

PUBLIC DISCLOSURE

June 23, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Security State Bank
RSSD #859543

615 South Division Street
Stuart, Iowa 50250

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 is rated **satisfactory**.

Security State Bank is helping to meet the credit needs within its assessment area. The loan-to-deposit ratio is reasonable, while the bank's overall lending within its assessment area meets the standards for satisfactory performance. The level of lending to borrowers of different income levels also meets the standards for satisfactory performance with the geographic distribution of loans throughout the assessment area considered sufficient. There were no CRA-related complaints received by the institution or this Reserve Bank since the previous CRA evaluation.

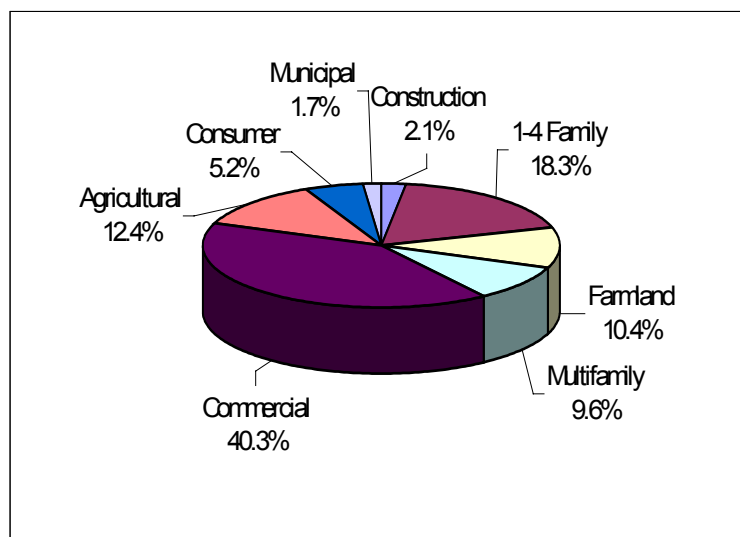
The institution was rated **satisfactory** under the CRA at its previous evaluation conducted on June 21, 1999.

DESCRIPTION OF INSTITUTION

Security State Bank is a subsidiary of First Midwest Financial, a multi-bank holding company located in Storm Lake, Iowa. Security State Bank is located in Stuart, Iowa, which is approximately forty miles west of Des Moines, Iowa. The bank offers a standard loan and deposit product line.

According to the Uniform Bank Performance Report, the bank had \$60.7 million in total assets as of March 31, 2003. Exhibit 1 illustrates the distribution of the bank's loan portfolio as of that date. As shown, the loan portfolio is predominately comprised of agricultural loans, 1-4 family residential real estate, and commercial (including non-farm non-residential real estate) loans.

Exhibit 1 – Composition of Security State Bank’s Loan Portfolio



The bank’s peer group includes all commercial banks having assets between \$50 and \$100 million, with three or more banking offices, and located in a non-metropolitan area. The bank’s local competitors for loans and deposits include First State Bank, Stuart; Guthrie County State Bank, Guthrie Center; and Exchange State Bank, Adair. According to the June 30, 2002 FDIC/OTS Summary of Deposits Market Share Report, Security State Bank had 6.9% of the deposit market share in its market area, ranking sixth out of the twelve financial institutions in the market.

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 the bank from meeting the credit needs of the community.

DESCRIPTION OF ASSESSMENT AREA

An institution’s assessment area(s) will include the towns, counties, or other political subdivisions where its branches are located and a substantial portion of its loans are made. Assessment area(s) 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. 1990 U.S. Bureau of Census data is used in this evaluation, unless stated otherwise.

Security State Bank’s assessment area, shown in Appendix A, is comprised of three middle-income geographies, which comprise part of the northern portion and all of the southern portion of Guthrie County and the northern portion of Adair County. Stuart, with a population of 1,712, is the largest town in the assessment area and the location of the main

office. The bank’s assessment area includes three geographies, BNA 9502 and BNA 9503 in Guthrie County and BNA 9601 located in Adair County, all of which are identified as middle-income geographies according to 1990 U.S. Bureau of Census data. This same data has the total population of the assessment area at 10,173.

Income Characteristics

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 2 compares the income levels for the assessment area to those of Non-Metropolitan Iowa based on 1990 U.S. Bureau of Census data. In contrast to the 1990 data, estimates provided by the Department of Housing and Urban Development (HUD) indicate the 2002 median family incomes for Guthrie Country, Adair County and Non-Metropolitan Iowa are \$44,200, \$47,000 and \$49,400, respectively.

Exhibit 2						
Distribution of Families by Income Level						
Location	Median Family Income(\$)	Percent of Families				
		Low	Moderate	Middle	Upper	Below Poverty Level
Assessment Area	26,600	20.8	20.4	28.7	30.1	10.3
Non-Metro State of Iowa	29,303	17.5	19.1	25.8	37.5	8.8

Housing Characteristics and Affordability

Housing in this assessment area consists of 4,536 units of which approximately 66.4% of the units are owner-occupied and 21.9% are occupied-rental units, compared to 66.3% and 25.3% for Non-Metropolitan Iowa, respectively. The median age of housing stock in the assessment area is 45 years, compared to Non-Metropolitan Iowa is 39 years. The median housing value in the assessment area is \$27,873, which is significantly lower than Non-Metropolitan Iowa at \$38,521.

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 higher ratio generally has more affordable housing than an area with a lower ratio. The affordability ratios for the assessment area and for Non-Metropolitan Iowa are .82 and .63, respectively, indicating that housing is considerably more affordable in the assessment area.

Labor and Employment

The assessment area's economy is largely dependent upon agriculture, education, and the nursing care fields. According to the Iowa Workforce Development, the April 2003 unemployment rate for the State of Iowa increased to 4.1%, from 4.0% a year earlier. The unemployment rate for Guthrie County was at 4.1% for April 2003, up from 3.1% in April 2002. The unemployment rate for Adair County was at 3.5% for April 2003, compared to 3.3% in April 2002. Major employers in the assessment area are listed in Exhibit 3.

Exhibit 3 – Major Employers in the Assessment Area

Exhibit 3		
Major Employers in the Assessment Area		
Company	Location	Description
Rose Acre Farms	Guthrie County	Egg Production
Schildberg Construction Co.	Guthrie County	Construction
New Homestead	Guthrie County	Care Facility
Panora NRC	Guthrie County	Care Facility
Sunny Fresh Foods Inc	Guthrie County	Poultry Wholesale
Cardinal Glass Industries	Adair County	Manufacturing
Schaefer Systems Inc.	Adair County	Manufacturing
Community Care Center	Adair County	Care Facility
Wick Building Systems	Adair County	Construction

Source: Iowa Workforce Development

Community representatives, contacted during the examination to determine the credit needs of the assessment area, 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 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 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 above 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 Ratio

The bank's average loan-to-deposit (LTD) 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.

Based on the bank's LTD ratios relative to its peer group and a sample of competitors, the bank meets the standards for satisfactory performance under this criterion. Exhibit 4 shows the comparison for the eight-quarters ending March 31, 2003. According to community representatives interviewed, the declining ratios are attributed to several factors, including the fact that the area has an aging population that have a lesser needs for loans as well as the fact that many people tend to work in the Des Moines area and seek financing there as well.

Exhibit 4 – LTD Ratios

Exhibit 4									
LTD Ratios									
Bank Name, City, 12/02 Assets \$(Millions)	6/01 (%)	9/01 (%)	12/01 (%)	3/02 (%)	6/02 (%)	9/02 (%)	12/02 (%)	3/03 (%)	Avg.
Security State Bank, Stuart, \$60.7	95.7	93.5	83.4	78.2	79.1	83.0	72.4	68.6	81.7
Peer	73.2	72.4	74.5	73.7	75.8	76.2	74.3	73.6	74.2
First State Bank, Stuart, \$86.0	77.1	75.8	70.6	70.2	69.0	70.9	59.6	58.0	68.9
Guthrie County State Bank, Guthrie Center, \$72.8	85.2	86.6	75.7	72.3	74.1	75.0	69.8	65.5	75.5
Exchange State Bank, Adair, \$35.6	98.3	89.0	82.1	83.7	92.8	100.1	92.3	85.4	90.5

Lending in the Assessment Area

Overall, consumer, commercial, agricultural and residential real estate lending within the bank's assessment area meets the standards for satisfactory performance under this criterion.

The majority of Security State Bank's loans are originated within the assessment area. The distribution of a sample of the bank's primary loan products, originated during the year ended March 31, 2003, is illustrated in Exhibit 5.

Exhibit 5			
Distribution of Loans in/out of Assessment Area (AA)			
Loan Type	Number of Loans		
	# in Sample	# in AA	% in AA

Residential Real Estate	41	33	80.5
Agricultural	42	39	92.9
Commercial	39	34	87.2
Consumer	69	51	73.9
Totals	191	157	82.2

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

The distribution of loans among borrowers of different income levels was determined by reviewing direct installment loans, home equity loans and lines of credit, Home Mortgage Disclosure Act (HMDA) data, and small business loans. The sample period for each loan product consisted of April 1, 2002 to March 31, 2003. 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, were 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 farms and businesses of different sizes meets the standards for satisfactory performance under this criterion.

The distribution of Security State Bank’s loans reflects reasonable penetration among borrowers of different income and revenue levels, as supported by a review of residential real estate and agricultural/commercial loan data.

Residential Real Estate Loans

Exhibit 6 shows the distribution of the sample of 1-4 family residential real estate loans, originated during the year ended March 31, 2002, by income level. As shown, the percent of loans to low- and moderate-income borrowers is 27.3%, which is lower than the 41.2% of low- and moderate-income families in the assessment area.

While the lending to low- and moderate- income families is significantly less than the percentage of families classified as low and moderate income, several community representatives stated the credit needs of this group are being met. Affordable housing in the area is abundant. Many people in the community work the Des Moines area and obtain financing there as well.

Exhibit 6 – Loan Distribution of Residential Real Estate Loans by Income Level

<p>Exhibit 6 Loan Distribution of Residential Real Estate Loans by Income Level</p>
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Income Level	Total Number of Loans	Percent of Total Loans*	Percent of Families in Assessment Area
Low	4	12.1	20.8
Moderate	5	15.2	20.4
Middle	10	30.3	28.7
Upper	14	42.4	30.1
Totals	33	100.0	100.0

* HUD's estimated 2002 median family income was used to determine the income level of the applicants.

Agricultural and Commercial Loans

The distribution of commercial and agricultural loans reflects a satisfactory penetration among small businesses and small farms. The distribution is based on information from the Consolidated Report of Condition as of June 30, 2002, and is shown in Exhibits 7 and 8.

Exhibit #7 Distribution of Small Farm Loans		
Original Dollar Amount	Outstanding Number	Outstanding Dollar Amount (000's)
Loans Secured by Farmland		
Less than or equal to \$100,000	32	1,065
Greater than \$100,000 through \$250,000	9	1,179
Greater than \$250,000 through \$500,000	0	0
Total	41	2,244
Loans to Finance Agricultural Production and Other Loans to Farmers		
Less than or equal to \$100,000	39	772
Greater than \$100,000 through \$250,000	9	1,080
Greater than \$250,000 through \$500,000	0	0
Total	48	1,852
Loans Secured by Farmland and Loans to Finance Agricultural Production and Other Loans to Farmers		
Grand totals	89	4,096

As Exhibit 7 shows, originations in the \$100,000 or less category represent 79.8% of the number and 44.8% of the dollar amount of small farm loans. Small farm loans represent 74.5% of the bank's agricultural loan portfolio.

Exhibit 8 Distribution of Small Business Loans		
Original Dollar Amount	Outstanding Number	Outstanding Dollar Amount (000's)
Loans Secured by Non-Farm Nonresidential Properties		

Less than or equal to \$100,000	16	448
Greater than \$100,000 through \$250,000	0	0
Greater than \$250,000 through \$1 million	11	5,352
Total	27	5,800
Commercial and Industrial Loans		
Less than or equal to \$100,000	25	530
Greater than \$100,000 through \$250,000	3	595
Greater than \$250,000 through \$1 million	3	1,702
Total	31	2,827
Loans Secured by Non-Farm Nonresidential Properties and Commercial and Industrial Loans		
Grand totals	58	8,627

Small business loan originations in the \$100,000 or less category represent 70.7% of the number and 11.3% of the dollar amount of small business loans. In addition, small business loans represent 100% of the bank's commercial and industrial loan portfolio.

According to community representatives, area financial institutions are competing for financing and are meeting the needs of the farmers and business owners in the area.

Geographic Distribution of Loans

Given the demographics of the bank's assessment area, the geographic distribution of loans meets the standards for satisfactory performance under this criterion.

Security State Bank's assessment area is comprised of three middle-income geographies, which comprise part of the northern portion and all of the southern portion of Guthrie County and the northern portion of Adair County.

An analysis of a sample of the bank's residential real estate, agricultural, and commercial loans, originated during the sample period of April 1, 2002 through March 31, 2002, showed that loans are reasonably distributed throughout BNA 9502 and 9503 in Guthrie County and BNA 9601 in Adair county.

Complaints

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

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 banks' 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 credit practices was detected.

Appendix A

Map of Assessment Area for Security State Bank, Stuart, Iowa

