with a loan-to-deposit ratio of 51.42%. The loan portfolio included 52% agricultural loans, 13% commercial loans, 20% 1-4 residential real estate, and 14% consumer loans.

Exhibit 5 shows three financial institutions located within the assessment area in Decorah, Iowa. Community First National and Security Bank and Trust Co., each have substantially more assets than Ossian State Bank and offer a wider variety of loan products. Viking State Bank & Trust is slightly smaller in total assets than Ossian State Bank.

Exhibit 5

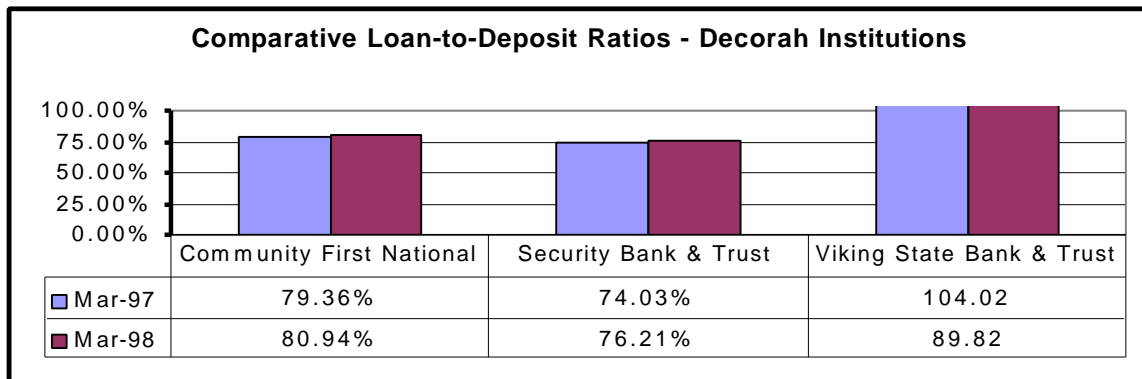
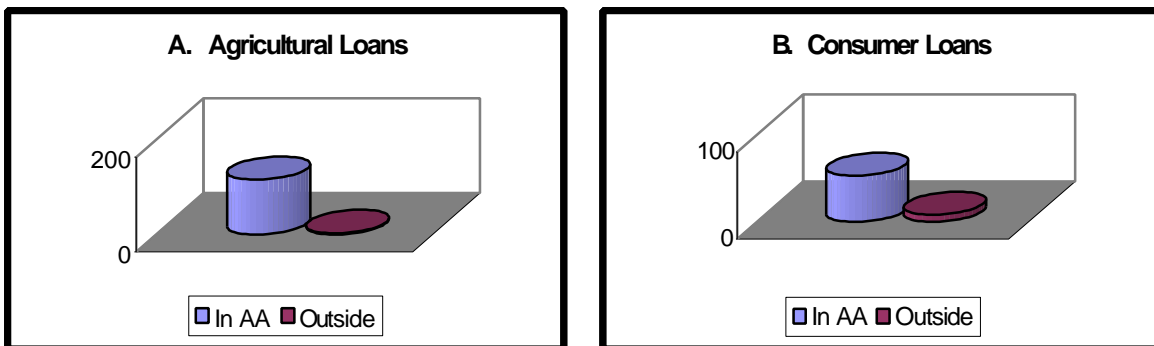


Exhibit 5 demonstrates that institutions in Decorah also have loan-to-deposit ratios that are significantly higher than Ossian State Bank. Overall, the loan-to-deposit ratio for Ossian State Bank is well below the peer group average and all area banking institutions. This indicates that management has not been proactive in meeting area credit needs. In view of these comparisons and discussions with local representatives, the bank does not meet the standard for satisfactory performance.

LENDING IN THE ASSESSMENT AREA

A sample of 176 loans, or all loans originated from December 16, 1997 through August 7, 1998, was used to determine the extent of lending within the assessment area. The sample included 117 agricultural and 61 consumer loans. The analysis revealed lending levels within the assessment area as shown in Exhibit 6.

Exhibit 6



As Exhibit 6 illustrates, 98.3% of agricultural loans and 86.9% of consumer loans, were made to borrowers within the assessment area. Several discussions were held with

community representatives of local agricultural, real estate and community development interests. Representative's indicated that credit needs in the community are not being adequately served. Contacts reported that customers frequently must go outside the community to seek credit. While loan volume is insufficient to meet the area's credit needs, the overall level of lending within the assessment area exceeds the standard for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

A total of 199 loans, or all consumer and agricultural loans originated from December 16, 1997 through August 7, 1998, were reviewed to determine the bank's loan distribution among borrowers of different income levels. The bank does not retain applicant income information as a part of loan documentation; therefore, a proxy based on loan amount was developed using the U.S. Census data median family income to analyze the distribution of consumer loans. Seventy-three consumer loans totalling \$295,621, and 126 agricultural loans totaling \$1,050,279, were included in the analysis. The results are shown in the following Exhibits:

Exhibit 7

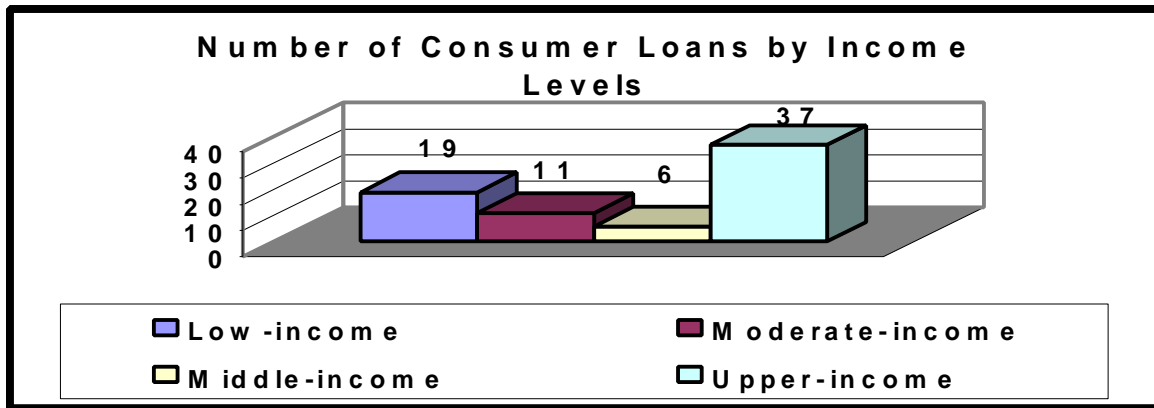
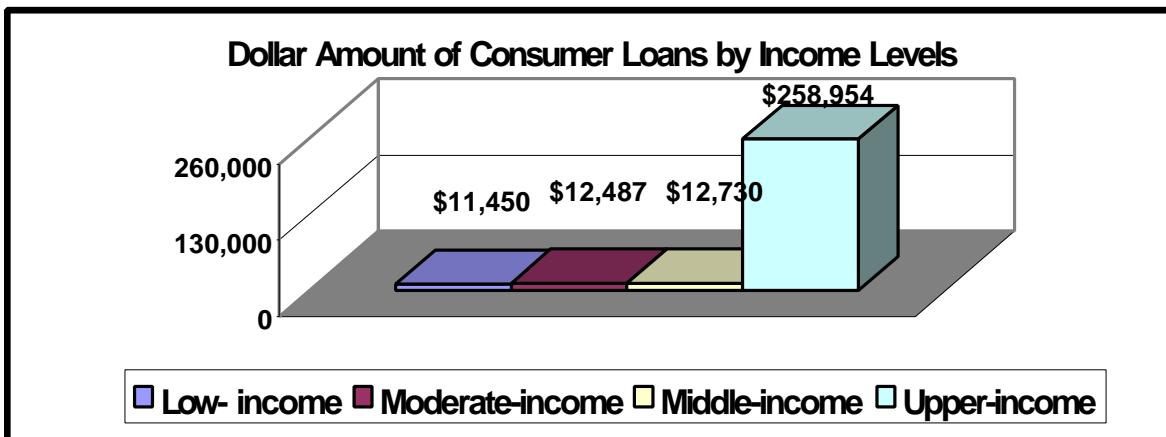


Exhibit 8



As Exhibits 7 and 8 illustrate, the majority of lending by number of loans and by dollar amount, was to upper-income people. In discussions with management, it was determined that these results likely demonstrate that lending encompasses a base of well-established customers with high net-worth, while customers in the low moderate and middle-income levels constitute a smaller portion of the customer base. Management indicated that the bank's underwriting standards are primarily based on net-worth or collateral. The demographics of the assessment area reveal that income levels in the assessment area are below the averages for nonmetropolitan Iowa. The bank's response to credit demand appears to be largely based on net worth. For example, consumers who demonstrated the highest net worth receive the majority of the number and dollar amount of loans. Based on this analysis, the bank may not be serving low-income applicants who do not demonstrate a high net worth. Contributing to this inequity is the bank's lack of flexible loan products. The bank does not utilize state and federal loan programs designed to meet these needs without incurring additional risk.

A review of the 126 agricultural loans showed an average loan amount of approximately \$8,300 and loans were below \$100,000. Further, the June 30, 1998, Consolidated Report of Income showed that the loan portfolio contained 10 loans secured by farmland, and 260 loans to finance agricultural production or other loans to farmers. Substantially all of the loans were for amounts less than \$100,000. This demonstrates a willingness to meet the needs of small farms in the assessment area. The results of this analysis showed a reasonable distribution of lending among individuals of different income levels, although the basis for evaluation is insufficient loan volume to meet area credit needs. Overall, the bank's distribution of loans meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of the distribution of loans across geographies was not considered beneficial to the evaluation as the assessment area for Ossian State Bank does not include any low- or moderate-income geographies.

RESPONSE TO SUBSTANTIATED COMPLAINTS

No complaints were received by the institution regarding its CRA performance since becoming a member of the Federal Reserve System on December 5, 1996.