

# **PUBLIC DISCLOSURE**

**November 3, 2003**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First State Bank  
8093**

**26 West Congress  
Nora Springs, Iowa 50458**

**Federal Deposit Insurance Corporation  
2345 Grand Boulevard, Suite 1200  
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.

## TABLE OF CONTENTS

I.	General Information.....	1
II.	Institution Rating .....	2
III.	Description of Institution.....	3
IV.	Description of Assessment Area.....	4
V.	Conclusions .....	6

## 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 **First State Bank, Nora Springs, Iowa**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **November 3, 2003**. 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.

An institution in this group has an outstanding record of helping to meet the needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. Detailed below is a summary of the bank's performance.

- The bank's average quarterly net loan-to-deposit ratio is strong given the bank's size, and financial condition. The bank's net loan-to-deposit ratio averaged 93 percent for the quarters from March 31, 1998, through June 30, 2003, and demonstrates an excellent willingness to extend credit.
- A substantial majority of the agricultural, commercial, and residential real estate loans sampled by number and dollar amount are located in the bank's assessment area, reflecting management's strong willingness to lend locally.
- The distribution of sampled agricultural, commercial, and residential real estate loans reveals an outstanding record of lending to operations of varying revenues and borrowers of different incomes, which reflects a favorable willingness to provide credit to all qualified borrowers. The bank's record is excellent for lending to small farms and businesses and to low- and moderate-income residential real estate borrowers.
- The geographic distribution of sampled loans reflects a reasonable dispersion throughout the assessment area, illustrating the bank's commitment to extend loans throughout its community.
- The bank has not received any CRA complaints since the previous compliance examination. Therefore, this area was not evaluated and not considered in the bank's CRA rating.
- No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation.
- The bank is also very involved in its community through investments, donations, and participation in various community organizations, adding further support to an Outstanding rating based on the bank's lending performance.

## DESCRIPTION OF INSTITUTION

First State Bank operates from its main office in Nora Springs, Iowa, and branch offices in Rudd and Rockwell, Iowa. The bank purchased the Rockwell facility on June 28, 2001. First State Bank operates two Automated Teller Machines (ATMs). An ATM is located in the Casey's General Store in Nora Springs, Iowa, and at the Rockwell, Iowa, branch office.

Control of the institution remains with Cedar Valley Bankshares, Ltd., a holding company. The bank's affiliates include First Security Bank & Trust, Charles City, Iowa; First State Bank, Riceville, Iowa; and Noah, Smith & Schuknect, Charles City, Iowa. There are no legal or financial impediments that prevent First State Bank from helping to meet the credit needs of its assessment area. The bank's competitors include national, regional, and community institutions located within and adjacent to the assessment area. Specifically, the FDIC database showed that there are 22 financial institutions operating home offices or branch offices within the assessment area or in adjacent communities.

The bank's June 30, 2003, Consolidated Reports of Income and Condition reported total assets of \$43 million, total loans of \$29 million, and total deposits of \$34 million. The bank was rated Outstanding at the previous evaluation.

The bank primarily emphasizes residential real estate and agricultural lending. Table 1 details a breakdown of the bank's loan portfolio as of June 30, 2003. Agricultural loans represent 34 percent of the loan mix and residential real estate loans comprised 39 percent of the loan mix by dollar volume. Commercial loans represent 16 percent of the loan mix by dollar volume. The percentage of agricultural loans was determined by aggregating the "Secured by Farmland" and "Agricultural" loan categories in Table 1. The percentage of residential real estate loans was determined by aggregating the "1-4 Family Residential" and "Construction and Land Development" loan categories on the same table. The percentage of commercial loans was determined by aggregating the "Multi-Family (5 or more) Residential," "Commercial Real Estate," and "Commercial and Industrial" loan categories on the same table. Management stated that the bank's business focus is primarily agricultural, residential, and commercial lending. For this evaluation, examiners reviewed agricultural, commercial, and residential real estate loan products.

An analysis of the bank's loan portfolio since the previous CRA evaluation noted a 94 percent increase in commercial lending, a 114 percent increase in agricultural lending, a 66 percent increase in residential lending, and a 37 percent decrease in consumer lending. Management attributed the increase in dollar volume of agricultural and commercial loans to the purchase of the Rockwell branch office and a greater loan demand from existing and new customers the last several years. Additionally, management attributed the increase in residential real estate lending to the low interest rates, which has caused many borrowers to refinance home loans. Finally, management noted that the low interest rates and increasing car dealership financing has hampered the bank from making more consumer loans.

<b>Table 1 – Loan Portfolio Distribution as of June 30, 2003</b>		
<b>Loan Category</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans</b>
Construction and Land Development	409	1
Secured by Farmland	3,168	11
1-4 Family Residential	11,232	38
Multi-Family (5 or more) Residential	0	0
Commercial Real Estate	2,650	10
<b>Total Real Estate Loans</b>	<b>17,459</b>	<b>60</b>
Agricultural	6,682	23
Commercial and Industrial	1,835	6
Consumer	2,743	9
Obligations of States and Political Subdivisions	310	1
Other	13	0
Lease Financing Receivables	288	1
Gross Loans	29,330	100
Less: Unearned Income	1	0
<b>Total Loans</b>	<b>\$29,329</b>	<b>100</b>

Source: Report of Condition

## **DESCRIPTION OF FIRST STATE BANK'S 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. In most cases, the institution's assessment area will be towns, counties, or some other political subdivision in which its branches are located and a substantial portion of its loans are made. Assessment areas always consist of one or more census tracts (CTs), which are statistical subdivisions of a county.*

*Each geography (CT) is designated as low, moderate, middle, or upper income by comparing the 2000 U.S. Census Bureau median family income (MFI) of the geography to the MFI for the applicable area. The income levels for CTs are derived from U.S. Census Bureau information and are updated every ten years. The applicable figure used to determine the income categories for this institution's assessment area is the 2000 U.S. Census Bureau MFI of **\$44,599 for the State of Iowa non-Metropolitan Statistical Area (Non-MSA)**. Table 2 illustrates the various income categories.*

<b>Table 2 – Designation of Income Categories</b>	
<b>Income Category</b>	<b>Definition</b>
Low Income	Income of less than 50 percent of the area MFI
Moderate Income	Income of at least 50 percent and less than 80 percent of the area MFI
Middle Income	Income of at least 80 percent and less than 120 percent of the area MFI
Upper Income	Income of 120 percent or more of the area MFI

The institution’s assessment area in north central Iowa includes portions of Cerro Gordo, Floyd, and Franklin counties. The assessment area is comprised of ten middle-income CTs: 9501 through 9506 and 9510 in Cerro Gordo County, CT 9802 and 9803 in Floyd County, and CT 9601 in Franklin County. The institution’s main office and Rudd branch office are located in CT 9802 in Floyd County. The bank’s Rockwell branch office is located in CT 9510 in Cerro Gordo County. The entire assessment area is comprised of 44,239 residents.

**Demographic and Economic Data**

According to the 2000 U.S. Census Bureau data, the assessment area has 18,253 households. Of these households, 11,794 are families. In 2000, 17.2 percent of these families were low-income families and of those, 6.2 percent were below the poverty level. Families and persons are classified as “below poverty” if their total family income or unrelated individual income is less than the poverty threshold specified for the applicable family size, age of householder, and number of related children under 18 present. Specifically, for a family of four, the 2000 poverty level threshold is \$17,029; therefore, a family earning less than \$17,029 would be below the poverty level. This indicates that approximately 36 percent of the low-income families are below the poverty level. The poverty level threshold is determined on a national basis and is not adjusted regionally.

The 2000 U.S. Census Bureau information also shows that the assessment area housing stock totaled 19,367 housing units. In addition, the 2000 data revealed that 67 percent of the housing units were owner-occupied, 27 percent were rental units, and 6 percent were vacant. The median value of a home was \$70,549, and the median age of the housing stock was 50 years.

*To better understand the credit needs and current demographic information of local neighborhoods, cities, or counties, confidential community contacts are conducted by all financial institution regulatory agencies.*

A community contact noted that many residents of Nora Springs commute to Mason City or Charles City areas for employment purposes. The contact also indicated that Nora Springs had a median family income between \$40,000 and \$50,000. The contact also mentioned that Nora Springs is experiencing a housing shortage, and as a result, home values have increased. The contact further noted that several homes are being built in this area. Moreover, the contact stated that First State Bank was meeting the credit needs of the community.

Iowa Workforce Development reported the State's seasonally adjusted unemployment rate at 4.6 percent as of September 2003. The unemployment rate is not reported by CT but by county. Cerro Gordo County reported an unadjusted unemployment rate of 3.8 percent in September 2003, Floyd County reported an unadjusted unemployment rate of 4.4 percent, and Franklin County reported an unadjusted unemployment rate of 3.0 percent for the same time period. The Director of Iowa Workforce Development, Richard Running (iowaworkforce.org), commented that the job market in September displayed its strongest signs of revival since the start of the year. This same source noted that the nationwide unemployment rate held steady at 6.1 percent in September 2003, as businesses added to payrolls for the first time in eight months. Nationwide unemployment was reported at 5.7 percent for the same period one year ago.

According to D&B Corporation 2002 data, the largest industries in the assessment area, as a percentage of total industries, are: services (28 percent); agriculture, forestry, and fishing (18 percent); retail trade (14 percent); and non-classifiable establishments (13 percent). D&B Corporation data also revealed that the largest employers in Cerro Gordo County include Mercy Medical Center, ASSA Abloy Door Group L.L.C., Principal Life Insurance Co., and North Iowa Area Community College all located in Mason City, Iowa. Largest employers located in Floyd County include Wyeth-Wyeth, Comprehensive Systems Inc., All-States Quality Foods L.P., and Floyd County Memorial Hospital all located within Charles City, Iowa. Largest employers located in Franklin County include Sukup Manufacturing Co. (Sheffield, Iowa), Franklin General Hospital (Hampton, Iowa), Winnebago Industries Inc. (Hampton, Iowa), and Agriliance L.L.C. (Hampton, Iowa).

As is the case with the number of farm operations nationwide, the number of farm operations are declining in the assessment area. According to the 1997 Census of Agriculture County Profile, the number of full-time farms in Cerro Gordo and Floyd counties decreased 8 percent, and Franklin County decreased 17 percent from 1992 to 1997. During the same time period, the average size of farms in Cerro Gordo County decreased 3 percent, while the average size of farms for both Floyd and Franklin counties increased 8 percent and 9 percent, respectively.

Reports of Condition filed by financial institutions in the area support the fact that agricultural and commercial lending, as well as residential real estate lending, are the identified credit needs of the assessment area.

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

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

*Examiners reviewed the bank's average quarterly net loan-to-deposit (LTD) ratio in order to evaluate the bank's performance for this criterion. A small bank's net LTD ratio is calculated by dividing the institution's net loans and leases by its total deposits. The bank's net LTD ratio is then averaged for all quarter-ends since the last evaluation. Each small institution's ratio is evaluated and analyzed using performance context, including the bank's capacity to lend, demographic, and economic factors present in the assessment area, and the lending opportunities available in the bank's assessment area. Detailed below is an analysis of this performance criterion for this bank.*

The bank’s average quarterly net LTD ratio, which is a measure of the bank’s overall level of lending, is strong given the bank’s size, financial condition, and assessment area demographics. The bank’s net LTD ratio averaged 93 percent for the 22 quarters beginning March 31, 1998, and ending June 30, 2003. The bank’s net LTD ratio showed a declining trend (beginning with the branch office purchase) and is currently at 85 percent for quarter ending June 30, 2003. The ratio ranged from a low of 83 percent on December 31, 2002, to a high of 106 percent on March 31, 2001. Management indicated that the LTD ratio was affected by the purchase of the Rockwell office, which added \$11 million to the bank’s deposit base. The bank’s deposit base increased by 76 percent, while loan growth equaled 65 percent for the same time period (March 31, 1998, through June 30, 2003). Management attributes these growths to the purchase of the branch office and the extension of more loans.

To further evaluate the reasonableness of this ratio, examiners compared the bank’s average net LTD ratio to other similarly situated lenders located within or near the bank’s assessment area. Comparable banks are chosen based on size, credit products offered, or markets served. Similarly situated lenders are listed alphabetically by city.

Table 3 provides a comparison of average net LTD ratios for the subject bank and other similarly situated banks, which includes four other banks with asset sizes varying from \$54 million to \$91 million and average net LTD ratios of 68 percent to 79 percent. The bank’s average net LTD ratio of 93 percent is considerably higher when compared to similarly situated financial institutions. The bank also purchases participations from its affiliates. When factoring in net participation loans, the June 30, 2003, LTD ratio would be 3 percent less. Moreover, the bank sells residential real estate loans on the secondary market, with 15 loans totaling \$1.1 million in 2002 and year-to-date 2003. These loans are not reflected in the average net LTD ratio noted below. The average net LTD ratio for the similarly situated banks detailed in Table 3 equaled 73 percent. First State Bank’s average net LTD ratio of 93 percent substantially exceeds (20 basis points) the overall average, illustrating that the bank is a leader in making credit available. In addition, the bank reported an average net LTD ratio of 69 percent at the February 23, 1998, evaluation, showing a 35 percent increase. Overall, the bank’s performance with this criterion is strong.

<b>Table 3 – Comparable Financial Institution Analysis</b>		
<b>Institution</b>	<b>Total Assets \$ (000s)</b>	<b>Average Net LTD Ratios</b>
<b>First State Bank, Nora Springs, Iowa</b>	<b>\$42,662</b>	<b>93%</b>
Northwoods State Bank, Mason City, Iowa	\$76,062	72%
Farmers State Bank, Northwood, Iowa	\$53,821	79%
First State Bank, Riceville, Iowa	\$54,793	68%
St. Ansgar State Bank, St. Ansgar, Iowa	\$90,930	71%

Source: Reports of Condition and Income for quarter-ends March 31, 1998, thru June 30, 2003. Total Assets are as of June 30, 2003.

As previously mentioned, a community contact indicated that all credit needs in the area are being met, thus illustrating that the bank is serving its assessment area.

***Selection of Loan Product Samples***

Agricultural, commercial, and residential real estate loans comprise 89 percent of the bank’s loan portfolio, and examiners reviewed those three loan types. Examiners reviewed 38 out of 229 agricultural loans, 29 out of 74 commercial loans, and 37 out of 157 residential real estate loans originated from September 30, 2002, through September 30, 2003. The agricultural loans reviewed amounted to \$1.7 million, commercial loans reviewed amounted to \$815 thousand, and residential real estate loans reviewed amounted to \$1.6 million. The total dollar volume of the universe for each loan type could not be reasonably obtained.

***Assessment Area Concentration***

*Examiners reviewed the bank’s assessment area lending concentration in order to evaluate its performance with CRA small bank criteria. Examiners typically sample loans and complete a comparative analysis that details loans extended inside and outside of the bank’s assessment area. Detailed below is an analysis of this performance criterion for this bank.*

A substantial majority of agricultural, commercial, and residential real estate loans sampled by number and dollar amount were located within the bank’s assessment area, illustrating an excellent record of making loans within the assessment area. Specifically, the combined total for all three product types equaled 90 percent by number and 95 percent by dollar volume in the bank’s assessment area. This high level of lending inside the assessment area illustrates the bank’s strong commitment to making credit available within its community. Overall, the bank’s performance with this criterion is considered excellent.

<b>Table 4 – Distribution of Loans Inside and Outside of the Assessment Area</b>										
<b>Loan Category</b>	<b>Number of Loans</b>					<b>Dollars Volume of Loans</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total #</b>	<b>Inside</b>		<b>Outside</b>		<b>Total \$ (000s)</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	
Agricultural	33	87	5	13	38	1,646	96	65	4	1,711
Commercial	25	86	4	14	29	704	86	111	14	815
Residential	36	97	1	3	37	1,547	97	43	3	1,590
<b>Total</b>	<b>94</b>	<b>90%</b>	<b>10</b>	<b>10%</b>	<b>104</b>	<b>\$3,897</b>	<b>95%</b>	<b>\$219</b>	<b>5%</b>	<b>\$4,116</b>

Source: Examiner sampling

The majority of the remaining analysis will focus on number of loans originated, rather than on the dollar volume, since loans extended to low- and moderate-income individuals and small farm and business operations are generally for smaller dollar amounts than loans to higher income individuals and large farm and business operations. An analysis using dollar volume of loans would not provide a representative picture of the bank's lending.

### ***Borrower Profile***

*For this criterion, examiners determine the distribution of loans that the bank originated inside its assessment area by business gross annual revenues (agricultural and commercial) or by borrower income (residential real estate), as applicable.*

Overall, the bank's level of lending to agricultural and commercial operations of different sizes and borrowers of different incomes reflects an outstanding performance of meeting the credit needs within its assessment area.

### **Agricultural and Commercial Loans**

*To aid in evaluating the bank's performance in lending to agricultural and commercial businesses of different sizes, examiners used D&B Corporation 2002 data. D&B Corporation provides a breakdown of the number of businesses and farms surveyed in the assessment area that reported gross revenues, as well as those that did not report earnings, and assigns each business into a specific revenue category. Gross revenue information for the bank's business and agricultural loan sample was obtained from credit files and discussions with loan officers.*

The review of sampled agricultural and commercial loans showed that the bank's lending to operations of different sizes is excellent. Table 5 displays the number, dollar volume, and related percentages of sampled loans made to farm and business operations of different sizes. This table also compares those percentages to the percentages of farm and business operations that were surveyed by D&B Corporation that are located within the assessment area. Only those farms and businesses that reported gross revenues to D&B Corporation are included in the percentage categories as depicted in Table 5.

The bank originated 96 percent of loans by number to farms and businesses with revenues under \$1 million, compared to 94 percent of these operations in the assessment area, demonstrating the bank's strong commitment to make credit available to small operations. In addition, First State Bank's level of lending to agricultural and commercial businesses with gross revenues under \$100,000 is favorable when compared to D&B Corporation data. This level of lending is excellent when considering that 1997 Census of Agriculture by the United States Department of Agriculture (USDA) National Agricultural Statistics Service data shows that 32 percent of all farm operations (within the three counties in the bank's assessment area) reported no interest paid; therefore, these entities likely have little, if any, credit need while 63 percent of farms with revenues under \$10,000 showed no interest paid. Census data also shows that 57 percent of farmers earn under \$100,000 and that their sales only amount to 10 percent of the total sales volume reported; therefore, farms with higher revenues need more financing for inputs. Additionally, census data shows that 34 percent of farmers (within the three counties in the

bank’s assessment area) are classified as “hobby farmers,” indicating that these types of farmers have other sources of revenue and minimal need for loans. Furthermore, the bank’s level of lending to businesses and farms with revenues of \$100,000 to under \$250,000 is also considered very favorable when compared to the D&B Corporation data. Overall, the bank’s level of lending to businesses and farms with revenues under \$250,000 is strong.

Moreover, D&B Corporation data shows that only 2 percent of operations reported that their headquarters were located within the bank’s assessment area for 2002. Given that 21 percent of the D&B Corporation operations reported that they were incorporated, it is more likely that these companies obtain financing wherever their headquarters are located instead of locally. This demonstrates that the bank is doing an excellent job of providing credit to all eligible entities within its assessment area.

First State Bank’s lending to operations with revenues of \$500,000 or greater is similar to D&B Corporation data, and considered reasonable. The bank did not have any loans originated to operations with revenues of \$250,000 to under \$500,000; however, management noted that those operations were not included within the loan sampling and that credit has been extended to entities with revenues of \$250,000 to under \$500,000.

<b>Table 5 – Distribution of Agricultural and Commercial Loans by Gross Annual Revenues</b>					
<b>Gross Annual Revenues</b>	<b>Businesses/Farms in the Assessment Area</b>	<b>Distribution of Agricultural and Commercial Loans Sampled</b>			
	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
< \$100,000	54	32	55	866	37
\$100,000 to < \$250,000	27	21	36	1,142	48
\$250,000 to < \$500,000	9	0	0	0	0
\$500,000 to < \$1,000,000	4	3	5	326	14
≥ \$1,000,000	6	2	4	16	1
<b>Total</b>	<b>100%</b>	<b>58</b>	<b>100%</b>	<b>\$2,350</b>	<b>100%</b>

Source: Examiner Loan Sampling and 2002 D&B Corporation Data. (Note: 976 farms and businesses in the assessment area that did not report incomes are excluded from this analysis).

Table 5a shows the bank’s level of lending to agricultural borrowers with various annual gross revenues and 1997 Census of Agriculture Data. The 1997 Census of Agriculture data can only be obtained at the county level instead of CT level; therefore, more farms are being reported in Table 5a than what is actually included within the bank’s assessment area. Examiners chose to analyze the bank’s lending to agricultural operations separately, since the bank makes more than double the amount of agricultural loans by dollar volume versus commercial loans by dollar volume (Table 1).

<b>Table 5a – Distribution of Agricultural Loans by Gross Annual Revenues</b>							
<b>Gross Annual Revenues</b>	<b>Farm Loans Sampled</b>				<b>1997 Census of Agriculture Data</b>		
	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>Cerro Gordo County</b>	<b>Floyd County</b>	<b>Franklin County</b>
< \$100,000	527	32	18	55	58%	61%	54%
\$100,000 to < \$250,000	793	48	12	36	27%	24%	27%
\$250,000 to < \$500,000	0	0	0	0	10%	10%	13%
≥ \$500,000	326	20	3	9	5%	5%	6%
<b>Total</b>	<b>\$1,646</b>	<b>100%</b>	<b>33</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Examiner Loan Sampling and 1997 Census of Agriculture Data.

As noted in Table 5a, the bank originated 91 percent of the total loans sampled by number to borrowers with gross revenues below \$250,000. The bank’s lending to agricultural operations of different sizes appears excellent when compared to the 1997 Census of Agriculture data. Specifically, the bank’s sample reflects 55 percent of loans made to farm operations with gross annual sales under \$100,000 compared to 58 percent for Cerro Gordo County, 61 percent for Floyd County, and 54 percent for Franklin County for this income level. The bank’s lending at this level is close to census data, and is excellent when considering agriculture census data regarding the number of operators that do not borrow. The 1997 Agriculture Census data for Cerro Gordo County shows that at least 23 percent of operators with revenues under \$100,000 do not borrow, so no more than 35 percent of operators in Cerro Gordo County are seeking credit. (Statistics by revenue category regarding no interest paid are only available for farms with revenues under \$10,000; therefore, examiners noted the minimum percentage of farmers who did not pay interest for each county). Census data for Floyd County shows that at least 14 percent of operators with revenues under \$100,000 do not borrow, so no more than 47 percent of operators in Floyd County are seeking credit. Franklin County shows that at least 16 percent of operators with revenues under \$100,000 do not borrow, so no more than 38 percent are seeking credit. The bank lent to a much higher percentage of farms at this level of annual sales, at 55 percent. Plus, the bank’s assessment area only includes portions of the three counties listed in Table 5a. The bank also compares very favorably to Census data, with 91 percent of the loans originated to farm operations with gross annual sales under \$250,000, compared to 85 percent for Cerro Gordo and Floyd counties and 81 percent for Franklin County (without adjustment for farmers who did

not pay interest). This level of lending to very small farmers demonstrates the bank’s strong commitment to making credit available for all qualified borrowers regardless of size.

Loan Programs

The bank is involved in State loan programs to assist small farm and small business operations. The bank extended Iowa Agricultural Development Beginning Farmer loans, with outstanding loans totaling \$192,105. Assistance has also been provided to small businesses and small farms through the Linked Investment for Tomorrow (LIFT) loan program through the Iowa State Treasurer’s Office. The bank has loans under this program totaling \$145,424.

The bank is also involved with assisting farmers through the Farm Service Agency (FSA). The bank has \$390,000 outstanding in FSA guaranteed loans. The bank also makes loans under the FSA Rural Housing Program and has loans totaling \$98,000 under this program.

First State Bank sponsored a program for the past five-years called “Downtown Spruce Up.” The bank developed a program that offers low cost financing for new business start-ups or for existing business improvements in Nora Springs. The bank made loans under this downtown revitalization program totaling \$70,000. The program was extended through December 31, 2003.

Overall, the bank’s performance in lending to agricultural and commercial operations is outstanding.

Residential Real Estate Loans

*The Department of Housing and Urban Development’s (HUD) estimates for the State of Iowa Metropolitan Statistical Area (MSA) and Non-Metropolitan Statistical Area (Non-MSA) median family incomes, as applicable, for the years sampled were used to determine the income level for the residential real estate loans reviewed. In other words, the borrower income reported for each loan at the time of application was compared to the HUD estimates for the corresponding year of income reported (MSA and/or Non-MSA, as applicable) to determine whether each borrower should be considered low-, moderate-, middle-, or upper-income. The 2002 and 2003 Non-MSA HUD estimated median family income category is illustrated in Table 6.*

<b>Table 6 – Median Family Income Ranges (HUD Estimated)</b>				
Median Family Incomes	<b>Low &lt;50%</b>	<b>Moderate 50% to &lt;80%</b>	<b>Middle 80% to &lt;120%</b>	<b>Upper ≥ \$120%</b>
<b>Statewide Non-Metropolitan Statistical Area Median Family Income</b>				
2002 (\$49,400)	<\$24,700	\$24,700 to <\$39,520	\$39,520 to <\$59,280	≥\$59,280
2003 (\$50,800)	<\$25,400	\$25,400 to <\$40,640	\$40,640 to <\$60,960	≥\$60,960

Source: Department of Housing and Urban Development

The bank demonstrated an excellent level of lending to residential real estate borrowers of different incomes. Table 7 shows the number, dollar amount, and related percentages of residential real estate loans made to borrowers of different incomes. This table also displays the percentage of families in the assessment area by income level.

The bank’s level of lending to both low- and moderate-income borrowers is favorable when compared to the demographics of low- and moderate-income families within the assessment area. Specifically, the bank originated 22 percent by number of residential real estate loans to low-income borrowers, compared to 17 percent of low-income families in the assessment area. This level of lending to low-income borrowers is excellent given that 36 percent of low-income families in the bank’s assessment area have incomes below the poverty level and often are unable to qualify for conventional financing. By excluding the number of low-income families that earn incomes below the poverty level, the adjusted percentage of low-income families in the assessment area would be 12 percent. The bank lent to a much higher percentage of families at this income level, at 22 percent. Further, the bank originated 28 percent by number of residential real estate loans to moderate-income borrowers when compared to 18 percent of moderate-income families in the assessment area. Given the fact that the bank originated 50 percent by number of its residential real estate loans to low- and moderate-income borrowers, the bank’s performance is considered excellent. Management indicated that the bank offers affordable in-house and secondary market loans for residential borrowers. In fact, the bank has zero down payment and low down payment programs available for residential borrowers.

The bank’s level of lending to middle-income borrowers is higher than the demographics; however, it is considered reasonable. The bank’s level of lending to upper-income borrowers is significantly below assessment area demographics and is expected since the bank originates a high level of loans to low-, moderate-, and middle-income borrowers.

Overall, the bank’s level of lending to residential real estate borrowers is excellent.

<b>Table 7 – Distribution of Residential Real Estate Loans by Borrower Income Level</b>					
<b>Median Family Income Level</b>	<b>Families in the Assessment Area</b>	<b>Distribution of Residential Real Estate Loans Sampled</b>			
	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Low (< 50%)	17	8	22	245	16
Moderate (50% - < 80%)	18	10	28	255	16
Middle (80% - < 120%)	26	11	31	543	35
Upper (≥ 120%)	39	7	19	504	33
<b>Total</b>	<b>100%</b>	<b>36</b>	<b>100%</b>	<b>\$1,547</b>	<b>100%</b>

Source: Examiner Sampling and 2000 U.S. Census Bureau Data

Overall, the bank displays an outstanding record of lending to commercial and agricultural business operations of different sizes and borrowers of different incomes.

### ***Geographic Distribution of Lending***

*Examiners analyze the bank's performance under this criterion to determine if the bank is lending throughout its assessment area including any low- and moderate-income areas or geographies within the assessment area. The composition of the bank's assessment area by CT income level is important to this evaluation process because it is compared to where the bank originated its sampled loans by CT. Detailed below is an analysis of this performance criterion for the bank.*

The bank's assessment area includes only middle-income CTs. There are no low-, moderate-, or upper-income CTs in the bank's assessment area. The bank's geographic distribution of sampled loans reflects reasonable penetration throughout the assessment area, illustrating the bank's commitment to extend loans throughout its community.

### **Agricultural and Commercial Loans**

The bank originated a higher level of loans in CTs 9802 and 9510 when compared to 2002 D&B Corporation demographics. This level of lending is considered reasonable since the bank's main office and Rudd branch office are located in CT 9802, and the Rockwell branch office is located in CT 9510. CTs 9501 through 9505 comprise Mason City, Iowa, where the bank has some business loans. However, it should be noted that the Rockwell office services that area, and the Rockwell office was just purchased in June of 2001. Bank management is still developing clientele in that area. In addition, seven other national, regional, and community banks are located in Mason City, Iowa, the largest bank with assets totaling \$656 billion as of June 30, 2003. This type of strong competition limits First State Bank's lending opportunities in that area. The bank's lending in other CTs is similar to the area's demographics and considered reasonable.

Overall, the bank's level of penetration in lending to agricultural and commercial businesses in middle-income CTs is satisfactory.

**Table 8 – Distribution of Agricultural and Commercial Loans by Income Category of the Geography**

Geography	Farms and Businesses in the Assessment Area	Distribution of Agricultural and Commercial Loans Sampled			
	%	#	%	\$ (000s)	%
9501 (Cerro Gordo County)	5	0	0	0	0
9502 (Cerro Gordo County)	13	1	2	1	0
9503 (Cerro Gordo County)	16	1	2	1	0
9504 (Cerro Gordo County)	18	1	2	110	4
9505 (Cerro Gordo County)	7	2	3	207	9
9506 (Cerro Gordo County)	6	3	5	585	25
9510 (Cerro Gordo County) Branch Office	8	14	24	230	10
9802 (Floyd County) Main Office and Branch Office	8	25	43	751	32
9803 (Floyd County)	9	7	12	328	14
9601 (Franklin County)	10	4	7	137	6
<b>Total</b>	<b>100%</b>	<b>58</b>	<b>100%</b>	<b>\$2,350</b>	<b>100%</b>

Source: Examiner Sampling and 2002 D&B Corporation Data.

Residential Real Estate Loans

A review of residential real estate loans originated by the bank revealed that the loans are reasonably dispersed throughout the First State Bank’s assessment area. Again, the bulk of the First State Bank’s lending is concentrated in CT 9802 and CT 9510, where bank offices are located. In addition, the bank originated residential real estate loans throughout the rest of its assessment area, demonstrating that First State Bank is willing to make loan products available to all areas in its assessment area.

Overall, the bank’s level of dispersion in lending to residential real estate borrowers throughout the assessment area is satisfactory.

<b>Table 9 – Distribution of Residential Real Estate Loans by Income Category of the Geography</b>					
<b>Geography</b>	<b>Families in the Assessment Area</b>	<b>Distribution of Residential Loans Sampled</b>			
	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
9501 (Cerro Gordo County)	11	2	5	45	3
9502 (Cerro Gordo County)	15	1	3	24	2
9503 (Cerro Gordo County)	11	1	3	35	2
9504 (Cerro Gordo County)	10	1	3	43	3
9505 (Cerro Gordo County)	18	2	5	141	9
9506 (Cerro Gordo County)	6	1	3	15	1
9510 (Cerro Gordo County) Branch Office	7	6	17	504	33
9802 (Floyd County) Main Office and Branch Office	7	18	50	503	32
9803 (Floyd County)	7	1	3	110	7
9601 (Franklin County)	8	3	8	127	8
<b>Total</b>	<b>100%</b>	<b>36</b>	<b>100%</b>	<b>\$1,547</b>	<b>100%</b>

Source: Examiner Sampling and 2000 U.S. Census Bureau Data

Based upon the above information presented, the bank displays a satisfactory record of lending to agricultural, commercial, and residential real estate borrowers in its assessment area. There was no evidence from management or community contact discussions, or review of the bank's lending decisions to indicate that the bank is not willing to serve any particular geography of the assessment area.

### ***Response to CRA-Related Complaints***

*Examiners are required to review the bank's response to any substantiated complaints. If the bank receives any written comments from the public relating to its CRA performance, they will be found in its CRA public file along with the bank's response. Comments and responses for the preceding two calendar years will be maintained in the bank's CRA public file, except for those comments that reflect adversely on the good name or reputation of any persons other than the bank.*

A review of the bank's CRA public file and discussions with management revealed that the bank has not received any CRA-related complaints since the previous CRA evaluation.

## ***Compliance With Anti-discrimination Laws and Regulations***

*Examiners are required to take into consideration the bank's compliance with fair lending laws when assigning a CRA rating.*

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the evaluation.

## ***Qualified Investments and Community Development Services***

The bank's record of providing qualified investments and community development services enhances the bank's ability to meet credit needs of the assessment area. Given the bank has no low- or moderate-income CTs in its assessment area, bank personnel are exhibiting extra effort to meet community development needs of low- and moderate-income individuals and small farms and businesses through qualified investment and community development services.

The bank is very involved in its community, considering its size and resources, and maintains contact with various civic and community leaders, civic groups, community development organizations, and small business organizations. The following investments and services show the bank's commitment to communities within its assessment area.

### **Qualified Investments**

"Qualified investments" is a defined term within the CRA regulation under Part 345.12(s) and includes a lawful investment, deposit, membership share, or grant that has its primary purpose "community development."

"Community development" is also a defined term within the CRA regulation under Part 345.12(h). Any activity is considered a community development activity if it meets one of the following four criteria:

- Affordable housing for low- or moderate-income individuals.
- Community services targeted to low- or moderate-income individuals.
- Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less.
- Activities that revitalize or stabilize low- or moderate-income geographies.

First State Bank holds bonds in the following qualified investments:

- \$105,000 for a Mason City, Iowa, TIF Revenue Bond. The proceeds of the bond were used for the Community Growth Urban Renewal Plan for the "Northbridge Project." This project consists of purchasing and clearing properties for redevelopment and will bring urban renewal into a dilapidated area of the community. In addition, funds were earmarked for street improvements/re-alignment. The geographic area encompassed by

the Northbridge project includes the area between 4th Street North and 6th Street North from Delaware Avenue to Washington Avenue.

- \$100,000 North Iowa Area Community College Industrial New Jobs Training Certificates. North Iowa Area Community College is located four miles east of Mason City, Iowa. The new jobs training program specifically targeted one business located in Mason City, Iowa, that will expand its business for 89 jobs under this program. This retail store currently employs 950 people and is located near a designated urban renewal zone which will aid in stabilizing this area. The Iowa Industrial New Jobs Training Program was established to provide education and training for individuals for new and expanding industry in the State and is implemented by community colleges throughout the State.

First State Bank participates in community development through donations and in-kind contributions to various organizations. Over the evaluation period, the bank donated funds to qualified community organizations including \$10,317 to the Charles City Area Development Corporation (county-wide organization). This organization promotes and facilitates economic growth through business assistance and expansion programs and attracts businesses into Floyd County. The bank also donated \$1,948 to agricultural-based organizations that sponsor seminars for small farmers on marketing, risk management, and business expansion techniques.

#### Qualified Community Development Services

“Community development service” is a defined term within the CRA regulation under Part 345.12(j) and means a service that has as its primary purpose community development and is related to the provision of financial services.

A member of bank management is currently a member of Charles City Area Development Regional Housing Task Force and also a member of the Nora Springs Housing Committee. Both groups are actively pursuing the promotion of moderately priced housing developments in Nora Springs and the county.

A member of bank management is also a member of the Nora Springs Business Alliance, an organization consisting of small businesses located in Nora Springs. This organization’s main goal is to promote utilization of local businesses and create an environment that will promote the creation of additional businesses in Nora Springs.

A member of bank management serves as a treasurer and Board member for the NS-RF Community School District Educational Foundation. This is a non-profit organization designed for fund-raising and facilitation of funds for scholarships and/or support of worthy school programs. Scholarship recipients included moderate-income individuals. Programs receiving donations include Peacemakers, Female Leadership Group, and Conflict resolution organizations.

A member of management is a Board member of the Rockwell Chamber of Commerce and has participated in projects including housing, street improvements, and small business development for the community.

A community contact mentioned that First State Bank was active in Nora Springs, and tries to work with businesses and organizations to generate economic development in this area. The contact also believes that First State Bank is viewed positively by the community.

First State Bank purchased the Commercial Federal Office in Rockwell, Iowa, in June of 2001. Since that time period, the bank expanded its hours to include drive-up hours on Saturdays from 8:30AM to 11:30AM and added an additional hour in the morning from Monday through Friday. The bank also installed an on-premise ATM at the Rockwell facility in response to suggestions from community members.

Since the previous evaluation, the bank also started offering Internet Banking as an alternative delivery system. Customers can pay bills, view statements, and transfer funds between accounts. The bank's website is: [www.fsbnora.com](http://www.fsbnora.com). The bank also has BankLine 2000, which is an automated 24-hour telephone banking system that allows customers to check bank statements, transfer funds, make payments, and perform other functions by phone.