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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 **Iowa State Bank, Wapello, Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **July 24, 1996**. 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**.

Iowa State Bank generally promotes economic revitalization and growth consistent with its size, financial capacity, location, and the current economic conditions of its assessment area. The bank provides this support through origination of real estate, small farm, small business, and consumer loans. The extent of the bank's activities is evidenced by its consistently high loan-to-deposit ratio. The vast majority of the bank's loan originations are within the assessment area. Loans to small farms and small businesses, as well as consumers of all income levels are prevalent. The geographic distribution of loans throughout the assessment area is reasonable. The examination revealed no patterns or practices intended to discriminate or discourage applications from any protected class. There were no CRA-related complaints received by the bank since the previous examination dated August 27, 1993 conducted by the Federal Deposit Insurance Corporation (FDIC), the bank's former regulator.

The following table indicates the performance level of **Iowa State Bank, Wapello, Iowa** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	IOWA STATE BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the previous examination dated August 27, 1993 conducted by the FDIC, the bank's former regulator.		

**DESCRIPTION OF INSTITUTION**

Iowa State Bank, with total assets of \$23.9 million as of June 30, 1996, is a subsidiary of Morning Sun Bank Corporation, Morning Sun, Iowa, a one bank holding company. The Bank serves the assessment area through its main office in Wapello, with branch offices in Morning Sun and Mount Union.

Competition in Wapello is provided by State Bank of Wapello, and a branch of Midwest Federal Savings and Loan Association of Eastern Iowa; in Burlington, Iowa. Additional competition in the assessment area includes: The Farmers National Bank of Winfield, Winfield; Peoples State Bank, Winfield; Hawkeye Bank of Mount Pleasant, Mount Pleasant; Mediapolis Savings Bank, Mediapolis; Columbus Junction State Bank and Peoples Bank of Columbus Junction, Columbus Junction. The bank also competes for consumer and real estate loans with several larger institutions located in Burlington and Muscatine, Iowa.

The bank provides deposit and loan services at all of its branch locations. The bank offers agricultural, residential mortgage, commercial and consumer loan products. In addition to its standard loan products the bank offers government-guaranteed/insured programs through the Farmers Home Administration (FmHA) and Small Business Administration (SBA). Agricultural loans are the largest portion of the bank's loan portfolio. As of June 30, 1996, combined agricultural production and real estate secured loans represented 46% of the bank's total outstanding loans. By comparison residential mortgage loans represented 28% of total outstandings, while combined commercial operating and real estate loans were 18% and consumer loans were 6%. There are no factors relative to the bank's financial condition, size or local economic conditions which prevent the bank from meeting community credit needs.

**DESCRIPTION OF IOWA STATE BANK'S ASSESSMENT AREA**

The bank's main office is located in Wapello, in southeast Iowa. Wapello is the county seat of Louisa County, and is approximately 21 miles south of Muscatine, Iowa and 25 miles north of Burlington Iowa. The bank has defined its assessment area as all of Louisa County and contiguous portions of eastern Henry County and northwestern Des Moines County. This is primarily a rural agricultural area which consists of five block numbering areas (BNAs). The Louisa County portion of the assessment area includes BNAs 9501, 9502 and 9503. The Henry County portion of the assessment area includes BNA 9705, while the Des Moines County portion includes BNA 11. The bank's main office in Wapello and Morning Sun branch are located in BNA 9503, while the Mount Union branch is located in BNA 9705.

Based on 1990 U.S. Census Bureau data, all five of the BNAs in the assessment area are classified as middle-income and nonminority areas. The median family income of the assessment area is \$30,625. Median family incomes for individual BNAs range from \$27,422

in BNA 9502 to \$33,542 in BNA 11. The total population of the assessment area is 19,024. The assessment area's population is 97.1% White, 0.5% Black, 0.3% Asian, 1.9% Hispanic, and 0.2% American Indian.

The median housing value in the assessment area is \$41,059. The median age of the area's housing stock is 26 years with 42.4% of all area housing built prior to 1950. By comparison, the median housing value for the State of Iowa is \$45,519, while median housing age is 41 years with 42.9% of all housing built prior to 1950. Median monthly rent for the assessment area is \$303 compared to \$336 for the state.

As noted above, this is a rural area and the local economy is primarily based on agriculture. Corn and soybeans are the chief grain crops, with hog and cattle production as the main livestock enterprises. Many area residents not employed in agriculture, commute to Muscatine and Burlington for employment at companies such as Monsanto, Hon Industries, Case/International Harvester or General Electric.

The State of Iowa Department of Employment Services indicated that the state unemployment rate for nonagricultural employment was 3.1% in June of 1996, compared to 3.5% in June of 1995 and 3.6% in June of 1994. By comparison, the unemployment rates for Louisa County were 3.4% in 1996, 4.0% in 1995 and 4.3% in 1994. The unemployment rates for Henry County were 2.4% in 1996, 3.3% in 1995 and 3.2% in 1994. The unemployment rates for Des Moines County were 4.2% in 1996, 6.5% in 1995 and 4.6% in 1994.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank was examined for compliance with fair lending laws and regulations. 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 and Fair Housing Acts.

### **Loan-To-Deposit Ratio Analysis**

Review of the bank's June 30, 1996 Consolidated Report of Condition revealed a net loan-to-deposit ratio of 80.96%. Review of the Consolidated Reports of Condition from June 30, 1994 through June 30, 1996 revealed that the bank had a nine quarter average net loan-to-deposit ratio of 79.68%.

Review of the most recent available Uniform Bank Performance Report (UBPR) dated March 31, 1996, revealed the bank's net loan-to-deposit ratio was 83.16%, compared to a peer group ratio of 64.51%. This level of lending ranks the bank in the 94 percentile of its peer group. Analysis of the UBPR data from June 30, 1994 through March 31, 1996 revealed that the

bank had an eight quarter average net loan-to-deposit ratio of 79.50%, compared to peer group average of 64.25%. The level of lending during this eight quarter period places the bank's average percentile ranking at 87% of peer group.

The bank's loan-to-deposit ratio is more than reasonable given the bank's capacity to lend, the demographic and economic conditions, and identified credit needs of the assessment area. As a result, the bank's loan-to-deposit ratio exceeds the standards for satisfactory performance.

### Lending in Assessment Area

A sample of real estate, agricultural, commercial and consumer loans for the six month period from January 1, 1996 through June 30, 1996 was reviewed to determine the bank's level of lending within the assessment area. The sample is illustrated in the following chart.

LENDING IN ASSESSMENT AREA						
LOAN TYPE	UNIVERSE		ASSESSMENT AREA		% IN AREA	
	#	\$	#	\$	#	\$
Real Estate	58	1,634,540	51	1,135,940	87.9	69.5
Agricultural	188	3,341,729	171	3,081,350	91.0	92.2
Commercial	36	1,728,141	27	673,067	75.0	38.9
Consumer	122	457,718	116	425,000	95.1	92.9
<b>TOTAL</b>	<b>404</b>	<b>7,162,128</b>	<b>365</b>	<b>5,315,357</b>	<b>90.4</b>	<b>74.2</b>

As the preceding chart illustrates, 90.4% of the total number of loans and 74.2% of the total dollar amount of loans were made within the assessment area. Real estate and commercial loan totals were impacted by a number of large loan participations outside the bank's assessment area. The bank's loan distribution within its assessment area exceeds the standards for satisfactory performance.

### Lending Analysis Based Upon Borrower Income and Size of Business

The bank's real estate, small business, small farm and consumer loans were reviewed to determine the bank's performance under this criteria. The bank does not consistently collect income information for small business, small farm and consumer loan applicants. For these loans, an analysis based on loan amount was used as a proxy for income to evaluate the bank's performance.

#### Real Estate Loans

Mortgage loan applications for the six-month period from January 1, 1996 through June 30, 1996 were reviewed to determine the bank's level of lending to applicants of different income levels. The following chart illustrates the distribution by applicant income.

<b>MORTGAGE APPLICANT INCOME</b>		
<b>APPLICANT INCOME LEVELS</b>	<b># APPLICANTS</b>	<b>% TOTAL APPS</b>
Low-income Applicants	2	6.9
Moderate-income Applicants	3	10.3
Middle-income Applicants	6	20.6
Upper-income Applicants	18	62.2
<b>TOTAL APPLICANTS</b>	<b>29</b>	<b>100.0</b>

The preceding chart shows that the bank is making mortgage loans to applicants of all income levels, although a significant percentage of these loans were to upper-income applicants.

### Small Business and Small Farm Loans

Annual revenue information was not readily available for loans to small businesses and small farms. The lack of this information required that loan amount be used as a proxy for annual revenue. Therefore, the evaluation of the bank's performance regarding loans to small businesses and small farms is based on a review of the bank's June 30 1994, 1995 and 1996 Consolidated Reports of Condition. Instructions for preparation of the Consolidated Report of Condition define small business loans as those with original amounts of \$1,000,000 or less, and small farm loans as those of \$500,000 or less. The following charts illustrate the bank's level of small business and small farm lending.

<b>SMALL BUSINESS - SECURED BY REAL ESTATE</b>						
<b>LOAN AMOUNTS IN (000's)</b>	<b>JUNE 30, 1994</b>		<b>JUNE 30, 1995</b>		<b>JUNE 30, 1996</b>	
	<b>#</b>	<b>\$(000's)</b>	<b>#</b>	<b>\$(000's)</b>	<b>#</b>	<b>\$(000's)</b>
\$100 or less	24	/ 556	25	/ 731	28	/ 647
\$100+ thru \$250	3	/ 447	3	/ 446	5	/ 510
\$250+ thru \$1,000	0	/ na	0	/ na	1	/ 300
<b>TOTAL Sm.Bus.RE</b>	<b>27</b>	<b>/ 1,033</b>	<b>28</b>	<b>/ 1,177</b>	<b>34</b>	<b>/ 1,457</b>
<b>TOTAL Comm. RE</b>	not avail./1,033		not avail./ 1,177		not avail./ 1,457	

<b>SMALL BUSINESS - GENERAL OPERATING</b>						
<b>LOAN AMOUNTS IN (000's)</b>	<b>JUNE 30, 1994</b>		<b>JUNE 30, 1995</b>		<b>JUNE 30, 1996</b>	
	<b>#</b>	<b>\$(000's)</b>	<b>#</b>	<b>\$(000's)</b>	<b>#</b>	<b>\$(000's)</b>
\$100 or less	57	/ 673	73	/ 844	63	/ 769
\$100+ thru \$250	2	/ 220	3	/ 341	6	/ 873
\$250+ thru \$1,000	0	/ na	0	/ na	0	/ na
<b>TOTAL Sm.Bus.GO</b>	<b>59</b>	<b>/ 893</b>	<b>76</b>	<b>/ 1,185</b>	<b>69</b>	<b>/ 1,642</b>

<b>SMALL BUSINESS - GENERAL OPERATING</b>			
TOTAL Comm. RE	not avail./ 893	not avail./ 1,185	not avail./ 1,642

  

<b>SMALL FARM - SECURED BY REAL ESTATE</b>						
LOAN AMOUNTS IN (000's)	JUNE 30, 1994		JUNE 30, 1995		JUNE 30, 1996	
	#	\$(000's)	#	\$(000's)	#	\$(000's)
\$100 or less	34	/ 867	44	/ 502	42	/ 1,237
\$100+ thru \$250	15	/ 1,861	15	/ 2,167	17	/ 1,806
\$250+ thru \$500	1	/ 526	1	/ 289	6	/ 88
TOTAL Sm.Fm.RE	50	/ 3,254	60	/ 2,958	65	/ 3,131
TOTAL Comm. RE	not avail./	3,254	not avail./	3,188	not avail./	3,350

<b>SMALL FARM - GENERAL OPERATING</b>						
LOAN AMOUNTS IN (000's)	JUNE 30, 1994		JUNE 30, 1995		JUNE 30, 1996	
	#	\$(000's)	#	\$(000's)	#	\$(000's)
\$100 or less	299	/ 3,638	307	/ 3,699	291	/ 3,996
\$100+ thru \$250	4	/ 287	3	/ 455	6	/ 649
\$250+ thru \$500	1	/ 144	1	/ 113	0	/ na
TOTAL Sm.Fm.GO	304	/ 4,069	311	/ 4,267	297	/ 4,645
TOTAL Comm. RE	not avail./	4,069	not avail./	4,267	not avail./	4,645

The preceding charts show a steady growth in small business and small farm loans. They also show that 100% of the bank's commercial and agricultural loans are classified as small business and small farm.

### Consumer Loans

Consumer installment and single payment loans originated for the six-month period from January 1, 1996 through June 30, 1996 were reviewed. The bank does not consistently collect income information for consumer loans. The lack of income information required that loan amount be used as a proxy for annual income. A loan amount of \$2,000 was chosen to help stratify the bank's consumer lending activity. This amount represents the bank's desired minimum loan amount, is approximately 7% of the median income for the assessment area, and establishes a **Small** consumer loan amount. The following chart illustrates the distribution of consumer loans by loan amount.

CONSUMER LOAN AMOUNT ANALYSIS		
LOAN AMOUNT	# LOANS	% TOTAL LOANS
\$1,999 OR LESS	20	20.8
\$2,000 - \$3,999	36	37.5
\$4,000 - \$5,999	17	17.7
\$6,000 OR MORE	23	24.0
TOTAL LOANS	96	100.0

The preceding chart shows that the bank is making consumer loans in varying amounts with 20.8% of the loans sampled being small consumer loans for amounts less than \$2,000.

Based on available information it appears that the bank's level of lending to individuals for both mortgage and consumer loan purposes, small businesses and small farms meets the standards for satisfactory performance.

### Geographic Distribution of Loans

The bank's assessment area consists of five BNAs, all of which are considered middle-income areas. The following chart represents the distribution for the six-month period from January 1, 1996 through June 30, 1996.

DISTRIBUTION OF LOANS IN ASSESSMENT AREA BY BNA					
LOAN TYPE	BNA 9501 # & \$	BNA 9502 # & \$	BNA 9503 # & \$	BNA 9705 # & \$	BNA 11 # & \$
REAL ESTATE	# 0 \$ 0	# 6 \$ 36,400	# 37 \$ 870,058	# 3 \$ 47,307	# 5 \$ 182,174
AGRICULTURE	# 4 \$ 62,388	# 15 \$ 252,616	# 93 \$ 1,672,541	# 42 \$ 567,808	# 17 \$ 525,997
COMMERCIAL	# 0 \$ 0	# 0 \$ 0	# 18 \$ 567,635	# 2 \$ 21,732	# 7 \$ 83,700
CONSUMER	# 1 \$ 550	# 3 \$ 12,400	# 96 \$ 356,998	# 6 \$ 23,150	# 10 \$ 31,900
TOTALS	# 5 \$ 62,938	# 24 \$ 301,416	# 244 \$ 3,467,232	# 53 \$ 659,997	# 39 \$ 823,771
% ASSESSMENT AREA	# 1.4% \$ 1.2%	# 6.6% \$ 5.7%	# 66.8% \$ 65.2%	# 14.5% \$ 12.4%	# 10.7% \$ 15.5%



The preceding chart illustrates that the bank is making loans in all of the BNAs within its assessment area. Lending tends to be concentrated in BNAs 9503 and 9705, reflecting the location of the bank's branches.

The bank's lending penetrated all areas of the assessment area. There is no evidence of irregular lending patterns. The bank's geographic distribution throughout the assessment area is considered reasonable and meets the standards for satisfactory performance.

### **Response to Complaints**

No complaints were received by the institution regarding its CRA performance since the previous examination dated August 27, 1993 conducted by the FDIC.