

PUBLIC DISCLOSURE

January 13, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Raccoon Valley State Bank
222**

**1009 Court Street
Adel, Iowa 50003**

Federal Deposit Insurance Corporation

**2345 Grand Boulevard, Suite 1500
Kansas City, Iowa 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 **Raccoon Valley State Bank, Adel, Iowa**, prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **January 13, 1999**. 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.

The bank has made outstanding efforts to provide credit to its community commensurate with its size, financial condition, and assessment area needs. A substantial majority of loans have been made within the bank's assessment area. In addition, the sampled loans showed an excellent penetration of lending among borrowers of different incomes. Finally, the bank's average quarterly net loan-to-deposit ratio compares reasonably well to that of other similarly situated financial institutions.

DESCRIPTION OF INSTITUTION

Raccoon Valley State Bank operates from its main office in Adel, Iowa, and its branch office in Minburn, Iowa. The bank offers both deposit and lending services at both its main office and at its branch office. The bank's lending is concentrated in residential real estate and farm loans; however, it also originates loans for a variety of commercial and consumer purposes. Raccoon Valley State Bank reported total assets of \$46,911,000 and total loans of \$34,751,000 in the September 30, 1998, Consolidated Report of Condition. This source also showed the following loan portfolio mix:

LOAN TYPE	PERCENTAGE OF LOAN PORTFOLIO	LOAN AMOUNT
Residential Real Estate	35%	\$12,158,000
Farm and Farm Real Estate	28%	\$9,705,000
Commercial and Commercial Real Estate	25%	\$8,751,000
Consumer	6%	\$2,157,000
Construction	4%	\$1,466,000
Other	2%	\$514,000
Total	100%	\$34,751,000

Dallas Investment Company, Coon Rapids, Iowa, a one-bank holding company, owns 100 percent of the bank. The Garst family holds a controlling ownership in this holding company and other bank holding companies which own five other banks in western Iowa. One of these banks is Perry State Bank, Perry, Iowa, which is 20 miles northwest of Adel in Dallas County. No factors were noted which would limit Raccoon Valley State Bank's ability to meet various assessment area credit needs based on its financial condition, size, legal impediments, local economic conditions, or other factors.

DESCRIPTION OF RACCOON VALLEY STATE BANK'S ASSESSMENT AREA

The assessment area includes all of Dallas County, Census Tracts (CTs) 601 and 602 of Madison County, and Block Numbering Area (BNA) 9503 of Guthrie County. Dallas County is part of the Des Moines Metropolitan Statistical Area (MSA). Adel, which has a 1990 population of 3,304, is located in south central Dallas County about 15 minutes west of Des Moines' rapidly growing western suburbs. Madison and Guthrie Counties are not part of the Des Moines MSA. Madison

County borders Dallas County on the south and Guthrie County borders Dallas County on the west. The entire assessment area has a 1990 population of 42,951. The population of the assessment area has increased since 1990. Most of the growth is in CT 508 of Dallas County which borders the western edge of Polk County. The bank's main office is located in CT 507 of Dallas County and its branch in Minburn is located in CT 502. Minburn, which has 346 residents, is 10 miles north of Adel.

The assessment area's CTs and BNAs have been divided into income level categories based on a comparison with the applicable 1990 Des Moines MSA median family (MF) or State of Iowa non-metropolitan statistical area (non-MSA) MF income, as applicable. The following table shows how CTs or BNAs are categorized based on their MF incomes compared to the 1990 Des Moines MSA or State of Iowa non-MSA MF income:

INCOME LEVEL	CT or BNA MF Income as a Percent Of MSA or Non-MSA MF Income*	1990 Ranges Based on \$37,304 MSA MF Income	1990 Ranges Based on \$29,303 Non-MSA MF Income*
LOW	Less than 50 percent	Less than \$18,651	Less than \$14,652
MODERATE	Greater than or equal to 50 but less than 80 percent	From \$18,652 to \$29,843	From \$14,652 to \$23,442
MIDDLE	Greater than or equal to 80 but less than 120 percent	From \$29,844 to \$44,764	From \$23,442 to \$35,164
UPPER	Greater than or equal to 120 percent	\$44,765 and Greater	\$35,164 and Greater

*MF Income = Median Family Income

*Non-MSA = State of Iowa non-metropolitan statistical area

The following table shows the 1990 MF incomes for the CTs and BNAs in the assessment area. All are middle-income geographies with the exception of CT 503 and 504 of Dallas County. These two CTs, which comprise Perry, Iowa, are moderate-income CTs. Perry is located on the northern border of Dallas County. This city is the largest in the assessment area with a 1990 population of 6,652.

1990 ASSESSMENT AREA MEDIAN FAMILY INCOMES					
Des Moines MSA CTs				Non-MSA CTs/BNAs	
501	\$36,994	505	\$32,740	601	\$32,517
502	\$35,290	506	\$30,625	602	\$28,875
503	\$28,924	507	\$37,007	9503	\$27,667
504	\$25,934	508	\$41,897		

The assessment area's economy is strong; however, a local business person contacted as part of this evaluation said that a shortage of labor is impacting economic growth in Dallas County. The Iowa Department of Labor reported a November 1998 seasonally unadjusted unemployment rate of 1.6 percent for Dallas County, 1.9 percent for Madison County, and 1.8 percent for Guthrie County. The November 1998 seasonally adjusted unemployment rate for the State of Iowa was 2.5 percent. Employment opportunities have increased in Dallas County; however, many residents continue to commute to Polk County for employment. Regarding the local housing market, both management and the local business person noted that home prices have increased substantially over the past five years. The local business person noted that housing is more affordable in the small towns located in the western part of Dallas County including Minburn where the bank's branch is located.

The bank operates in a very competitive environment. Twelve other financial institutions operate 28 offices in the assessment area. The proximity of the bank to Des Moines' financial institutions also adds to this competitive environment.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

AVERAGE QUARTERLY NET LOAN-TO-DEPOSIT RATIO

The bank's average quarterly net loan-to-deposit ratio compares reasonably well to that of similar financial institutions. The following table shows the average quarterly net loan-to-deposit ratio for the bank and other banks in and near the assessment area for the period from December 31, 1995, to September 30, 1998. These average ratios were calculated using quarterly Report of Condition information. The listed banks are those which are most comparable to Raccoon Valley State Bank based on size, market served, and products offered.

BANK	AVERAGE QUARTERLY NET LOAN-TO-DEPOSIT RATIO 12/31/95 TO 9/30/98	TOTAL ASSETS 9/30/98
Raccoon Valley State Bank, Adel, Iowa	78%	\$46,911,000
City State Bank, Grimes, Iowa	81%	\$28,282,000
First State Bank, Stuart, Iowa	69%	\$72,971,000
Guthrie County State Bank, Panora, Iowa	69%	\$51,727,000
Panora State Bank, Panora, Iowa	83%	\$35,726,000
Perry State Bank, Perry, Iowa	72%	\$80,670,000
Polk County Bank, Johnston, Iowa	81%	\$42,366,000
Union State Bank, Winterset, Iowa	49%	\$58,217,000

Conclusions for the other performance criteria were based on results from a reviewed sample of first mortgage residential real estate loans. This sample included 41 of 104 first mortgages originated in 1998. Examiners obtained sample information from the 1998 Home Mortgage Disclosure loan application register and from loan files.

LENDING WITHIN THE ASSESSMENT AREA

The bank has made a substantial majority of its loans within its assessment area. The following tables show the percentage of loans made inside and outside the assessment area by number and dollar amount:

RESIDENTIAL REAL ESTATE LOANS				
	Number	Percent	Dollar Amount	Percent
In	37	90%	\$1,627,968	95%
Out	4	10%	\$91,276	5%
Total	41	100%	\$1,719,244	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES

The reviewed sample of residential real estate loans reflects excellent penetration among borrowers of different income levels given the demographics of the assessment area. The table below shows that approximately 22 percent of the sampled loans were granted to low-income borrowers and 32 percent were granted to moderate-income borrowers. This percentage compares very favorably to the income demographics of the assessment area; specifically,

according to 1990 Census data, 19 percent of the families in the assessment area had low incomes and 21 percent had moderate incomes.

INCOME DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS					
	Number	Percent	Dollar Amount	Percent	1990 Percent of Assessment Area Families
LOW	8	22%	\$150,557	9%	19%
MODERATE	12	32%	\$566,168	35%	21%
MIDDLE	12	32%	\$540,537	33%	27%
UPPER	5	14%	\$370,706	23%	33%
TOTAL	37	100%	\$1,627,968	100%	100%

The following table shows how examiners determined the income level for borrowers using HUD's estimates of the Des Moines MSA and State of Iowa Non-MSA median family income for 1998. Low-income families earn less than 50 percent of the applicable MSA or State non-MSA median family income and moderate-income families earn from 50 percent to less than 80 percent of the applicable median family income .

1998 MEDIAN FAMILY INCOME RANGES (HUD ESTIMATED)		
	Des Moines MSA MF Income = \$53,500	Iowa Non-MSA MF Income MF Income = \$41,200
LOW	Less than \$26,750	Less than \$20,600
MODERATE	From \$26,750 to \$42,799	From \$20,600 to \$32,959
MIDDLE	From \$42,800 to \$64,199	From \$32,960 to \$49,439
UPPER	\$64,200 and over	\$49,440 and over

GEOGRAPHIC DISTRIBUTION

The sampled loans show that the bank's loans are adequately distributed throughout the assessment area. The following table shows the number and dollar amount of sampled loans made in each CT and BNA along with the number and percent of 1990 families in each CT and BNA.

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS						
CT OR BNA	Number	Percent	Amount	Percent	1990 Number of Families	1990 Percent of Families
501 (Middle)	0	0%	\$0	0%	937	8%
502 (Middle)	9	24%	\$190,505	12%	905	7%
503 (Moderate)	0	0%	\$0	0%	1,028	8%
504 (Moderate)	0	0%	\$0	0%	804	7%
505 (Middle)	3	8%	\$173,714	11%	627	5%
506 (Middle)	8	21%	\$369,373	22%	792	7%
507 (Middle)	11	30%	\$583,875	36%	961	8%
508 (Middle)	4	11%	\$223,707	14%	2,234	19%
601 (Middle)	0	0%	\$0	0%	1,319	11%
602 (Middle)	1	3%	\$71,526	4%	1,215	10%
9503 (Middle)	1	3%	\$15,268	1%	1,250	10%
TOTAL	37	100%	\$1,627,968	100%	12,072	100%

None of the sampled loans were made in moderate-income CTs 503 and 504. These CTs encompass the city of Perry. Management commented that the bank occasionally makes loans in Perry; however, the demand from this area is minimal due to the distance to the bank's offices. As stated earlier, Perry is located 20 miles northwest of Adel and 10 miles northwest of Minburn. Furthermore, moderate-income CTs 503 and 504 are serviced by the bank's affiliate Perry State Bank, Perry, Iowa.

RESPONSE TO CRA-RELATED COMPLAINTS

The bank has not received any CRA-related complaints.

COMPLIANCE WITH FAIR LENDING LAWS

No apparent violations of the substantive provisions of the anti-discrimination laws and regulations were identified. A review of the bank's loan policy, credit files, and CRA files did not reveal any practices which are intended to discourage applications for credit.