

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

IOWA STATE BANK

RSSD Number: 827542

102 W. Main
Calmar, Iowa 52132

FEDERAL RESERVE BANK
OF CHICAGO

230 South LaSalle
Chicago, Illinois 60604

Note: 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.

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 **Iowa State Bank, Calmar, Iowa**, prepared by the **Federal Reserve Bank of Chicago** as of **December 15, 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 **Satisfactory**.

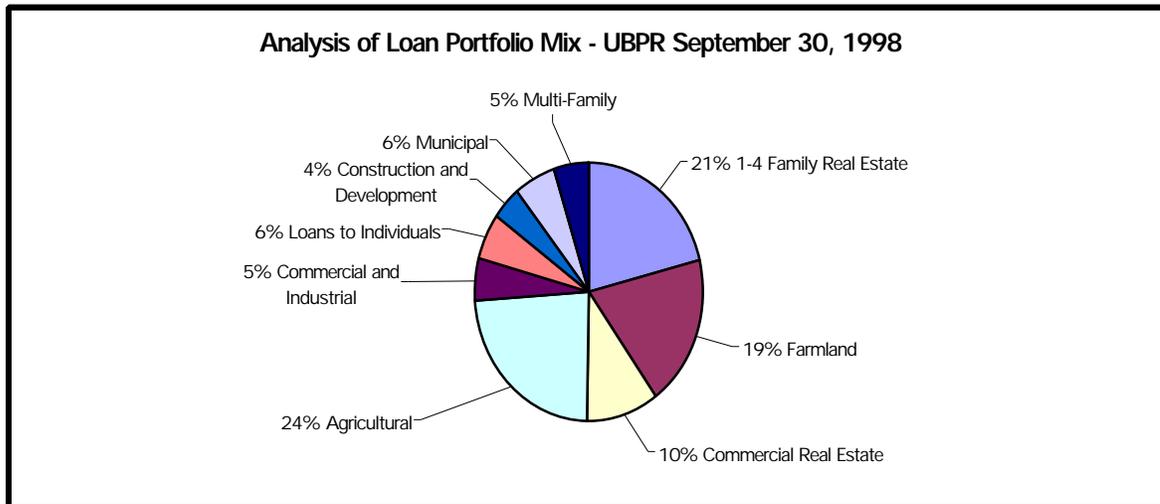
The bank's average net loan-to-deposit ratio is below peer and local competitors and does not meet the standard for satisfactory performance. However, changes in the bank's capital structure and the sale of real estate loans have reduced total loans outstanding and limited the bank's ability to increase the volume of loans in the short term. The bank offers agricultural loans, consumer loans, 1-4 family residential real estate, and commercial loans. These products and services are consistent with identified area credit needs, and lending within the assessment area exceeds the standard for satisfactory performance. An analysis of lending to applicants of different income levels and to farms and businesses of different sizes revealed that lending to low- and moderate-income individuals, as a percentage of total lending, was significantly above the level of low- and moderate-income families according to area demographics. In addition, the sample of agricultural and commercial loans reflected the bank's willingness to extend credit to businesses of different sizes. This performance also exceeded the standard for a satisfactory evaluation. An analysis of the geographic distribution of loans was not conducted, nor considered in this evaluation, as the assessment area does not include low- or moderate-income geographies.

According to discussions with five area representatives of agricultural, real estate, and community development interests in the community, there are unmet credit needs in the assessment area. However, Iowa State Bank was mentioned favorably in meeting area credit needs of Calmar. The contacts stated that the bank is willing to grant small-dollar loans to customers in the area. There were no CRA-related complaints received since the institution became a member of the Federal Reserve System.

DESCRIPTION OF INSTITUTION

Iowa State Bank, a subsidiary of Rigler Investment Company, New Hampton, Iowa, became a member of the Federal Reserve System on December 5, 1996. As of September 30, 1998, its total assets were \$20.2 million. The bank is located in the town of Calmar, 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 agricultural, consumer, and commercial loans. The bank is predominately an agricultural lender. The composition of the loan portfolio, according to the September 30, 1998 Uniform Bank Performance Report (UBPR), is shown in Exhibit 1.

Exhibit 1



The bank's primary local competitors include Citizens Savings Bank, Spillville, with its branch in Fort Atkinson; Farmers & Merchants Bank in Waukon; Luana Savings Bank, Luana, with its Loan Production Office in Ossian; and Postville State Bank, Postville. In nearby Decorah, competition includes 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. Bureau of 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.

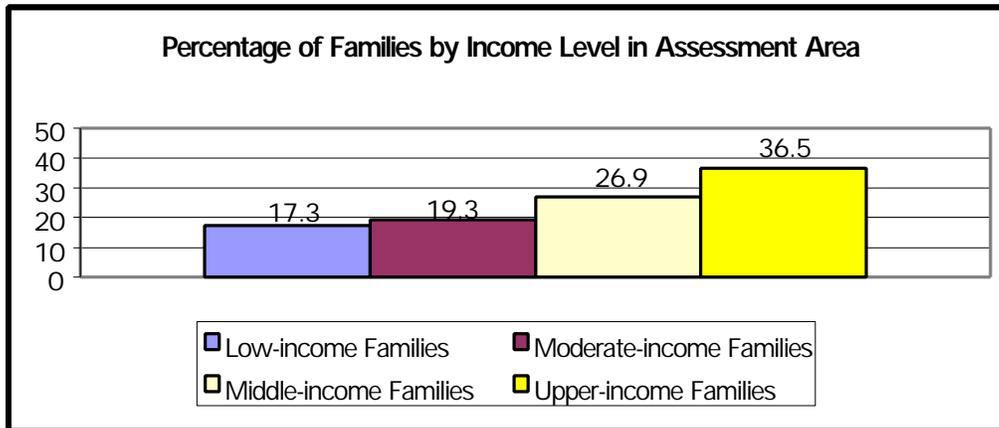
The assessment area has 7,726 total housing units: 66.7% are owner-occupied and 27.2% are rental units, substantially similar on a percentage basis to the averages for all of non-metropolitan Iowa. The median housing value in the assessment area is \$50,911 compared to \$38,521 for non-metropolitan Iowa. The median gross rent for the area is \$276 compared to \$292 for non-metropolitan 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 values are significantly higher. Housing values, used in conjunction with household income, can provide insight into the economies of an area. *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. Bureau of Census data, the affordability ratio for the assessment area was .48, in comparison to .63, the average for all of non-metropolitan Iowa. This suggests that housing costs in the assessment area are significantly higher than state averages, yet rents are lower. We might conclude that the population in the assessment area is stable, and home ownership 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 assessment area, except for the Calmar community, are not being met. Credit needs include loans to emerging farmers, consumers, small businesses, and low-income individuals. In addition, the residential housing needs of first-time homebuyers and the elderly are not being met. However, Iowa State Bank was mentioned favorably as being responsive to requests

for credit. The discussions revealed a need for government-sponsored programs such as Small Business Administration (SBA) loans, Linked Investments for Tomorrow (LIFT) loans, and other loan programs designed to meet specific credit needs. They recommended that local institutions make the programs available.

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

Exhibit 2



The distribution shown in the above chart is substantially similar to non-metropolitan Iowa on a percentage basis. The median family income levels for the low-, moderate-, middle-, and high-income categories in non-metropolitan Iowa were 17.5%, 19.2%, 25.8%, and 37.5%, respectively.

A significant part of the local economy is farm-related. Dairy cows, feeder cattle, hogs, corn, soybeans, and alfalfa are the primary agricultural products in the assessment area. Cash rent farming is a popular method of income for elderly or retired farmers, enabling emerging farmers to rent tillable soil and produce crops. The major non-farm employers in the area include the following:

Calmar: Northeast Iowa Community College, Calmar Manufacturing Co., and Calmar Foods; Ossian: Reilly Construction, Inc.; Postville: Iowa Turkey Products, Inc., and Agri Processors, Inc.; West Union: Excel, Inc.; 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 2.8% as of November 1998 and 2.7% one year ago. These ratios do not reflect the statewide improvement in employment as reported by the State of Iowa for the same corresponding periods (2.4% and 2.7%, respectively). However, representatives of the community stated that unemployment is considered low, and that the assessment area has missed opportunities to attract additional employers due to a lack of available employees. According to bank management, it is only recently that the availability of employees has been somewhat improved.

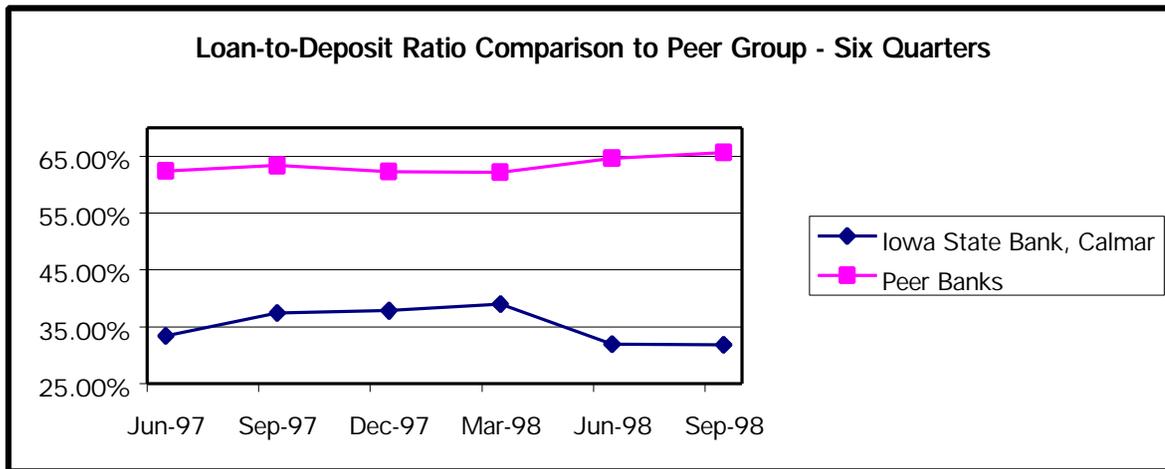
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Iowa 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. The peer group includes all insured commercial banks having assets between \$10 million and \$25 million with one banking office located in a non-metropolitan area. The Consolidated Reports of Condition for the six quarters between June 30, 1997 through September 30, 1998, were used to average the bank’s Loan-to-Deposit (LTD) ratios in comparison to its peer group. Exhibit 3 shows these comparative ratios.

Exhibit 3



As shown in Exhibit 3, Iowa State Bank’s LTD is well below its peer group yet improving, as the most recent ratio of 31.89% exceeds the 23.30% noted at the previous examination. In discussions with management, it was revealed that the LTD ratio was recently impacted by the sale of real estate loans in the secondary market. Also, an increasing trend in the ratio was interrupted between March and June 1998, as capital adjustments were made between affiliate banks of the holding company, Rigler Investment Company, New Hampton, Iowa.

To more accurately assess the LTD ratio in comparison to peer competitor banks, a group of twelve similar banks located throughout rural Iowa was selected for comparison. The selection criteria included only small rural banks that had a total combined operating loans and loans on farmland ratio, or total agricultural loans to total loans, between 40% and 50%. The average ratios for the twelve banks, 27.13% for farm operating loans and 18.40% for loans on farmland, compared favorably to Iowa State Bank, Calmar, which had 23.74% farm operating loans and 19.13% loans on farmland. Comparative LTD ratios are shown in Exhibit 4.

Exhibit 4

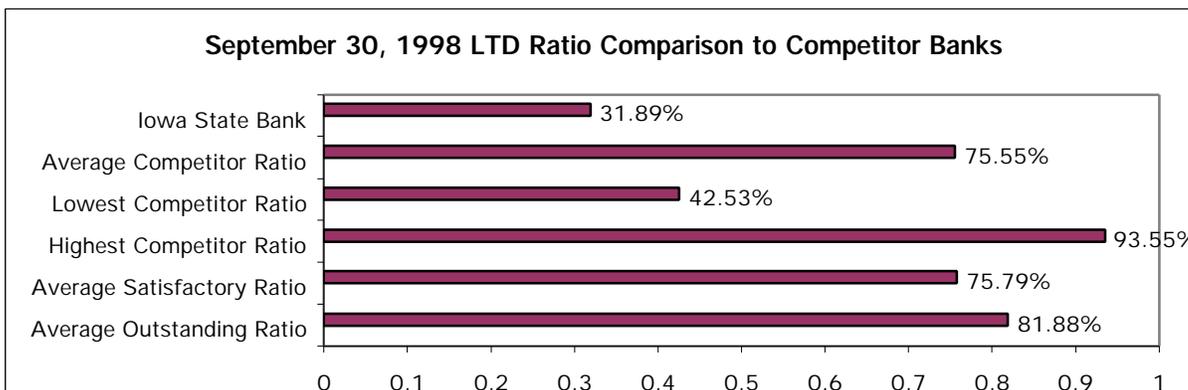


Exhibit 4 shows that Iowa State Bank's LTD ratio is below all of the comparative ratios. The comparative institution with the highest LTD ratio, of 93.55%, received a CRA rating of "outstanding." The comparative institution with the lowest ratio, of 42.53%, received a CRA rating of "needs to improve". Exhibit 4 also shows a reasonable target range for the LTD ratio for institutions rated "satisfactory" and those institutions rated "outstanding". Management needs to determine an LTD suitable for the bank while maintaining safe and sound lending practices. The efforts by management to increase the LTD ratio have been acknowledged.

LENDING IN THE ASSESSMENT AREA

A sample of 227 loans, or all loans originated from November 30, 1997 through November 30, 1998, was used to determine the extent of lending within the assessment area. The sample included 138 agricultural/small business and 89 consumer loans. The analysis revealed lending levels within the assessment area as shown in Exhibits 5 and 6.

Exhibit 5

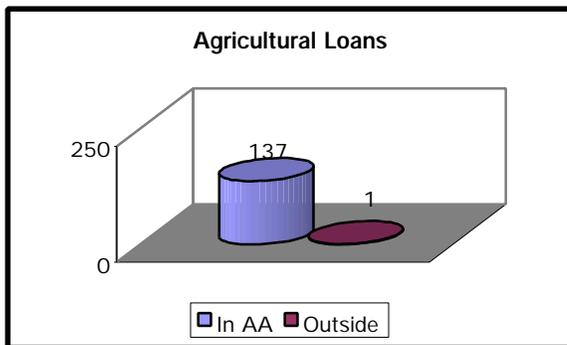
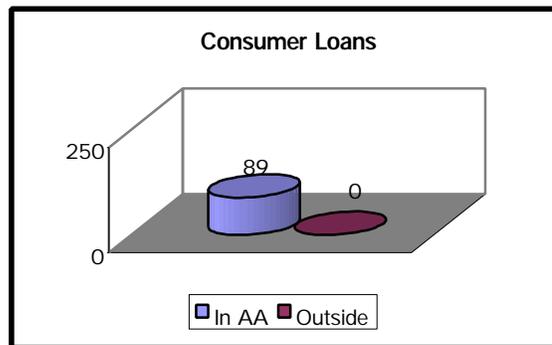


Exhibit 6

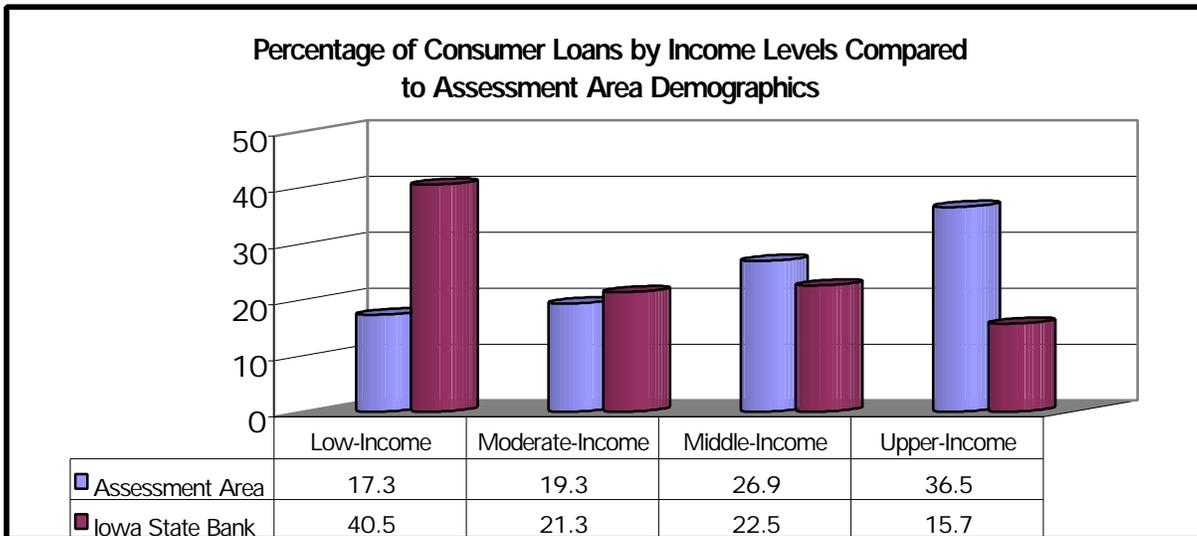


As Exhibits 5 and 6 illustrate, 99.3% of agricultural, and 100.0% of consumer loans sampled, were made to borrowers residing within the assessment area. Although the volume of loans generated by Iowa State Bank is low in comparison to other banks in the area, the sample of agricultural and consumer loans reflects a high concentration of the bank's loans within the defined assessment area. Based on this analysis, the level of lending within the assessment area exceeds the standard for satisfactory performance.

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

A total of 227 loans, or all consumer and agricultural/small business loans originated from November 30, 1997 through November 30, 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. Bureau of Census data median family income to analyze the distribution of consumer loans on an annualized basis. Eighty-nine consumer loans totaling \$283,486 and 137 agricultural loans totaling \$2.3 million were included in the analysis. The results are shown in Exhibit 7.

Exhibit 7



As the preceding chart illustrates, the majority of consumer loan originations, 61.8% went to low- and moderate-income borrowers. This significantly exceeds the 36.6% of low- and moderate-income families in the assessment area.

In discussions with management, it was determined that these results may demonstrate that lending encompasses a base of well-established customers whose incomes range from low- to middle-income where the credit needs are more related to current cash flow, while customers in the upper-income level constitute a smaller portion of the customer base. The demographics of the assessment area reveal that income levels in the assessment area are below the averages for non-metropolitan Iowa. This information suggests that a strong demand for small-dollar loans may exist and that management's response to demand might be commensurate with the integrity, character, and ability to repay associated with long-time bank customers. Management indicated that requests for low-dollar loans are consistent with a predominant low-income wage workforce in the area, and only recent shortages in the workforce have prompted improvement in wages.

Management should investigate additional loan products that offer more flexible, and often subsidized, lending standards. It was noted that management had previously originated a new small business loan through the LIFT program; however there has been no recent volume under this program. LIFT is a State of Iowa sponsored Linked Investments for Tomorrow program for "targeted small businesses." By utilizing available state and Federal loan programs designed to meet specific credit needs without incurring additional risk, additional consumers needs may be met in the assessment area.

A review of 137 agricultural/small business loans showed an average loan amount of approximately \$16,500. All of the loans were below \$100,000 in amount. Further, the June 30, 1998, Consolidated Report of Income showed the loan portfolio contained 17 loans secured by farmland, and 128 loans to finance agricultural production and other loans to farmers. Substantially all of the loans were for amounts less than \$100,000. Additionally, there were 6 small business real estate secured loans, and 21 commercial/industrial loans, all with original amounts below \$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 a volume of lending deemed insufficient to meet area credit needs. Overall, the bank's distribution of loans exceeds the standards for satisfactory performance.