

PERFORMANCE EVALUATION

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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 **Security State Bank, Lake Park, Iowa**, prepared by the **Federal Reserve Bank of Chicago** as of **October 2, 2000**. The agency rates the CRA performance of an institution consistent with the provisions set forth in 12 CFR 228, Appendix A.

INSTITUTION'S RATING: This institution is rated **Satisfactory**.

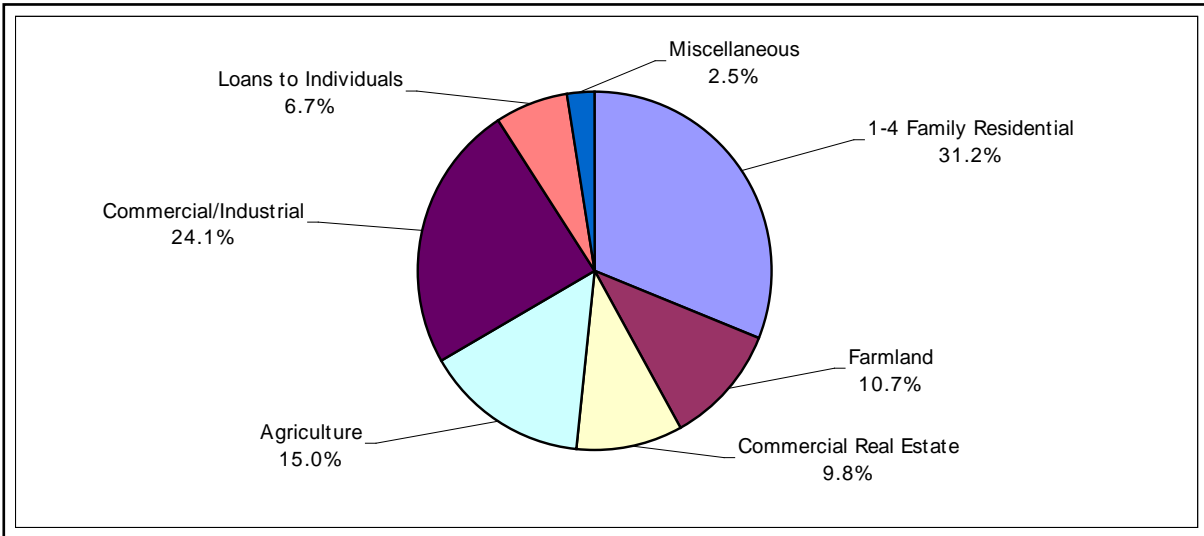
Security State Bank is meeting the credit needs of its community. The loan-to-deposit (LTD) ratio is reasonable. The majority of loans were originated within the assessment area. Lending activity is adequately distributed among individuals of different incomes and businesses and farms of different sizes. Lending activity is also reasonably distributed throughout the assessment area. Neither this Reserve Bank nor the bank has received any CRA related complaints since the bank became a member of the Federal Reserve System.

DESCRIPTION OF INSTITUTION

Security State Bank, Lake Park, Iowa, became a member of the Federal Reserve System on December 28, 1999. The bank is one of four banks under Commercial Financial Corporation located in Storm Lake, Iowa. Security State Bank operates its main office in Lake Park, Iowa, and a branch in Spirit Lake, Iowa. Both communities are located approximately 220 miles northwest of Des Moines, Iowa. The bank offers traditional deposit and loan products, and participates in a variety of home purchase assistance and government subsidized loan programs.

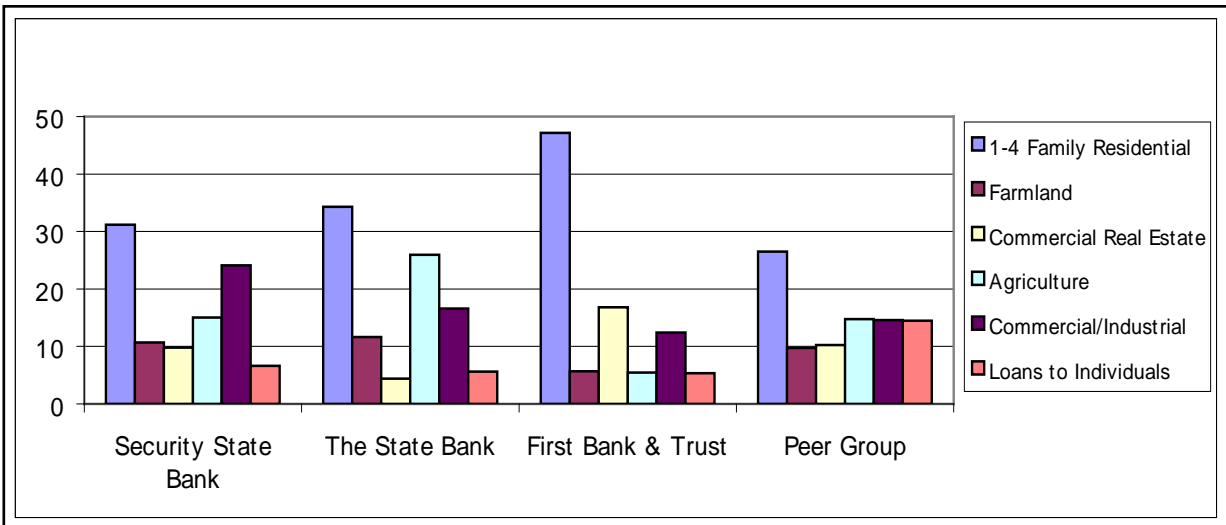
The bank reported assets of \$41.6 million in its June 30, 2000 Consolidated Report of Condition and Income. The distribution of the bank loan portfolio as of that date is illustrated in Exhibit 1 on the next page. As shown, commercial/industrial and 1-4 family residential real estate loans are the two dominant products in the bank's loan portfolio.

Exhibit 1 – Distribution of Loan Portfolio as of June 30, 2000



Competition within the area is strong. Primary market competitors for the bank are The State Bank and First Bank & Trust in Spirit Lake, Iowa. The bank's peer group consists of institutions having assets between \$25 million and \$50 million with two or more banking offices located in a non-metropolitan area. A comparison of the bank's loan portfolio to that of its market competitors and peer group is reflected in Exhibit 2.

Exhibit 2 – Portfolio Comparison as of June 30, 2000



No apparent factors relating to the bank's financial condition, products offered, prior performance, legal circumstances, or local economy affect this bank's ability to meet the credit needs of its assessment area.

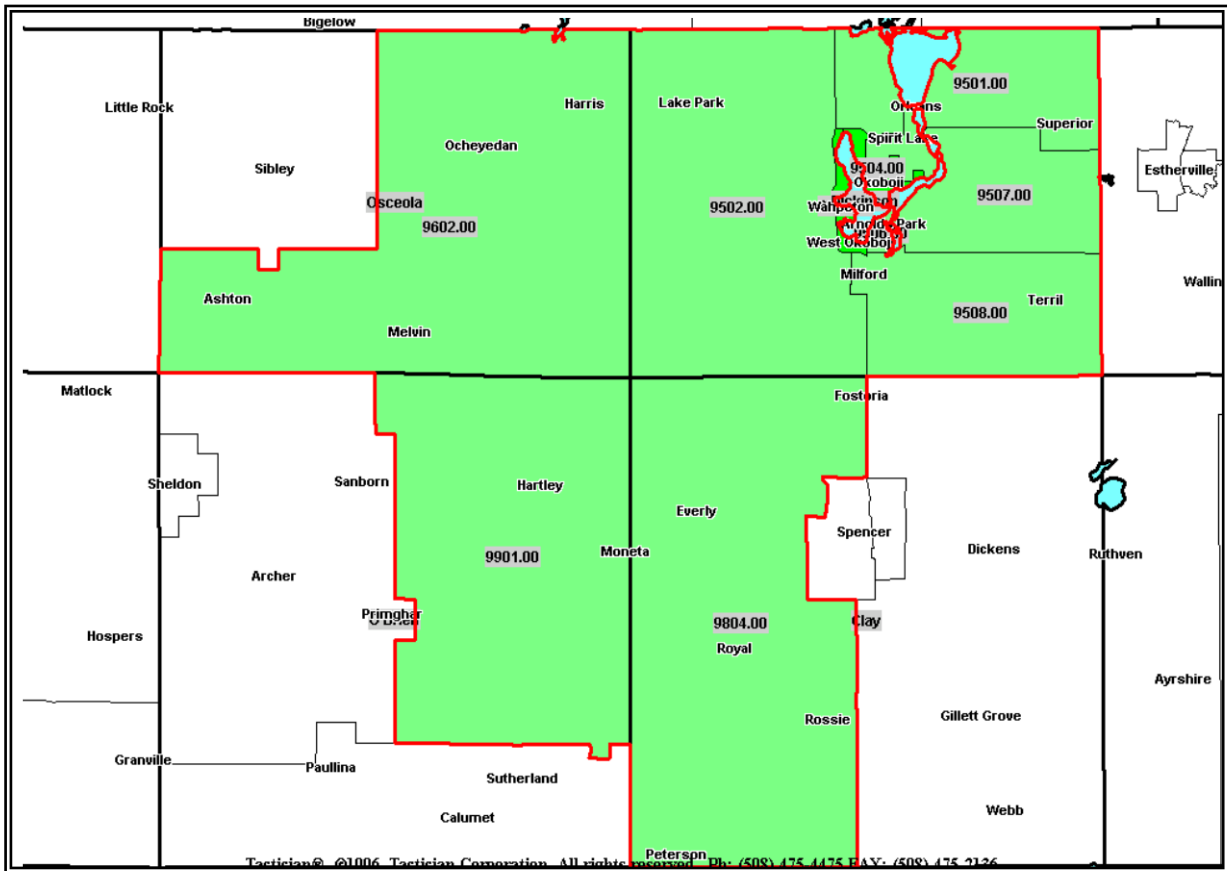
DESCRIPTION OF ASSESSMENT AREA

DEFINITION AND COMPONENTS

An institution's assessment area will include the towns, counties, or other political subdivisions where its branches are located and a substantial portion of its loans are made. Assessment areas must consist of one or more geographies defined by block numbering areas (BNAs) or census tracts, which are statistical subdivisions of a county. Census tracts are primarily used in metropolitan areas, while BNAs are used in non-metropolitan areas.

Security State Bank has defined its assessment area as BNAs 9501 – 9508, which consists of Dickinson County, Iowa; BNA 9602, which is a portion of Osceola County, Iowa; BNA 9804, which is a portion of Clay County, Iowa; and BNA 9901 in O'Brien County, Iowa. The assessment area is comprised of nine middle-income and two upper-income geographies. There are no low- and moderate-income geographies within the assessment area. Exhibit 3 illustrates the assessment area.

Exhibit 3 – Assessment Area



POPULATION

The assessment area population is 25,154, based on 1990 U.S. Bureau of Census data. All of Dickinson County is represented in the assessment area with a population of 14,909. BNA 9602 in Osceola County has a population of approximately 3,513. A population of 3,549 represents BNA 9804 in Clay County, and BNA 9901 in O'Brien County has a population of 3,183.

INCOME

Low-income is defined as less than 50 percent of the area median income; moderate-income as at least 50 percent and less than 80 percent of the area median income; middle-income as at least 80 percent and less than 120 percent of the area median income; and upper-income as 120 percent or more of the area median income.

According to 1990 U.S. Bureau of Census data, the median family income for the assessment area is \$29,456. This is slightly greater than the median for non-metropolitan Iowa of \$29,303, but below the State of Iowa median of \$31,659. Dickinson County has the highest median family income within the assessment area of \$30,659. Low- and moderate-income families represent approximately 35.3% of the assessment area population. This is slightly lower than the distribution within both non-metropolitan Iowa and the State of Iowa, each at 36.7%. The percentage of families with income below the poverty level in the assessment area is 6.8% compared to the non-metropolitan Iowa percentage of 8.8%. The income distribution in the assessment area, based on 1990 U.S. Bureau of Census data, is depicted in Exhibit 4.

Exhibit 4 – Distribution of Families by Income Level

Area	Median Family Income	Low-Income Families	Moderate-Income Families	Middle-Income Families	Upper-Income Families	Families Below Poverty Level
Assessment Area	\$29,456	15.3%	20.0%	27.9%	36.8%	6.8%
Dickinson County	30,659	14.3	19.1	26.9	39.7	5.9
Osceola County	28,614	19.0	19.1	26.0	35.9	7.1
Clay County	30,346	16.3	17.4	27.5	38.8	7.4
O'Brien County	28,525	15.8	22.2	27.0	35.0	8.1
Non-metro Iowa	29,303	17.5	19.2	25.8	37.5	8.8
State of Iowa	31,659	17.8	18.9	25.8	37.5	8.4

Estimated 2000 HUD median incomes for the assessment area are Dickinson County at \$47,397; Osceola County at \$41,282; Clay County at \$45,495; and O'Brien County at \$41,522.

HOUSING CHARACTERISTICS AND AFFORDABILITY

Housing data for the assessment area reflect the resort and seasonal nature of the Lake Okoboji area. Based on 1990 U.S. Bureau of Census data, the number of households in the assessment area is 10,201 and the number of households that are families is 7,247. In contrast, the number of housing units within the assessment area is 14,106. Of those units, only 54.5% are owner-occupied and 17.6% are rental units. These percentages are somewhat lower than the non-metropolitan Iowa percentages of 66.3% and 25.3%,

respectively. The number of vacant housing within the assessment is considerable at 27.9%. Of the existing housing units in the assessment area, 6.7% are mobile homes. The largest percentage of vacant units and mobile homes are located within Dickinson County. Community contacts indicated that most of the mobile homes are seasonal homes used in the summer months in the Lake Okoboji area.

The median housing value for the assessment area is \$39,895, which is slightly greater than the non-metropolitan Iowa value of \$38,521. *An affordability ratio is calculated by dividing median household income by the median housing value. Generally, the higher the affordability ratio, the more affordable housing is in relation to area income.* Affordability of housing in the assessment area is reasonable, with an affordability ratio of .61; however, housing is less affordable than non-metropolitan Iowa, with a ratio of .63.

Community contacts described the affordability of area housing as adequate, but indicated that housing values and sale prices are rising due to increased tourism. Community contacts also noted that the Low Rent Housing Agency of Spirit Lake, a low-income housing agency, provides rental assistance to very low-income families, elderly, and disabled persons. Currently, 66% of the assisted tenants are elderly or disabled persons with monthly incomes averaging \$167.

The median age of the housing stock for the assessment area is 45 years, which is slightly older than the median age for non-metropolitan Iowa of 40 years. This may be an indicator of a need for home-improvement loans.

LABOR AND EMPLOYMENT

According to Iowa Workforce Development - LMI Bureau, the June 2000 unemployment rates for Dickinson, Osceola, Clay, and O'Brien counties were 1.9%, 1.9%, 2.1%, and 1.6%, respectively. The State of Iowa unemployment rate for the same period was 2.1%. Community contacts have identified consistent growth in the service and trade industry as well as increased tourism in the assessment area as economic factors that contribute to the stated rates above.

Exhibit 5 shows the largest employers in the assessment area, based on information provided by the Northwest Iowa Planning & Development Commission.

Exhibit 5 – Largest Employers in the Assessment Area

Employer	Primary Product/Service	Employment
Pure Fishing, Inc.	Fishing Tackle, Marine and Ind.	600
Polaris Industries	Watercraft, ATV, Victory Motorcycle	500
Spirit Lake Community Schools	Education	270
Dickinson County Memorial Hospital	Healthcare	230
Northern Iowa Diecasting	Aluminum and Zinc Products	100

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

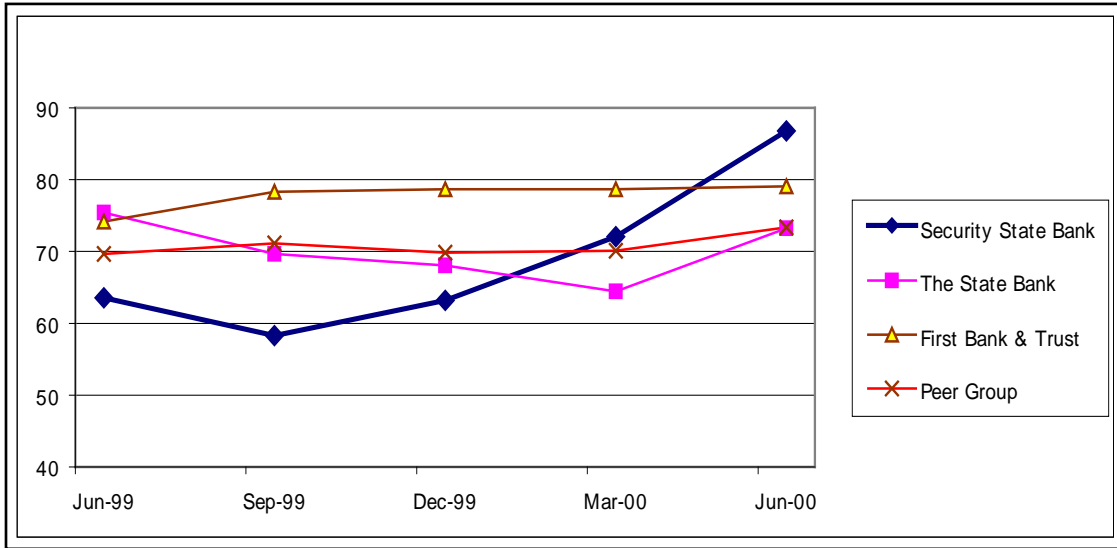
Performance standards for small banks consist of the following, as applicable: the bank's LTD ratio, the percentage of loans and other lending-related activities located in the

bank's assessment area, the record of lending to borrowers of different incomes and businesses and farms of different sizes, the geographic distribution of loans, and the record of taking action in response to written complaints. To determine CRA performance, these standards are analyzed and evaluated within the assessment area context, which includes, but is not limited to, a comparative analysis of assessment area and 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 RATIO

Security State Bank's LTD ratio is considered satisfactory. The bank's LTD ratio for the five quarters ended June 30, 2000 was compared to that of its peer group and two primary market competitors. Exhibit 6, on the next page, illustrates the comparison. For the five quarters reviewed, the average LTD ratio for Security State Bank, The State Bank, First Bank & Trust, and the peer group were 68.8%, 70.2%, 77.8%, and 70.8%, respectively. As illustrated, Security State Bank's LTD ratio steadily increased since September 1999.

Exhibit 6 – Loan to Deposit Ratio Comparison



LENDING IN THE ASSESSMENT AREA

An analysis of the concentration of loans within the assessment area reflects a satisfactory level of performance, as the majority of the bank's lending activity was originated within its assessment area. Of the 275 loans originated between December 28, 1999 and August 31, 2000, 237 or 86.2% were made within the assessment area. The total dollar amount of those loans was \$17.2 million. Of that amount, \$13.2 million or 77.0% was loaned within the assessment area.

The bank's two major loan products, residential real estate and commercial/industrial loans, were also reviewed. Residential real estate data shows that 58 loans for \$4.6 million were originated during the sample period. Of those loans, 47 or 81.0% were made within the assessment area. Of the total dollar amount, \$3.5 million or 76.1% was loaned within the assessment area.

During the same period, the bank originated 25 business loans for \$4.5 million. Of those loans, 15 or 60.0% and \$2.2 million or 48.9% were originated within the assessment area.

Of the combined total of 83 loans constituting \$9.1 million of residential real estate and commercial/industrial loans, 62 loans for \$5.7 million were originated within the assessment area. This reveals that 74.7% of the number of loans and 62.6% of the dollar amount were originated within the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND BUSINESSES AND FARMS OF DIFFERENT SIZES

Security State Bank's record of lending to individuals of different income levels and businesses and farms of different sizes is reasonable and meets the standards for satisfactory performance.

Residential Real Estate Loans

The distribution of the bank's lending activity for residential real estate loans among low- and moderate-income families is reasonable when compared to area demographics.

Forty-seven residential real estate loans originated in the assessment area, for which income information was available, were reviewed. Based on estimated 2000 HUD median family income for the assessment area, 40.4% of bank's residential real estate loans were made to low- and moderate-income borrowers. The number of loans granted to low-income families was four or 8.5%, and the number of loans granted to moderate-income families was 15 or 31.9%.

Based on 1990 U.S. Bureau of Census data, 35.3% of the families within the assessment area are classified as low- and moderate-income.

Business and Farm Loans

The distribution of loans among businesses and farms of different sizes is reasonable. The bank demonstrates willingness to grant loans in small dollar amounts that serve the needs of small business and small farm borrowers.

Loans in amounts of \$100,000 or less are most likely to benefit small businesses and farms. Exhibit 7 shows the number and percentage of business and farm loans with original amounts of \$100,000 or less that were outstanding as of June 30, 2000, based on the Consolidated Report of Condition and Income.

Exhibit 7 – Loans in Amounts of \$100,000 or Less

Business and Farm Loans Outstanding as of June 30, 2000			
Description	Total Number	Original Amounts of \$100,000 or Less	
		Number	Percentage
Loans secured by non-farm, non-residential properties	26	16	61.5
Commercial and industrial loans	52	36	69.2
Loans secured by farmland	29	17	58.6
Loans to finance agricultural production and other loans to farmers	59	47	79.7

Due to the importance of commercial/industrial loans among the bank's loan portfolio, 15 commercial/industrial loans originated within the assessment area were selected for further review. Of these loans, eight or 53.3% were made to businesses with annual revenues of less than \$1 million.

Other Lending Activities

Security State Bank’s participation in a variety of home purchase assistance and government subsidized loan programs enhances the credit available within the assessment area. Examples of participation in these programs since the previous examination are listed below.

- Federal Home Loan Bank First Home Funds: One loan origination for \$36,000 with \$1,000 in grant funds.
- Community Home Buyers Program: One loan origination for \$80,510 with 3% down payment from the consumer.
- Small Business Administration: One loan origination for \$1,000,000.
- Farm Service Agency: One loan origination in the amount of \$700,000.

GEOGRAPHIC DISTRIBUTION OF LOANS

A review of the defined assessment area, which consists of nine middle-income and two upper-income geographies, indicates that low- and moderate-income geographies are not arbitrarily excluded from the assessment area. A review of a sample of 1-4 family residential real estate lending revealed that the bank’s lending activity is reasonably distributed among the geographies in the assessment area, with the majority of the lending done in the geography where the main office is located.

COMPLAINTS

Neither this Reserve Bank nor the bank has received any CRA related complaints since the bank became a member of the Federal Reserve System.

FAIR LENDING

A sample of the bank’s lending activity was reviewed to determine whether loan policies and lending standards were in compliance with fair lending laws and regulations, and implemented on an equitable basis. No evidence of prohibited discriminatory credit practices was detected. The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.