

PUBLIC DISCLOSURE

May 4, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers Savings Bank
00243**

**205 North Vine Street
West Union, Iowa 52175**

Federal Deposit Insurance Corporation

**2345 Grand Avenue, Suite 1500
Kansas City, Missouri 64108**

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.

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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 operation 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 Community Reinvestment Act (CRA) performance of **Farmers Savings Bank, West Union, Iowa**, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **May 4, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

Farmers Savings Bank's CRA performance was evaluated with a focus on agricultural lending activities. The bank has made a notable effort to support the credit needs of its local community in correlation with its size, location, and local economic conditions. A review of loan originations shows that the bank extends a significant majority of its loans within its assessment area. Approximately 86% by number and 88% by dollar volume of the sampled originations are within the defined assessment area. The bank has a strong record of lending to farming operations of different sizes. Seventy-six percent of the sampled agricultural loans were extended to farming operations with gross annual revenues less than \$250,000. The bank has maintained a relatively stable net loan-to-deposit ratio during the last 11 quarters with an average ratio of 76%. The bank has a reasonable distribution of loan originations within its assessment area, with a concentration of lending around the bank's two offices. Farmers Savings Bank has not received any complaints about its CRA performance to date. The bank's commitment to community development is also displayed by its record of providing financial services that enhance credit availability.

DESCRIPTION OF INSTITUTION

Farmers Savings Bank, located in West Union, Iowa, is a commercial bank specializing in agricultural lending. Banking facilities include a main office in West Union and a branch office in Clermont, Iowa. West Union is located in northeastern Iowa at the intersection of U.S. Highway 18 and State Highway 150. Both West Union and Clermont are within Fayette County, with Clermont lying approximately 9 miles northeast of West Union.

The bank is owned by Westmont Corporation, West Union, a one-bank holding company. No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community. As of December 31, 1997, bank assets totaled \$42,832,000 with \$29,729,000 in gross loans, as detailed below.

Loans secured by real estate	
Secured by farmland	\$3,122,000
Secured by 1-4 family residential properties	6,349,000
Secured by non-farm, non-residential properties	394,000
Construction and land development	74,000
Loans to finance agricultural production	11,090,000
Commercial and industrial loans	6,688,000
Credit cards	229,000
Other loans to individuals	1,648,000
Other non-consumer loans	<u>135,000</u>
Total Gross Loans	\$29,729,000

The bank's CRA documentation demonstrates extensive involvement in the local community. Bank employees are involved in numerous civic groups and are encouraged by bank management to provide feedback on customer needs and requests for financial products and services. Since the last evaluation, the bank has installed two Automated Teller Machines (ATMs): one at the West Union Texaco gas station and one at The Pumper convenience store in Fayette, Iowa. In response to customer demand, the bank now offers debit check cards tied to a customer's bank account. The bank has also become active in the secondary loan market in order to provide longer term, fixed rate residential mortgage loans.

Closely related to the bank's CRA endeavors are activities that promote economic development of the entire community. While these activities do not specifically meet the definition of "Community Development", for purposes of Community Reinvestment Act, management's efforts are an important factor in providing new business, assistance to existing business as well as jobs to the community. Two programs are examples of such activity, the Strategic Farm Management Workshops and Value-Added project. The farm management workshops assist local farmers in obtaining information on current farming practices in order to promote efficiency and profitability.

The "Value-Added" project is an effort by management to bring to the area a large cooperative hen laying facility in combination with a composting process. This project is anticipated to create a number of local jobs and various indirect benefits to the community.

Farmers Savings Bank offers a wide array of loan and deposit products. The bank continues to participate in the West Union "Santa Chamber Cash" and Clermont "Santa Bucks" programs. Under these programs, loans up to \$2,000 are extended to qualified applicants at a zero percent interest rate for six months. Loan proceeds can only be used for Christmas purchases made at participating businesses within each community. The bank has also continued a special program which allows installment loan borrowers to "Extend-A-Payment" if they are unable to make a payment, subject to certain conditions, in an effort to offer flexibility to customers in need.

Bank management is aware of increased housing needs in both the West Union and Clermont communities. The bank has financed the construction of several speculation homes in West Union and continues to work with contractors on further construction of such homes. Strong local demand for higher priced homes has resulted in increased construction along with a rapid turnover of existing homes. Farmers Savings Bank continues its "Clermont Housing Promotion" which offers a quarter percent discount on interest rates for new residential home loans in Clermont with terms up to 60 months.

Farmers Savings Bank donates both time and money to various civic groups and causes within the community. Donations in excess of \$10,000 have been made to the West Union Public Library expansion project. The bank helped raise an additional \$17,875 for the library project by matching donations made by its customers.

DESCRIPTION OF ASSESSMENT AREA

The Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901), as amended, requires a bank to identify one or more "assessment areas" within which its regulatory agency will evaluate the bank's performance. An assessment area is an area that includes the geographies in which the bank has its main office, branch offices, and other deposit-taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. Assessment areas always consist of one or more whole block numbering areas (BNAs) or census tracts, which are statistical subdivisions of a county. Census tracts are delineated for all metropolitan areas and other densely populated counties. BNAs are used in rural nonmetropolitan areas and are typically larger than census tracts.

Farmers Savings Bank's assessment area includes 4 BNAs lying within Fayette County: 9801, 9802, 9806, and 9807. The assessment area encompasses both the North Fayette Community

School District (serving Alpha, Eldorado, Fayette, Hawkeye, and West Union) and the Valley Community School District (serving Clermont, Elgin, and Wadena). All 4 of the contiguous geographies are designated as “middle-income.” The 1990 U.S. Census median family income for non-metropolitan areas in the State of Iowa was \$29,303. Accordingly, a “middle-income” family (defined as earning at least 80% but less than 120% of the area median income) would earn from \$23,442 to \$35,164. A closer review of the geographies reveals 2 moderate-income block groups with moderate-income cities: block group 9802.003 contains Wadena while block group 9807.001 contains Waucoma. “Moderate-income” is defined as earning at least 50% but less than 80% of the area median income (\$14,652 to \$23,442).

As of 1990, the population of the bank’s delineated assessment area totaled 12,348, including 4,750 households. The number of households included 3,373 families, with 314, or 9%, living below the poverty level. The following table details demographic information for the various geographies in the assessment area. The West Union Office is located in BNA 9801 while the Clermont office is located in adjacent BNA 9806.

Assessment Area Demographics

1990 U.S. Census Summary	Fayette County Block Numbering Areas			
	9801	9802	9806	9807
Population	2,636	3,868	2,413	3,431
Number of Households	1,106	1,374	977	1,293
Number of Families	708	1,007	677	981
Median Family Income	\$32,837	\$25,503	\$25,858	\$26,431
Owner Occupied Housing Units	813	999	713	1,013
Median Value of Owner-Occupied Housing	\$38,400	\$24,700	\$32,300	\$26,300
Median Age of Owner-Occupied Housing	44 years	Pre-1940	Pre-1940	Pre-1940

The incorporated city of West Union is the county seat and home to 2,800 of the county’s 24,800 citizens. Major employers in West Union include Excel of Iowa (automobile parts factory employing 575), North Fayette Community School (educational facility employing 161), Palmer Lutheran Health Center (health facility employing 152), Land’s End (soft luggage manufacturing plant employing 118), and H&H Distributing Company (wholesale food distributor employing 100). The Fayette County Courthouse also employs approximately 129 people. The Fayette County Economic Development Commission surveys major employers throughout Fayette County each year to ascertain commuting patterns. The most recent analysis shows that a significant number of employees working in West Union reside in that community. The survey also shows a large number of commuters from the following communities: Clermont, Elgin, Fayette, Hawkeye, and Oelwein.

Clermont is located on U.S. Highway 18 between the cities of West Union and Postville. The 1997 estimated population of Clermont is 528. Clermont is home to a variety of small businesses with tourism playing a major role in the local economy. Montauk, the home of former Iowa Governor Larabee, is found in Clermont and is on the National Registry. Residents of Clermont primarily commute to Postville or West Union for employment opportunities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending in the Assessment Area

Farmers Savings Bank originates a significant majority of loans within its assessment area. As illustrated on page 2, agricultural loans comprise one of the bank's primary product lines. Loans secured by farmland plus loans to finance agricultural production make up 48% of gross loans. Farmers Savings Bank originated 254 agricultural loans during the last 6 months. In order to determine lending performance within the bank's assessment area, a review of 43 agricultural loans was performed. The following table summarizes the extent of lending activity within the bank's assessment area.

Loan Penetration by Number and Dollar Volume

Sampled Originations	By Number	%	By Original Balance	%
Inside Assessment Area	37	86%	\$1,921,348	88%
Outside Assessment Area	6	14%	\$258,924	12%
Total	43	100%	\$2,180,272	100%

All of Farmers Savings Bank's loans are internally geocoded to allow periodic monitoring of the bank's lending performance. The following table shows the number of loans originated both inside and outside of the assessment area during 1996 and 1997. The bank's analysis relies on loan values equal to the current principal balance at the end of each year.

Bank Analysis of Loan Penetration by Number and Dollar Volume

Loan Originations	1996		1997	
	By Number	By Current Balance	By Number	By Current Balance
Inside Assessment Area	1,295	\$18,950,181	930	\$16,671,948
Outside Assessment Area	250	\$2,991,102	206	\$4,588,672
Total	1,545	\$21,941,283	1,136	\$21,260,620
% Inside Assessment Area	84%	86%	82%	78%

Lending to Farming Operations of Different Sizes

The bank’s record of lending to farms of different sizes is very favorable. Thirty-six of the 37 agricultural loans lying within the bank’s assessment area were extended to small farms with gross annual revenues under \$1 million. The table below details both the number and dollar volume of loans made to farms of different sizes.

Loans to Farming Operations of Different Sizes

Gross Farm Revenues	By Number and Percent		By Dollar and Percent	
Less than \$40,000	8	22%	\$57,068	3%
\$40,000 to \$99,999	7	19%	\$211,467	11%
\$100,000 to \$249,999	13	35%	\$520,787	27%
\$250,000 to \$499,999	3	8%	\$68,180	4%
\$500,000 to \$1 Million	5	13%	\$913,846	47%
\$1 Million or More	1	3%	\$150,000	8%

A significant majority (76% by number) of the loans were extended to farming operations with annual gross revenues of less than \$250,000. The bank’s agricultural loan data compares favorably with data compiled by the Iowa State University Extension Service and published in the *1996 Farm Business Summary for Northeast Iowa*. The farm data used in this report was obtained from the Iowa Farm Business Associations. The average of all farms in the following table represents a weighted average based on the number of farms in each size group in the economic area as computed from data found in the Census of Agriculture. Only farms with annual sales of \$40,000 or more were counted in making the weighting. Thus, overall averages should be representative of full-time Iowa farms.

Average Gross Farm Revenues

Gross Farm Revenues	Farmers Savings Bank	17 Counties in Northeastern Iowa
\$40,000 to \$99,999	\$62,000	\$98,000
\$100,000 to \$249,999	\$182,000	\$217,000
\$250,000 or More	\$731,000	\$473,000

Loan-to-Deposit Ratio

The bank's performance under this criteria is satisfactory. Farmers Savings Bank's net loan-to-deposit ratio averaged 76.35% during the 11 quarters since the last evaluation. The ratio is typically the highest during the second quarter. As expected with an agricultural bank, the loan-to-deposit ratio fluctuates seasonally with the planting and harvesting of crops.

The historical loan-to-deposit ratio for Farmers Savings Bank was compared to 5 similarly situated institutions. This comparison helps determine the subject bank's commitment to lend in relation to other financial institutions of similar size and complexity. All of these institutions are situated within Fayette County and offer agricultural loans as their primary loan product. The quarterly net loan-to-deposit ratio for these similarly situated institutions averaged 61.60% from June 30, 1995, through December 31, 1997.

Similarly Situated Financial Institutions

Bank Name and Location	Total Assets as of 12/31/97	Average Loan-to-Deposit Ratio
Elgin State Bank, Elgin, Iowa	\$18,066,000	64.16%
Citizens Savings Bank, Hawkeye, Iowa	\$17,871,000	50.84%
Maynard Savings Bank, Maynard, Iowa	\$28,286,000	52.07%
The First National Bank of Oelwein, Oelwein, Iowa	\$81,702,000	65.42%
Farmers Savings Bank, West Union, Iowa	\$42,832,000	76.35%
The First National Bank of West Union West Union, Iowa	\$79,300	75.50%

Farmers Savings Bank actively participates in governmentally-insured, guaranteed, and subsidized loan programs targeted at customers who may not qualify for traditional bank credit. Bank management stays informed of the available programs and tailors them to meet the needs of its community. Since the last evaluation, the bank has extended 7 small farm loans through the Farm Service Agency (FSA), formerly known as FmHA, and 1 Small Business Administration (SBA) guaranteed loan. As an additional service to loan applicants, Farmers Savings Bank became involved in secondary market activities during the second quarter of 1996. The bank has sold 7 loans totaling \$433,212. The bank offers fixed rate residential mortgage loans in-house with terms up to 5 years. Participation in the secondary market allows the bank to offer applicants residential mortgage loans with fixed rates for 15 or more years.

Geographic Distribution of Loans

Analysis of the loan sample reflects a reasonable distribution of lending within the assessment area. The bank's assessment area includes two moderate-income block groups located in Eden Township and Illyria Township. The remaining block groups are designated as either middle- or upper-income. Of the 37 agricultural loans lying within the bank's assessment area, 4 loans (totaling \$585,368) are located within moderate-income communities. The remaining loans are primarily disbursed around the bank's two offices in West Union and Clermont.

Response to Complaints

Farmers Savings Bank has not received any written complaints about the institution's performance in meeting the credit needs of the assessment area. This assessment criterion was not considered in reviewing the bank's performance with the Community Reinvestment Act.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

A fair lending review was conducted during the current evaluation. No violations of the substantive provisions of the anti-discrimination laws were identified.

OPTIONAL PERFORMANCE CRITERIA

The following information was used in determining the bank's overall CRA rating. Farmers Savings Bank's participation in the following Services and Investments demonstrates its continued commitment to serve its assessment area.

Services

Farmers Savings Bank is a leader in providing community development services and encouraging its employees to become involved in community oriented organizations. Bank officials hold leadership roles in the following local community organizations:

- West Union Industrial Development Corporation
- West Union Housing Corporation
- Fayette County Economic Development Commission
- Fayette County Housing Task Force
- Clermont Community Club (similar to a chamber of commerce)
- Clermont Housing Committee

The bank actively participates in local development and redevelopment programs and projects by providing financial expertise and direct funding when feasible.

Economic Development:

On May 5, 1998, the Federal Home Loan Bank System presented Farmers Savings Bank with a Community Partnership Award for its participation in a rural rehabilitation project involving Rupp Industries, Inc. As described in the Union newspaper, Rupp Industries, Inc. is a leading manufacturer and provider of commercial and industrial air-management products. The company, headquartered in Burnsville, Minnesota, chose to expand its business by establishing a production plant in West Union that would eventually employ 160 employees. For the project, the City of West Union applied for and received a \$480,000 Community Economic Betterment Account (CEBA) forgivable loan from the State of Iowa. Farmers Savings Bank also provided financing for the project, which was partially funded by a CIP advance. The Community Investment Program (CIP) provides advances at the Federal Home Loan Bank's cost of funds to assist lenders in financing affordable housing and community development initiatives that help low- and moderate-income families and neighborhoods through housing, jobs, or other benefits.

The chief executive officer of Farmers Savings Bank was instrumental in attracting Rupp Industries, Inc., to the West Union community. His involvement in both the West Union Industrial Development Corporation and Fayette County Economic Development Commission provided numerous opportunities to share his financial expertise with all involved parties. This individual played a key role in helping a start-up business in West Union apply for and obtain commitment for a \$1 million Rural Economic Development Corporation, formerly FmHA, guaranteed loan. Farmers Savings Bank was one of three financial institutions to fund an additional \$2 million in loans to the heavy metal fabricating business.

Affordable Housing:

Farmers Savings Bank is currently assisting the Fayette County Housing Task Force by collecting housing surveys in the Clermont area. The Upper Explorerland Regional Planning Commission is distributing housing surveys to assist in a housing needs assessment for 7 cities in Fayette County, including West Union and Clermont.

An officer of Farmers Savings Bank provided financial assistance to the West Union Industrial Development Corporation (WUIDC) to purchase a section of undeveloped land in West Union. Ten of the 27 lots have already been developed for resale. The WUIDC intends to assist in providing adequate housing by offering a minimum \$1,000 down payment and \$500 discount on the lot price for persons interested in building a home for themselves, until July 1, 1998. Incentives are also offered to contractors who build speculative housing on the lots.

Investments

Management is thoroughly aware of community development projects and programs and participates financially where available and feasible. Farmers Savings Bank made the following monetary contributions to the Fayette County Economic Development Commission:

- \$1,290 in 1997
- \$1,206 in 1996
- \$1,118 in 1995

The bank participates in the Beginning Farmer Loan Program, administered by the Iowa Agricultural Development Authority, with five bonds (totaling \$452,000) currently on the bank's books. The Beginning Farmer Loan Program provides low-cost financing to assist beginning farmers in acquiring agricultural property. Beginning Farmer Loans typically carry interest rates of two to four percentage points below conventional loans. A tax-exempt private activity bond is issued by the Authority to finance each loan. The bond is purchased by the lender with terms identical to the loan terms. The loan and its collateral is assigned to the lender as security for the bond. The proceeds of the bond issue will then be used to fund the loan to the borrower(s).

Farmers Savings Bank was one of four banks to fund a \$1.2 million municipal bond to facilitate the purchase of a county landfill by the Fayette County Solid Waste Commission. Farmers Savings Bank's portion was \$175,000 on October 1, 1996. The property is located in a moderate-income area of Fayette County and will benefit all of the residents in the County.