

# **PUBLIC DISCLOSURE**

**May 5, 2003**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Iowa State Savings Bank  
11349**

**222 East Robinson Street  
Knoxville, Iowa 50138**

**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 .....5

V. Conclusions .....8

## 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 **Iowa State Savings Bank, Knoxville, Iowa**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **May 5, 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 Satisfactory.

An institution in this group has a satisfactory 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 reasonable given the bank's size, financial condition, and assessment area demographics. The bank's net loan-to-deposit ratio averaged 76 percent for the quarters from September 30, 1997, through December 31, 2002, and demonstrates a willingness to extend credit.
- A substantial majority of the sampled agricultural, commercial, and residential real estate loans by number and dollar volume are located in the bank's assessment area, reflecting management's willingness to lend locally.
- The distribution of sampled agricultural, commercial, and residential real estate loans reveals a reasonable record of lending to operations of varying revenues and borrowers of different incomes, which reflects a willingness to provide credit to all qualified borrowers. The bank's record is particularly good in lending to smaller agricultural and commercial business operations that includes active use of various federal and state loan assistance programs.
- The geographic distribution of agricultural, commercial, and residential real estate loans reflects a reasonable dispersion throughout the assessment area, illustrating the bank's commitment to extend loans throughout its community. The location of the institution's office, characteristics of the assessment area, and the availability of competing bank services also factored into analyzing this performance criteria.
- The bank has not received any CRA-related complaints since the previous CRA Performance Evaluation. 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.

## DESCRIPTION OF INSTITUTION

Iowa State Savings Bank's main office is located in Knoxville, Iowa. The bank operates two drive-up branch offices in Knoxville and a branch office in Melcher, Iowa. Knoxville is located in the center of Marion County and Melcher is approximately 14 miles to the southwest. Iowa State Savings Bank has not opened or closed any offices since the bank's previous CRA Performance Evaluation dated August 13, 1997.

Iowa State Savings Bank offers a variety of products and services to meet the credit and deposit needs of the local areas it serves. Loan types include consumer loans (for personal, household and family purposes), real estate loans (for residential, business, agricultural, and construction purposes), commercial loans, and agricultural loans. Deposit products offered include checking, savings, and certificates of deposits. The bank operates three nondeposit taking automated teller machines (ATMs) located at each drive-up facility (available 24 hours) and at Casey's General Store in Melcher (available during Casey's hours). Iowa State Savings Bank also has a transactional Internet web site ([www.issbank.com](http://www.issbank.com)).

Iowa State Savings Bank's December 31, 2002, Consolidated Reports of Income and Condition reported total assets of \$80 million, total loans of \$54 million, and total deposits of \$66 million. Total assets increased 39 percent and total loans grew 52 percent since the bank's previous CRA evaluation. According to management, growth in the loan portfolio is attributed to normal marketing efforts without any major planned changes to loan products offered. Table 1 details a breakdown of the bank's loan portfolio as of December 31, 2002.

Duclarkee, Inc., a one-bank holding company, located in Knoxville, Iowa, owns 100 percent of Iowa State Savings Bank. Iowa State Savings Bank has 100 percent ownership of Iowa State Investment Services, located in Knoxville, Iowa, and offers noninsured investments through a broker dealer. There are no legal or financial impediments that prevent Iowa State Savings Bank from helping to meet the credit needs of its assessment area.

<b>Table 1 – Loan Portfolio Distribution as of December 31, 2002</b>		
<b>Loan Category</b>	<b>Dollar Volume (000s)</b>	<b>Percent of Total Loans</b>
Construction and Land Development	1,457	3
Secured by Farmland	7,699	14
Revolving Open-End LOCs	909	2
1-4 Family Residential First Liens	12,090	22
1-4 Family Secured by Junior Liens	1,121	2
Multi-Family (5 or more) Residential	627	1
Commercial Real Estate	1,287	2
<b>Total Real Estate Secured Loans</b>	<b>25,190</b>	<b>46</b>
Agricultural	10,940	20
Commercial and Industrial	9,868	18
Consumer	6,731	13
Credit Cards	446	1
Other revolving credit plans	367	1
Other loans	542	1
Gross Loans	54,084	100
Less: Unearned Income	0	0
<b>Total Loans</b>	<b>54,084</b>	<b>100</b>

Source: Report of Condition

As indicated in Table 1, agriculture lending (comprised of *Secured by Farmland* and *Agricultural*) accounts for 34 percent of the bank's portfolio. Commercial lending (comprised of *Construction & Land Development*, *Multi-Family (5 or more) Residential*, *Commercial Real Estate*, and *Commercial and Industrial*) accounts for 24 percent of the portfolio. Finally, residential real estate (comprised of *1-4 Family Residential* both *First and Junior Liens*) accounts for 24 percent of the bank's portfolio. These three categories represent 82 percent of the bank's total loans by dollar volume. All three primary loan categories were sampled. While the percentage of agriculture lending has remained stable since the last evaluation, the percentage of residential real estate loans has declined from 30 percent to 24 percent while commercial loans has increased from 17 percent to 24 percent. Management indicated that the bank's focus has been on agricultural lending, but further loan portfolio diversification with more emphasis on residential and commercial lending has been experienced. The portfolio percentage decline in residential real estate loans is primarily attributed to the bank's increased involvement with secondary market loans, which provides longer maturity terms with competitive fixed interest rates to customers of the bank.

## DESCRIPTION OF IOWA STATE SAVINGS 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 block numbering areas (BNAs) or census tracts (CTs), which are statistical subdivisions of a county. BNAs are used in non-metropolitan areas, while CTs are normally used in metropolitan areas. In addition, 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.*

*Each geography (BNA or CT) is designated as low, moderate, middle, or upper income by comparing the 1990 U.S. Census Bureau median family income (MFI) of the geography to the MFI for the applicable area. The income levels for BNAs or CTs are derived from U.S. Census Bureau information and are updated every ten years. The applicable figures used to determine the income categories for this institution’s assessment area is the 1990 U.S. Census Bureau **MFI of \$29,303 for the State of Iowa non-Metropolitan Statistical Area (Non-MSA)**. Table 2 illustrates the various income levels for the State of Iowa.*

<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

Iowa State Savings Bank defines its assessment area as Marion County, which consists of seven census tracts (301 to 307). Marion County has one upper-income census tract 302 (north side of Pella, Iowa) and the remaining geographies are designated middle-income. The bank’s assessment area is located in south central Iowa.

According to the 2000 U.S. Census Bureau data, the population of Marion County is 32,052 and ranked 21st in the State. The population grew from 30,001 as reported by the 1990 U.S. Census Bureau data, representing a 7 percent increase. Communities within Marion County, in addition to Knoxville (population 7,731) and Melcher-Dallas (population 1,298), include Pella (population 9,832), Swan (population 121), Pleasantville (population 1,539), Harvey (population 277), Marysville (population 54), Bussey (population 450), and Hamilton (population 144). The median age of the population in Marion County, reported by 2000 U.S. Census Bureau data, is 37 years with 25 percent of the population less than 18 years old and 16 percent of the population age 65 and over.

*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.*

The assessment area is primarily dependent upon Knoxville and Pella commercial and retail sectors, and the strength of the surrounding area, which primarily consists of agricultural production. As a result, agricultural and commercial-related credit remains the primary credit need of the area, followed by residential real estate loans. This is also supported by Reports of Condition filed by other financial institutions operating in the area, community contact information, and discussions with bank management. Information obtained from recent community contacts also indicated that agricultural and commercial loans are the primary credit need of the assessment area.

The 1990 U.S. Census Bureau information also shows that the assessment area housing stock totaled 11,420 housing units. In addition, 1990 U.S. Census Bureau data revealed that 70 percent of the housing units were owner-occupied, 25 percent were rental units, and 5 percent were vacant. The median value of a home was \$49,383 and the median age of the housing stock was 31 years. The 2000 U.S. Census Bureau data shows that there were 12,755 housing units for Marion County. The housing units for Marion County were 71 percent owner-occupied, 23 percent renter-occupied units, and 6 percent were vacant. Community contact information indicates that with recent lower interest rates, the availability of rental units has increased.

Also according to the 1990 U.S. Census Bureau data, the assessment area had 10,811 households. Of these households, 7,951 were families. In 1990, 14 percent of these families were low-income families and of those, 8 percent were below the poverty level. "Poverty level" is an established dollar threshold rather than a percentage based calculation of the median family income. Specifically, for a family of four, the 1990 poverty level threshold was \$12,674; therefore, a family earning less than \$12,674 would be below the poverty level. This indicates that approximately 57 percent of the low-income families were below the poverty level. The U.S. Department of Health and Human Services lists the poverty level threshold in 2000 for a family of four as \$18,100. This figure is determined on a national basis and is not adjusted regionally.

Précis® Industry's Research Analyst Andy Kish (economy.com) commented that Iowa's economy is expected to grow slowly but steadily in the near term and that while the budget deficit will weigh on growth, Iowa's construction boom will help mitigate the economic pain of further fiscal cost-cutting. This same source indicated that despite favorable business costs, Iowa will continue to struggle to create jobs in the slow-growth Midwest, and that Iowa is expected to be a below average performer. This same source stated that the generous federal farm bill would provide stability in the long term. The 2002 drought conditions in the Midwest had an adverse affect on Iowa crop yields; however, farming conditions in Iowa for 2003 are expected to produce strong yields of soybeans and corn.

According to D&B Corporation 2002 data, the largest industries in the assessment area, as a percentage of total industries, are: services (27 percent), agriculture, forestry, and fishing (16 percent); and retail trade (13 percent). This source reports that Marion County has 1,961

businesses and 385 farms. D&B Corporation 2002 data also identifies the major employers in the assessment area and the top ten include: Pella Corporation, Vermeer Manufacturing Company, Veterans Health Administration, Pella Regional Health Center, 3M Company, Central College, Knoxville Raceway, Christian Opportunity Center, Precision Inc., and Knoxville Area Community Hospital. According to community contact information, several residents in Knoxville and Pella commute to Des Moines, Iowa, for employment.

The Iowa Workforce Development reported the State's seasonally adjusted unemployment rate at 4 percent as of February 2003, up from the 3.8 percent unemployment rate reported in January 2003. One year ago, the unadjusted unemployment rate was also 3.8 percent. The unemployment rate is not reported by census tract but by county. Marion County reported an unadjusted unemployment rate of 4.9 percent in February 2003, which compares favorably to 5.2 percent in January 2003. The Director of Iowa Workforce Development, Richard Running ([iowaworkforce.org](http://iowaworkforce.org)), commented that the over-the-year contractions in both the labor force and employment numbers indicate that the job market is continuing to show little momentum. Furthermore, the nationwide unemployment rate stood at 5.8 percent in February 2003.

The USDA Census of Agriculture data reported that the number of individuals who had their principal occupation as farming in Marion County declined from 568 to 442 between 1992 and 1997. During the same time period, farm operators with principal occupations other than farming increased from 428 to 529. This same source indicated that the number of farm operators who worked more than 200 days off the farm in 1997 was greater in Marion County (42 percent) than in the State (33 percent) overall. Management indicated that the reason many farmers worked off the farm was because of the cost of health insurance and the need to supplement farm income.

The number of farm operations in Marion County has been declining and is following the national trend. USDA Census of Agriculture reveals that the number of farms in Marion County between 1992 and 1997 declined from 996 to 971, representing a 3 percent decline. The average size of a farm in Marion County increased during this same period from 270 acres to 294 acres, representing a 9 percent increase. These trends are more stable than the State of Iowa's 16 percent decrease in the number of full-time farms and a 6 percent increase in the average size of farms. Most of the farms in Marion County are older and well established; however, management reports that when existing farm operators reach retirement, the farms are generally consolidated with other existing farm operations.

The bank's competitors include numerous community, regional, and national banks located within and adjacent to the assessment area. Specifically, there are twelve other financial institutions operating home offices or branches within 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. Detailed below is an analysis of this performance criterion for this bank.*

The bank's average quarterly net loan-to-deposit ratio, which is a measure of the bank's overall level of lending, is reasonable given the bank's size, financial condition, and assessment area demographics. The bank's net loan-to-deposit ratio averaged 76 percent for the 22 quarters beginning September 30, 1997, and ending December 31, 2002, and continues to show growth at the end of each year. The bank's net loan-to-deposit ratio is currently at 81 percent for quarter ending December 31, 2002. The ratio has ranged from a low of 69 percent on December 31, 1997, to its present high of 81 percent. To further evaluate the reasonableness of this ratio, examiners compared the bank's average net loan-to-deposit ratio to other similarly situated lenders located within the bank's assessment area. Comparable banks are chosen based on size, credit products offered, or markets served.

Table 3 provides a comparison of net loan-to-deposit ratios for Iowa State Savings Bank with six other financial institutions in or near the assessment area. These financial institutions also have farm loans as their major loan product. Total asset sizes vary from \$29 million to \$143 million and net loan-to-deposit ratios vary from 40 percent to 94 percent. Variances of asset sizes and loan-to-deposit ratios within this group limit their use for comparative interpretations; however, Iowa State Savings Bank exceeds the average loan-to-deposit ratio for the combined group. With the exception of one other financial institution, the asset size of the other three institutions listed is considerably less than Iowa State Savings Bank.

**Table 3 – Comparable Financial Institution Analysis**

Institution	Total Assets (000s)	Average Net LTD Ratios
<b>Iowa State Savings Bank Knoxville, Iowa</b>	<b>80,183</b>	<b>76</b>
First State Bank Lynnville, Iowa	51,954	49
State Bank Pleasantville, Iowa	28,753	40
Leighton State Bank Pella, Iowa	51,769	94
Marion County State Bank Pella, Iowa	142,850	66

*Source: Consolidated Reports of Condition and Income for quarter-ends September 30, 1997, to December 31, 2002. Data for Pella State Bank, Pella, Iowa was not used for comparison purpose as this bank only began operations in late 1997.*

Participation loans purchased have a minimal impact (less than 1 percent increase) on the bank's loan-to-deposit ratio; however, the bank's record of origination of loans that are participated to other financial institutions does show a significant level of lending that is not represented in the bank's loan-to-deposit ratio. This includes approximately \$823,000 in commercial loans as of December 31, 2002, that were sold to other financial institutions and approximately \$7,018,000 in residential real estate loans extended in the past two years that were assigned to other financial institutions as secondary market loans. Iowa State Savings Bank's record for origination of credit applications is considered typical for the bank's size and location. Recent community contact information does not reveal any credit needs as being unmet within the bank's assessment area. Overall, the bank's performance in lending through available sources as indicated by the loan-to-deposit ratio is reasonable.

### ***Selection of Loan Product Samples***

*To assess the bank's record of helping to meet the credit needs of its community, a statistical sample of primary loan products originated is selected for analysis. Sampling procedures utilized provide for a 90 percent confidence interval with a 15 percent level of precision.*

As previously mentioned, agricultural, commercial, and residential real estate loans comprise 82 percent of the bank's loan portfolio by dollar volume and these three loan product types for the time period between January 1, 2001, and December 31, 2002, were sampled to evaluate the bank's lending performance. The sample from originated loans included 41 out of 400 agricultural loans, 42 out of 294 commercial loans, and 38 of 340 residential real estate loans. The agricultural loans reviewed amounted to \$1.5 million, commercial loans amounted to \$2.0 million, and residential real estate loans amounted to \$2.4 million. The total dollar volume of the universe for each loan type could not be reasonably obtained. The bank's lending trends were reviewed from the quarterly Reports of Condition and Income that indicated dollar volume growth in each of the three loan categories. Iowa State Savings Bank has not changed its lending strategy in recent years

and the sample is intended to represent the bank’s lending activity since the last CRA Public Evaluation.

### ***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 the combined agricultural, commercial, and residential real estate loans by both number and dollar volume were originated within the bank’s assessment area, illustrating a good record of making loans within the assessment area. Table 4 shows that the bank extended 90 percent by number and 86 percent by dollar volume of total loans sampled within its assessment area. More specifically, the bank originated 88 percent by number and 74 percent by dollar volume of agricultural loans sampled; 83 percent by number and 78 percent by dollar volume of commercial loans sampled; and the sample of residential real estate loans were all inside the assessment area.

<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 in Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$ (000s)</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	
Agricultural	36	88	5	12	41	1,132	74	399	26	1,531
Commercial	35	83	7	17	42	1,524	78	426	22	1,950
Residential	38	100	0	0	38	2,413	100	0	0	2,413
<b>Total</b>	<b>109</b>	<b>90</b>	<b>12</b>	<b>10</b>	<b>121</b>	<b>5,069</b>	<b>86</b>	<b>825</b>	<b>14</b>	<b>5,894</b>

*Source: Examiner sampling.*

The bank’s record of lending within its assessment area represents a willingness to provide credit primarily within its local community.

### ***Borrower Profile***

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

Overall, the distribution of borrowers reflects, given the demographics of the assessment area, a reasonable penetration among agricultural and commercial operations of different sizes and

residential borrowers of different income levels. This level of lending reflects a satisfactory performance of meeting the credit needs within the 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 businesses in the assessment area that reported gross revenues, as well as those that did not report incomes. Income information for the bank’s agricultural and commercial loan sample was obtained from credit files and discussions with loan officers.*

The distribution of sampled agricultural and commercial real estate loans reveals a reasonable record of lending to operations of varying revenues, which reflects a willingness to provide credit to all qualified borrowers. The review of sampled agricultural and commercial loans showed that the bank’s lending to operations of different sizes compares closely to the business demographics of the assessment area. The bank’s performance is particularly good in lending to smaller agricultural and business operations.

Table 5, displays the number, dollar volume, and related percentages of agricultural and commercial loans made to farm and business operations of different sizes. This table also compares percentages of revenue segments of sampled agricultural and commercial loans with the percentages of agricultural and commercial business operations within the assessment area according to D&B Corporation 2002 business demographic data.

<b>Table 5 – Distribution of Agricultural and Commercial Loans by Gross Annual Revenues</b>					
<b>Gross Annual Revenues</b>	<b>Farms and Businesses 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	52	44	62	1,422	53
\$100,000 to < \$250,000	28	21	30	925	35
\$250,000 to < \$500,000	11	4	6	212	8
\$500,000 to < \$1,000,000	4	1	1	14	1
≥ \$1,000,000	5	1	1	83	3
<b>Total</b>	<b>100</b>	<b>71</b>	<b>100</b>	<b>2,656</b>	<b>100</b>

*Source: Examiner Loan Sampling and 2002 D&B Corporation data. (The 2002 D&B Corporation data includes the number of farms (385) and nonfarms (1,961) in the assessment area, however 452 nonfarms in the assessment area did not report incomes and are excluded from this analysis.)*

In both agricultural and commercial loans, there is a higher concentration of loans made to borrowers with gross annual revenues under \$250,000. The bank originated 99 percent of

agricultural and commercial loans by number to operations with revenues under \$1 million. In comparison, 95 percent of the farm and business operations in the assessment area have revenues under \$1 million, illustrating that the bank's lending is directed more to small farm and small business operations. Moreover, 62 percent of agriculture and commercial loans were made to operations with annual gross revenues under \$100,000 which is favorable when compared to D&B Corporation data. The two loans reported over \$500,000 in gross annual revenues are commercial loans.

Iowa State Savings Bank is qualified to assist small farm borrowers with obtaining Farm Service Agency guaranteed loans and has also assisted small business borrowers in obtaining Small Business Administration (SBA) loans. As of December 31, 2002, the bank's loan portfolio included \$6,890,000 in Farm Services Administration Guaranteed loans and \$140,000 in Small Business Administration loans.

Iowa State Savings Bank also participated in the "504" loan program to help start a new industry in Knoxville, Iowa. The loan is administered through partnership between SBA and the bank. The bank's loan portfolio as of December 31, 2002, included \$519,000 in this project loan that created jobs in the Knoxville area. This new industry is located in the new Industrial Park at the south edge of Knoxville, Iowa. Iowa State Savings Bank was instrumental in working with Knoxville Industrial Development Corporation to establish the infrastructure for this new industry.

Iowa State Savings Bank is involved in other State loan programs to assist small farm and small business operations. The bank extended Beginning Farmer loans in Marion County, which totaled \$375,488 as of December 31, 2002. The bank assisted farm borrowers in obtaining conservation loans through the Iowa Department of Agriculture and Land Stewardship (IDALS) program. Assistance has also been provided through the Linked Investment for Tomorrow (LIFT) loan program through the Iowa State Treasurer's Office. This program is designed to assist minority owned business operations. As of December 31, 2002, the bank was actively involved with three IDALS program loans and two LIFT program loans. Overall, Iowa State Savings Bank's performance in lending to small farm and small business operations is good.

### ***Residential Real Estate Loans***

*The Department of Housing and Urban Development's (HUD) estimates for the State of Iowa Non-Metropolitan Statistical Area (Non-MSA) median family incomes for the years sampled were used to determine the income level for the residential real estate loans reviewed. In other words, the income reported for each loan at the time of application was compared to the HUD estimates for the corresponding year of income reported to determine whether each borrower should be considered low-, moderate-, middle-, or upper-income. The Non-MSA HUD estimated median family income categories for each applicable year are 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>Non-MSA Median Family Income</b>				
2001 (\$48,400)	<\$24,200	\$24,200 to <\$38,720	\$38,720 to <\$58,080	≥\$58,080
2002 (\$49,400)	<\$24,700	\$24,700 to <\$39,520	\$39,520 to <\$59,280	≥\$59,280

Source: Department of Housing and Urban Development. HUD annually adjusts the median family income for inflation. The 2001 and 2002 HUD Estimated Median Family Incomes have been adjusted annually based on the 1990 Census Bureau Data.

The bank demonstrated a satisfactory level of lending to residential real estate borrowers of different incomes. Table 7 shows the number, dollar volume, 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.

<b>Table 7 – Distribution of Residential Real Estate Loans by Borrower Income Level</b>					
Median Family Income Level	Families in the Assessment Area	Distribution of Residential Real Estate Loans Sampled			
	%	#	%	\$ (000s)	%
Low (< 50%)	14	7	19	216	9
Moderate (50% - < 80%)	15	5	13	208	9
Middle (80% - < 120%)	28	13	34	770	32
Upper (≥ 120%)	43	13	34	1,219	50
<b>Total</b>	<b>100</b>	<b>38</b>	<b>100</b>	<b>2,413</b>	<b>100</b>

Source: Examiner Sampling and 1990 Census Bureau Data.

The bank's lending to residential real estate borrowers with low-income (19 percent of the sampled residential real estate loans) exceeds the percentage of families considered low-income within the assessment area (14 percent). Further review of the selected sample of residential real estate loans found 4 of the 38 to be extended to retired borrowers whose income level met the low-income category based on the HUD estimated median family income. According to management, the percentage of low-income borrowers within the universe of residential real estate loans for the evaluation period would be less than indicated within the sample used. Further analysis reveals the bank is lending small dollar amounts for residential real estate loans to lower income borrowers. The bank's lending to residential real estate borrowers with moderate-income (13 percent) is similar to the percentage of families considered moderate-income within the assessment area (15 percent).

The bank's in-house residential real estate loans require a 20 percent downpayment, which limits the number of qualifying low-income borrowers. Low-income families make up 14 percent of the bank's assessment area and of these, 8 percent are below the poverty level (\$12,674), which means that 57 percent of the low-income borrowers make less than the poverty level income. At these levels, many borrowers cannot qualify for conventional home financing. The bank's volume of lending to low-income residential real estate borrowers, according to the sample used in this evaluation, suggests that the bank is providing loans to low-income borrowers without having any residential real estate loan programs targeted specifically for low- or moderate income borrowers. There are three other financial institutions with offices in Knoxville, Iowa, which provides strong competition in the community for available residential real estate lending. Recent community contact information indicated a need for lower income housing loans within the Knoxville area.

In response to lower income housing needs in the City of Knoxville, the Iowa State Savings Bank has taken the lead in providing financial assistance (since 2000) for development of a new residential subdivision. When the subdivision is completed it will include a 36-unit assisted living facility, 78-bed nursing home, 37 affordable single family dwelling lots, 18-units of condominium dwellings, 14-units of non-owner occupied duplexes, and a large lot for a 24-unit or more apartment complex. Community contact information supported the critical need for the types of housing included within this development.

□ The bank's lending to middle-income borrowers and upper-income borrowers for residential loans is considered reasonable when compared to the percentages of families in the assessment area. The percentage of upper-income borrowers (34 percent) is less than the percent of upper-income families within the assessment area (43 percent) as many of these borrowers reside closer to Pella, Iowa, where there are other financial institutions. Overall, Iowa State Savings Bank's performance with providing residential real estate borrowers with credit is satisfactory.

Community contact information indicates that Iowa State Savings Bank is actively involved with community projects and will assist with most loan requests. Overall, the bank's record of lending to agricultural and commercial business operations of different sizes and borrowers of different incomes is satisfactory.

### ***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 the low- and moderate-income areas or geographies within the assessment area. The composition of the bank's assessment area by CT/BNA income level is important to this evaluation process because it is compared to where the bank originated its sampled loans by CT/BNA. Detailed below is an analysis of this performance criterion for the bank.*

The geographic distribution of agricultural, commercial, and residential real estate loans reflects a reasonable dispersion surrounding the bank's office locations, illustrating the bank's commitment to extend loans throughout its community. As mentioned earlier, the bank's assessment area is composed of six middle-income geographies and one upper-income geography.

The four geographies located in the southern parts of the assessment area where offices of the bank are located show that the majority of loans are extended to borrowers in those middle-income geographies. There is little lending activity in the three northern geographies of the assessment area for the bank. This is primarily due to the Des Moines River separating the assessment area with northern geographies (CT 301, 302, and 303) receiving financial services through other financial institutions in those areas. The bank displays a reasonable record of lending to agricultural, commercial, and residential real estate borrowers in its assessment area based on office locations and surrounding competition. Table 8 (agricultural and commercial loans) and Table 9 (residential real estate loans) shows where the bank’s lending is concentrated by geography income level. The bank is willing to serve all geographies in the assessment area.

***Agricultural and Commercial Loans***

Table 8 shows where the bank is concentrating its agricultural and commercial lending within the assessment area by geography income level. The bank’s assessment area does not contain any low- or moderate-income geographies. Table 8 illustrates that all of the bank’s lending is concentrated in middle-income geographies, which comprise 86 percent of the bank’s assessment area. The fact that the bank did not extend any loans sampled in the upper-income geography is again attributed to the competition that is present in the City of Pella, Iowa, and the willingness of most people to select a financial institution in close proximity to their residence or business location.

<b>Table 8 – Distribution of Agricultural and Commercial Loans By Income Category of the Geography</b>					
<b>Geography</b>	<b>Farms and Businesses 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>
Low	0	0	0	0	0
Moderate	0	0	0	0	0
Middle	80	71	100	2,656	100
Upper	20	0	0	0	0
<b>Total</b>	<b>100</b>	<b>71</b>	<b>100</b>	<b>2,656</b>	<b>100</b>

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

Overall, Iowa State Savings Bank’s level of penetration in lending to agricultural and commercial businesses in these geographies is reasonable.

### ***Residential Real Estate Loans***

Table 9 shows where the bank is concentrating its residential real estate lending by geography income level. Table 9 illustrates that all of the bank’s lending is concentrated in middle-income geographies, which comprise 86 percent of the bank’s assessment area. The fact that the bank did not extend any loans sampled in the upper-income geography is again attributed to the competition that is present in the City of Pella, Iowa. Community contact information reveals that financial services are conveniently available throughout Marion County and include many financial institutions in Des Moines, Iowa, located 40 miles from Knoxville, Iowa, and all are competitive in deposit services and assisting with credit needs. A majority of the people will tend to conduct their financial business with a bank that is convenient and in close proximity to their residence. Overall, Iowa State Savings 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 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	0	0	0	0	0
Moderate	0	0	0	0	0
Middle	90	38	100	2,413	100
Upper	10	0	0	0	0
<b>Total</b>	<b>100</b>	<b>38</b>	<b>100</b>	<b>2,413</b>	<b>100</b>

*Source: Examiner Sampling and 1990 U.S. Census Bureau Data.*

The bank conducts its own quarterly internal review of where loans are being extended. The most recent analysis indicated that 62 percent by dollar volume of the bank’s loan portfolio is extended to borrowers with a mailing zip code of Knoxville, Melcher-Dallas, or Columbia, Iowa. Columbia, Iowa, is located 16 miles south of Knoxville and does not register as having a population recorded by the U.S. Census Bureau; however, it does have its own zip code area. The zip codes selected by the bank are located in portions of CTs 304, 305, and 306 (all middle-income geographies).

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. Based on the distribution of loans within the assessment area that is concentrated in close proximity to where the bank’s offices are located and consideration of the location of competition, Iowa State Savings Bank’s has a satisfactory record of lending within its 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.