

## **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, Hartley Iowa** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **May 13, 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 Outstanding.

Security State Bank makes credit available consistent with its financial capacity, location and current economic conditions in its assessment area. Overall, the bank's CRA performance exceeds the standards for satisfactory performance. The bank is a strong provider of agricultural and small business loans, and based on the examination loan sample, a substantial majority of the bank's loans was made within the delineated community. Lending to persons of all income groups and to businesses of all sizes is considered to substantially exceed the requirements for satisfactory performance, and the bank's loan-to-deposit ratio is reasonable. Community representatives describe the bank as a leader in the community, both in lending and community services. The geographic distribution of loans is more than reasonable, and the bank has not received any CRA-related complaints since the previous examination.

The following table indicates the performance level of **Security State Bank** with respect to five performance criteria.

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b>(NAME OF FINANCIAL INSTITUTION) PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does Not Meet Standards for Satisfactory Performance</b>
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		
Services	X		
Response to Complaints	No complaints were received since the previous examination.		

**DESCRIPTION OF INSTITUTION**

Security State Bank, with total assets of 31 million as of the March 31, 1996 Consolidated Report of Condition, is a full-service bank and a subsidiary of First Security Bancshares, Inc., Lake Park, a two-bank holding company. Services offered include deposit, credit, trust and safe deposit box rentals. The bank operates one full-service office in Hartley and two limited service automated teller machines (ATMs) at local gas stations. The bank is primarily an agricultural lender; its products include agricultural and commercial loans as well as direct and indirect consumer installment, credit card, single-payment and residential real estate loans. The bank also offers a 10% down payment mortgage product requiring no private mortgage insurance (PMI). The bank offers home equity and home improvement loans although none have been originated since the previous examination. In addition, the bank offers Small Business Administration (SBA) loans, Farmer's Home Administration (FmHA) loans and government subsidized student loans.

There are no apparent factors relating to the bank's financial condition and size, products offered, prior performance, legal impediments or local economic conditions that would limit its ability to meet community credit needs. The bank's primary competitors are Everly State Bank (Everly), Sanborn Savings Bank (Sanborn), First National Bank (Primghar), First Federal Savings and Loan (Hartley) and Union State Bank (Hartley) which recently relocated to Hartley where it currently operates a temporary full-service banking facility.

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

In order to effect compliance with CRA, the bank revised its assessment area to include three block numbering areas (BNAs), 9804, 9901 and 9602 located in portions of Clay, O'Brien and Osceola Counties. The assessment area includes the towns of Everly (706), Fostoria (205), Royal (466), Rossie (68) and Peterson (390), in Clay County; Hartley (1,632) and Moneta (29) in O'Brien County; and Harris (170), Ocheyedon (539), Melvin (250), and Ashton (462) in Osceola County. The examination analyses are based on the entire assessment area; however, the majority of the bank's lending is concentrated in the portion of the assessment area that immediately surrounds the bank which it could reasonably be expected to serve. The bank's only office is located in Hartley, Iowa, in O'Brien County.

The population in the assessment area is 10,245, 1% of which are minorities. The median family income (MFI) is \$27,748, compared to the nonmetropolitan statistical area state MFI of \$29,303. The three BNAs in the assessment area are all middle income geographies. Of the 4,383 housing units in the assessment area, 3,015 are owner-occupied. The housing stock has a median age of 56 years and a median housing value of \$26,376. Community contacts indicate that the market price for existing single-family housing is reasonable at \$40,000; however, not many properties are for sale.

The local economy is largely dependent on agriculture, especially grain farming, and cattle and hog production. Information obtained from the Federal Reserve Community Lending Analysis System revealed that farm proprietors declined by 2.0% from 1992 to 1993, and individuals employed in farming declined 2.6%. For the same period, employment in manufacturing and building construction increased by 8% and 7%, respectively. The major employers in Hartley are Beef Specialists of Iowa (BSI) which employs 200 and Brown Medical Industries which employees 24. According to 1992 county business patterns data, 97% (1,274 of 1,316) of the businesses in the Tri-county area are small business with less than 50 employees. Some local residents commute to jobs in nearby Spencer. According to the Iowa Department of Employment Services, the April unemployment rates for Clay County (2.7%), O'Brien County (2.2%) and Osceola County (3.3%) compare favorably to the State of Iowa's rate of 3.5%.

Discussions with community representatives indicated the need for affordable housing for senior citizens. These representatives also mentioned the bank's active participation in current attempts to develop such housing in cooperation with area businesses, local government and residents.

#### **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.

#### **Loan to Deposit Ratio**

The bank's seasonally adjusted average quarterly loan-to-deposit ratio from December 1994 through March 1996 is 61.88%. This compares favorably with the peer ratio of 60.22% taken from the Uniform Bank Performance Report dated December 1995. The bank is particularly strong compared to peer in agricultural (95%) and open-end consumer (85%) loans. Although the bank does not originate a significant percentage of mortgage (10%) loans in comparison to peer, community representatives indicate that the bank makes real estate loans that other institutions might not be willing to originate. The bank's ratio is favorable compared to its competitors; using data provided from the Fall 1995 American Financial Directory, the average ratio of the competitors is 57.71%. The bank's lending has not increased or decreased significantly since the previous examination, but is well suited to meeting local community credit needs. The bank's loan-to-deposit ratio meets the requirements for satisfactory performance.

**Lending in Assessment Area**

A review of the examination loan sample revealed the following geographic distribution:

<b>LOAN TYPE</b>	<b>TOTAL SAMPLED</b>	<b>WITHIN THE LOCAL DELINEATED COMMUNITY</b>	<b>PERCENT OF TOTAL</b>
Consumer	56	41	73.21%
Real Estate	10	9	90.00%
Commercial/Agriculture	21	18	85.71%
Total	87	68	78.16%

The loan sample revealed that 78.16% of the lending is within the assessment area. Further analysis indicates that 37% of the bank's loans which were determined to be outside of its assessment area were indirect loans from a local retailer. If these indirect loans are treated as being within the assessment area, based on the location of the dealer, the percent improves to 86.21%.

During the examination, the bank compiled two reports on its lending activity, which were verified for accuracy; these reports substantiated the high level of lending within the assessment area. The results of the analysis indicate that 82.28% (195 of 237) of the bank's consumer loans made within the past six months were within the assessment area. In addition, a statistical sample of the bank's agricultural and commercial loans for the past six months indicated that the bank originates 87.67% (128 of 146) of its loans to farms and businesses inside the assessment area. Given the fact that over 80% of sampled loans are within the assessment area, the bank is determined to exceed the standards for satisfactory performance for lending within its assessment area.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The bank is actively making loans to small business and to small farms. Analysis of the 146 loans sampled in the six month period from October 1995 through March 1996 revealed that 94.12% (32 of 34) of commercial borrowers for which income information was available were small farms or small businesses, with gross annual sales of less than \$500,000 for farms or \$1 million for businesses. A review of the bank's June call reports from 1993 through 1995 showed the following number and dollar amount of loans to small businesses and farms:

Loan Type	Call Report Trend Analysis					
	1993		1994		1995	
	#	\$	#	\$	#	\$
Loans secured by farmland	40	1,356	25	1,177	31	1,242
Loans to finance agricultural production	873	9,265	731	9,370	714	9,611
Loans secured by nonfarm nonresidential properties	22	548	23	575	23	667
Commercial and industrial loans	146	1,742	149	2,088	102	1,661
Total	1,081	12,911	928	13,210	870	13,181

Although the bank's commercial and industrial lending dropped from 1994 to 1995, the bank's lending to farms increased during the same period. Further analysis of the three year trend in lending to businesses indicates that the bank continues to make loans to businesses of different sizes. Although the average loan amount for nonreal estate commercial and industrial loans of \$16,284 in 1995 increased 26.73%, when compared to \$11,932 in 1993, loans remain reasonable and affordable for small businesses. In addition, community representatives indicate that local business and farm credit needs are well met.

Review of the bank's lending to consumers where income information was not collected, was based on the size of the loan. For the six-month period from October 1995 to March 1996, the bank made 237 consumer loans, of which 102 or 43% were for amounts less than \$1,000. This significant number of small loans made to consumers combined with the fact that the bank does not charge a minimum finance charge indicates that the bank is committed to meeting the credit needs of low- and moderate-income borrowers. The 10 real estate loans sampled further supports the fact that the bank is making loans available to persons of all income levels; one was to a low income applicant for \$11,000, two to moderate income applicants for \$108,000, three to middle income borrowers for \$112,400 and three to high income borrowers for \$93,150 (income was not reported for one applicant).

The bank's lending to persons of all income groups and to businesses of all sizes substantially exceeds the standards for satisfactory compliance. This is evident from the real estate, small farm and small business, and consumer loan samples.

### **Geographic Distribution of Loans**

Although the bank's lending is not conducted throughout the entire assessment area, the distribution of credit within the area the bank could reasonably be expected to serve is strong. Analysis of the bank's lending for the six-month period preceding the examination revealed that 90% of the real estate loans had Hartley addresses; however, further analysis by street addresses

indicates that the loans are well dispersed throughout the area. Analysis of the bank's consumer, commercial and agricultural lending revealed similar distribution, and community representatives indicate that the area is exceptionally well served.

As described earlier, the bank offers government loans and has made four FmHA loans since the previous examination for \$767,226. In addition, the bank has made 32 student loans totaling \$72,317, three loans through the county link-deposit program for \$130,000 which created two jobs, and one SBA loan for \$10,000 through the Iowa Department of Economic and Rural Development which was made to start a business. Given the bank's size and resources, this level of government lending is exceptional. The bank also supplements its government lending program with a no PMI 10% down first-time home buyers program. In addition, the bank offers a zero percent Christmas cash coupon loan program in cooperation with the local Chamber of Commerce. The program provides a 10-month no interest installment loan for area consumers which in turn benefits area business. The businesses then remit 4% of each coupon deposited at the bank. In 1995, these loans totaled approximately \$40,000, each with a maximum loan amount of \$1,500.

Although the bank has no low- or moderate income geographies within its assessment area, the bank has developed and utilized several programs which address the needs of low- and moderate-income members of the community. Given its size and the geographic limitations, the bank's overall loan distribution exceeds the standards for satisfactory performance.

### **Services**

The bank is an active supporter of local affordable housing initiatives, and serves in a leadership capacity on the local industrial development corporation (IDC); a bank officer is president of the IDC. The bank meets the service needs of its community by offering credit counseling to existing and potential customers, and to local businesses. The bank has not opened or closed any branches but has increased service by installing a limited service ATM on the west side of town close to the large BSI plant which employs many moderate-income workers. The bank has expanded its lobby hours to 4:15pm on Fridays. Efforts to improve bank services have been an ongoing effort to meet the credit and service needs of its local borrowers.

The bank's activities regarding affordable housing for senior citizens qualify as community development services as the types of individuals served are people over 55 with low- or moderate-income. The bank president and executive vice president are actively involved in implementing these initiatives. One particular initiative is the homestead cooperative senior housing program for which the bank will help to create a new not-for-profit named

Hartley Community Housing. Management at all levels is committed to community development and providing services to help meet local credit needs. These activities exceed the standards for satisfactory compliance with the CRA.

Review of CRA Complaints

The bank has received no CRA complaints since the previous examination.