

## **PUBLIC DISCLOSURE**

February 8, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

State Bank of Lawler  
15736

606 West Milwaukee  
New Hampton, Iowa 50659

Federal Deposit Insurance Corporation  
2345 Grand Boulevard, Suite 1200  
Kansas City, Missouri 64108

**NOTE:** This document is an evaluation of this 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. 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. Institution’s CRA Rating ..... 1

II. Scope of Examination ..... 2

III. Description of Institution ..... 2

IV. Description of Assessment Area ..... 3

V. Conclusions with Respect to Performance Criteria ..... 6

## INSTITUTION RATING

***INSTITUTION'S CRA RATING:*** This institution is rated Satisfactory.

- The bank's average net loan-to-deposit ratio is reasonable when compared to other similarly situated institutions, demonstrating the bank's willingness to extend credit.
- A majority of loans sampled are extended to farms, businesses, and individuals located in the bank's assessment area. The bank originated a combined total of 78 percent by number and 45 percent by dollar volume of sampled agricultural, commercial, and residential real estate loans within the bank's assessment area. The results are significantly influenced by the number and dollar volume of commercial loans that were extended outside the assessment area, 40 percent and 82 percent; respectively. Overall, given the bank management's lending strategy, these results demonstrate a reasonable commitment to lend within the local community.
- The distribution of borrowers reflects a reasonable level of lending to commercial borrowers with gross revenues less than \$1,000,000 given the bank's local lending focus. Although 80 percent of the bank's loans by number were extended to commercial operations with gross revenues less than \$1,000,000 compared to 92 percent of businesses reporting revenues equal to or less than \$1,000,000, the bank has been actively involved in recruiting and financing larger manufacturing businesses to the local industrial parks. The distribution of borrowers reflects a reasonable level of lending to agricultural borrowers with gross revenues less than \$1,000,000 as the State Bank of Lawler extended 92 percent of their loans to farms with revenues less than \$1,000,000. Further, the bank had a more than reasonable percentage of lending to low- and moderate-income residential real estate borrowers, given the demographics of the assessment area. Specifically, the bank extended 13 percent and 30 percent of residential real estate loans by number to low- and moderate-income borrowers, respectively. Overall, the bank is considered to have a reasonable commitment to meeting the needs of borrowers of all income or revenue levels.
- The geographic distribution of loans reflects a reasonable dispersion among the bank's geographies, indicating the bank's willingness to extend loans throughout its assessment area. All geographies of the assessment area are designated as middle-income.
- The bank has not received any CRA-related complaints since the bank's prior CRA evaluation.
- No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified during the review of the bank's compliance with fair lending laws and regulations.

## **SCOPE OF THE EXAMINATION**

The scope of this evaluation covers the period from June 10, 2002, to February 8, 2007. Loan sampling was conducted to arrive at conclusions in relation to the bank's lending performance. Specifically, examiners reviewed loans originated during the six months preceding the current evaluation. The loans reviewed consisted of 42 commercial loans totaling \$7,811,000 from a universe of 125 loans with original balances totaling \$23,704,824; 44 agricultural loans totaling \$3,312,000 from a universe of 314 loans with original balances totaling \$20,643,170; and 25 residential real estate loans totaling \$1,751,000 from a universe of 59 loans with original balances totaling \$3,991,521 originated by the institution during the period of July 11, 2006, thru January 11, 2007. The bank's performance was also evaluated, in part, by a comparison to other similarly situated institutions and in relation to other objective performance context factors detailed later in this evaluation. Each loan type was given equal weight in this CRA performance evaluation because of the loan portfolio composition and management's stated business focus.

## **DESCRIPTION OF INSTITUTION**

State Bank of Lawler, a subsidiary of Hansen Bancorporation, Lawler, Iowa, is a commercial bank located in New Hampton, Iowa. The bank is affiliated with First Community Bank, Savage, Minnesota. The bank has branch locations in Lawler, Waucoma, and Fredericksburg, Iowa. The bank operates full-service Automated Teller Machines (ATMs) at their New Hampton office as well as at convenience stores in Lawler and Fredericksburg and a grocery store in New Hampton, Iowa. Since the prior examination, the bank opened an office in Fredericksburg, Iowa, on December 15, 2005. The bank received a "Satisfactory" rating at their prior CRA evaluation in June 2002. State Bank of Lawler offers a variety of products and services including agricultural, commercial, residential real estate, and consumer loans. Management stated that the institution's business focus includes extending all types of loans. As of September 30, 2006, total assets of the institution equaled \$185,932,000, and total deposits aggregated \$162,538,000. Detailed loan information appears in Table 1. Examining personnel did not detect any legal impediments or other factors that might inhibit the bank's ability to meet the credit needs of its assessment area.

---

**Small Institution Performance Evaluation**

---

| <b>Table # 1 – Loan Portfolio Distribution as of September 30, 2006</b> |                             |                               |
|---|-----------------------------|-------------------------------|
| <b>Loan Category</b>  | <b>Dollar Amount (000s)</b> | <b>Percent of Total Loans</b> |
| Construction and Land Development                                       | 5,152                       | 4                             |
| Secured by Farmland   | 10,546                      | 7                             |
| 1-4 Family Residential  | 20,377                      | 15                            |
| Multi-Family (5 or more) Residential                                    | 349                         | 0                             |
| Commercial Real Estate  | 8,088                       | 6                             |
| <b>Total Real Estate Loans</b>  | <b>44,512</b>               | <b>32</b>                     |
| Agricultural  | 24,483                      | 18                            |
| Commercial and Industrial   | 64,113                      | 47                            |
| Consumer  | 4,060                       | 3                             |
| Obligations of States and Political Subdivisions                        | 663                         | 0                             |
| Other   | 0                           | 0                             |
| Lease Financing Receivables   | 0                           | 0                             |
| Gross Loans   | 0                           | 0                             |
| Less: Unearned Income   | 0                           | 0                             |
| <b>Total Loans</b>  | <b>137,831</b>              | <b>100</b>                    |

Source: Report of Condition

As indicated in Table 1, agricultural lending (comprised of *Secured by Farmland* and *Agricultural*) accounts for 25 percent of the bank's portfolio. Commercial lending (comprised of *Construction and Land Development*, *Multi-Family (5 or more) Residential*, *Commercial Real Estate*, and *Commercial and Industrial*) accounts for 57 percent of the portfolio. Finally, residential real estate (comprised of *1-4 Family Residential*) accounts for 15 percent of the bank's portfolio. Examiners reviewed the bank's lending relative to agricultural, commercial, and residential real estate loan products as these products make up a significant portion of the bank's lending portfolio and were indicated by management as a business focus.

## **DESCRIPTION OF STATE BANK OF LAWLER'S ASSESSMENT AREA**

*The Community Reinvestment Act (CRA) of 1977 (12 U.S.C. 2901) requires financial institutions to identify one or more assessment areas within which its regulating agency will evaluate the*

---

**Small Institution Performance Evaluation**

---

*bank's performance. An institution delineates its assessment area to include the geographies in which the bank has its main office, branches, and other deposit taking remote service facilities, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. Assessment areas must consist of one or more census tracts (CTs), which are subdivisions of a county designated by the United States Bureau of the Census.*

*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 appropriate MFI for the area. The applicable figures used to determine the income categories for the geographies that comprise the assessment area is the 2000 U.S. Census Bureau MFI of \$44,001 for the non-metropolitan area of the State of Iowa. Table 2 illustrates the various income category definitions used in this evaluation.*

| <b>Table # 2 – Designation of Geography 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                           |

**Demographic and Economic Data**

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

State Bank of Lawler's assessment area includes all of Chickasaw County (census tracts 9701 - 9704), Fayette County census tract 9807, and Winneshiek County census tract 9505. The bank's assessment area consists of six middle-income geographies. The bank's Lawler and Fredericksburg offices are located in Chickasaw County census tract 9703, the New Hampton office is located in Chickasaw County census tract 9704, and the Waucoma office is located in Fayette County census tract 9807. According to United States Census Bureau data, the population of the assessment area has decreased slightly over 1 percent in ten years, from 20,299 in 1990 to 20,016 in 2000. According to the Iowa State University Extension, Chickasaw, Fayette, and Winneshiek Counties' populations decreased by 1.5 percent, increased 0.8 percent, and increased 2.2 percent, respectively. The State of Iowa population grew by 5.4 percent over the same period.

According to 2000 U.S. Census data, State Bank of Lawler's assessment area includes 7,901 households, of which 5,566 are considered families. Fifteen percent of these families are low-

---

## Small Institution Performance Evaluation

---

income, 20 percent are moderate-income, 30 percent are middle-income, and 35 percent are upper-income. Approximately 7 percent of families in the assessment area are below the poverty level<sup>1</sup>, and 34 percent of households report social security as income. The weighted average median family income in the assessment area is \$43,432.

Further, 2000 U.S. Census data reports 74 percent of the housing in the assessment area as owner-occupied, 19 percent rental occupied, and 7 percent vacant. Housing is primarily 1-4 family units with 92 percent of housing within this category. Three percent of housing is comprised of homes with 5 or more units, and 5 percent is mobile homes.

According to the U.S. Census, the median housing value for the assessment area is \$71,599, compared to a statewide average of \$82,100.

### Economic Characteristics

According to the 2005 Iowa Workforce Development Annual County Profile, the largest segment of the population in Chickasaw County is employed in the manufacturing industry. The largest segment of the population in Fayette and Winneshiek Counties is employed in the education and health services industry. Further, the largest employers in the assessment area are Tri Mark Corporation, Sparboe Foods Corporation, Precision of New Hampton, Mercy Medical Center, and Farmers Cooperative.

According to Iowa Workforce Development statistics, the December 2006 unemployment rates for Chickasaw, Fayette, and Winneshiek Counties were 4.8 percent, 4.8 percent, and 3.6 percent, respectively. In comparison, for the same period, Iowa reported a statewide unemployment level of 3.5 percent. The unemployment rate in both counties decreased from October 2005. Specifically, in October 2005 Chickasaw, Fayette, and Winneshiek Counties reported unemployment rates of 6 percent, 5.6 percent, and 5.5 percent, respectively. The State of Iowa's unemployment rate was 4.5 percent one year ago.

According to 2005 D&B Corporation data, the institution's assessment area contains 1,405 businesses and 722 farms. A comparison of 1997 and 2002 Agricultural Census reports reveals that the average size of farms decreased 1 percent in Chickasaw County and increased 2 percent and 5 percent in Fayette and Winneshiek Counties, respectively. Further, the number of farms decreased between 1997 and 2002 in all counties. Specifically, the average size of farms decreased 3 percent, 2 percent, and 4 percent, respectively, in Chickasaw, Fayette, and Winneshiek Counties. The State of Iowa reported a 6 percent decrease in the number of full-time farms and a 5 percent increase in the average size of farms between 1997 and 2002.

---

<sup>1</sup>Families and persons are classified as "below poverty" if their total family income or unrelated individual income is less than the poverty level threshold specified for the applicable family size, age of householder and number of related children under 18 present. For example, the poverty level threshold for a family of four in 2000 was \$17,029; therefore, such a family earning less than \$17,029 is considered to be below poverty level. (*U.S. Census Bureau*)

### **Competition**

According to Call Report information, 11 banks, with deposits ranging between \$133 million to slightly over \$6 million operate from 16 branch locations within the assessment area. Competing institutions are also located throughout the rural areas. Overall, the assessment area is considered competitive.

### **Community Needs**

CRA evaluation procedures include contacting area leaders to discuss the needs and development of the community, as well as the involvement of local financial institutions. Individuals interviewed provide information based upon their knowledge and expertise in the housing and/or economic sectors. The contact reported that all credit needs are being adequately served in the assessment area through local financial institutions. Commercial and residential real estate lending continues to be in strong demand. Reports of Condition filed by financial institutions in the area support the fact that agricultural, commercial, and residential real estate lending are the identified credit needs of the assessment area. Competing institutions are also located throughout the rural areas. Overall, the assessment area is considered competitive.

## **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 the bank.*

State Bank of Lawler's average net loan-to-deposit ratio is reasonable when compared to other similarly situated institutions. This demonstrates the bank's willingness to extend credit.

Examining personnel compared the bank's ratio to those of five other financial institutions operating in or near the bank's assessment area. These financial institutions were selected as comparable banks because they operate under similar market conditions and have similar resources and business focuses. Information pertaining to this review appears in Table 3; selected comparables are listed alphabetically by location of the institutions' main office.

| <b>Table # 3 – Comparable Financial Institution Analysis</b> |                               |                               |
|--|-------------------------------|-------------------------------|
| <b>Institution</b>   | <b>Total Assets \$ (000s)</b> | <b>Average Net LTD Ratios</b> |
| <b>State Bank of Lawler, New Hampton, IA</b>                 | <b>185,932</b>                | <b>85</b>                     |
| Kerndt Brothers Savings Bank, Lansing, IA                    | 170,993                       | 95                            |
| First Citizens National Bank, Mason City, IA                 | 813,453                       | 78                            |
| First State Bank Iowa, New Hampton, IA                       | 49,327                        | 71                            |
| Security State Bank, New Hampton, IA                         | 139,942                       | 72                            |
| Northeast Security Bank, Sumner, IA                          | 63,696                        | 88                            |

*Source: Reports of Condition for 18 quarter-ends from June 30, 2002, through September 30, 2006. Total assets are as of September 30, 2006.*

As demonstrated in Table 3, the bank’s average net loan-to-deposit ratio is the third highest when compared with similarly situated institutions, which is reasonable given the performance context of comparable banks. The bank’s average net loan-to-deposit ratio fluctuated throughout the 18 calendar quarters. According to Reports of Condition, the ratio declined to 75 percent during the third quarter of 2002 and grew to 92 percent in the third quarter of 2004. Most recently, the bank’s ratio was at 84 percent in the third quarter of 2006.

The institution also has the ability to originate mortgage loans that are subsequently sold through secondary market relationships; these loans are not included in Table 3. During the 2005 and 2006 the bank originated 27 loans totaling over \$4 million that were subsequently sold on the secondary market. Overall, the institution’s average net loan-to-deposit ratio is reasonable and reflects management’s willingness to provide credit.

***Selection of Loan Product Samples***

*To assess the bank’s record of helping to meet the credit needs of its communities, a statistical sample of primary loan products originated is selected for analysis.*

As described under the “Scope of Evaluation” section, examiners selected a statistical sample of agricultural, commercial, and residential real estate loans to assess the bank’s performance under the first three performance criteria: “Assessment Area Concentration,” “Borrower Profile,” and “Geographic Distribution.” Gross revenue information for the bank’s agricultural and commercial

---

**Small Institution Performance Evaluation**

---

loan samples and income information for the sampled residential real estate loans were obtained from credit files and discussions with management.

***Assessment Area Concentration***

*Examiners reviewed the bank’s assessment area lending concentration in order to evaluate its performance under the 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 (AA). Detailed below is an analysis of this performance criterion for this bank.*

As Table 4 indicates, a majority of loan activity, by number, lies within the bank’s assessment area. This demonstrates the bank’s commitment to lending inside the bank’s 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 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   | 39                     | 89        | 5              | 11        | 44           | 2,910                          | 88        | 402              | 12        | 3,312                  |
| Commercial   | 25                     | 60        | 17             | 40        | 42           | 1,403                          | 18        | 6,408            | 82        | 7,811                  |
| Residential Real Estate  | 23                     | 92        | 2              | 8         | 25           | 1,544                          | 88        | 207              | 12        | 1,751                  |
| <b>Total</b>   | <b>87</b>              | <b>78</b> | <b>24</b>      | <b>22</b> | <b>111</b>   | <b>5,857</b>                   | <b>45</b> | <b>7,017</b>     | <b>55</b> | <b>12,874</b>          |

Source: Examiner Sampling

CRA sampling shows that 78 percent by number and only 45 percent by dollar volume of total loans sampled lie within the bank’s assessment area. Examiners note and bank management confirmed that commercial loans advanced to borrowers residing outside the assessment area are primarily large dollar participations purchased by the bank from their affiliate financial institution in Savage, Minnesota. Bank management indicated that the purchase of commercial loans is a strategic intention given the low commercial loan demand within the bank’s assessment area. To assist in improving commercial demand within the assessment area, the bank has been actively involved in recruiting and financing loans in the local industrial parks. A community contact also confirmed this active involvement. Examiners consider the results for commercial loan dollar volume reasonable given bank management’s lending strategy.

The findings referenced in Table 4 demonstrate management’s continued willingness to meet the credit needs of its defined assessment area.

---

## Small Institution Performance Evaluation

---

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

### ***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. Income categories used are compared to the D&B Corporation Data established revenue categories.*

Examiner sampling revealed a reasonable level of lending to agricultural borrowers with gross revenues less than \$1,000,000, a reasonable level of lending to commercial operations with gross revenues less than \$1,000,000, and a more than reasonable percentage of lending to low- and moderate-income residential real estate borrowers, given the demographics of the assessment area. Therefore, the bank is considered to have a reasonable commitment to meeting the needs of borrowers of all income levels.

### **Agricultural and Commercial Loans**

*To aid in evaluating the institution's performance in lending to agricultural and commercial businesses of different sizes, examiners used D&B Corporation data. D&B Corporation provides a breakdown of the number of farms and businesses surveyed in the AA that reported gross revenues, as well as those that did not report earnings, and assigns each business into a specific revenue category.*

Based on the sampling procedures indicated previously, regulatory personnel reviewed the number of agricultural loans extended to operations of different revenue levels operating *within* the bank's assessment area. Table 5 illustrates State Bank of Lawler's penetration of lending to agricultural operators.

**Table # 5 – Distribution of Agricultural Loans by Gross Annual Revenues**

| Gross Annual Revenues  | Farms in the AA | Distribution of Farm Loans Sampled |            |              |            |
|------------------------|-----------------|------------------------------------|------------|--------------|------------|
|                        | % of #          | #                                  | %          | \$ (000's)   | %          |
| <\$100,000             | 51              | 17                                 | 43         | 680          | 23         |
| \$100,000-<\$250,000   | 42              | 10                                 | 26         | 277          | 10         |
| \$250,000-<\$500,000   | 6               | 6                                  | 15         | 429          | 15         |
| \$500,000-<\$1,000,000 | 1               | 3                                  | 8          | 799          | 27         |
| ≥\$1,000,000           | 0               | 3                                  | 8          | 725          | 25         |
| <b>Total</b>           | <b>100</b>      | <b>39</b>                          | <b>100</b> | <b>2,910</b> | <b>100</b> |

Source: Loan files and 2005 D&B Corporation Data. (Note: 6 or nearly 1 percent, of the farm businesses in the AA that did not report incomes to D&B Corporation are excluded from this analysis.)

Forty-three percent of farms sampled had revenues less than \$100,000. In comparison D&B Corporation Data indicates 51 percent of farms reported revenues less than \$100,000. Although lower than area demographics, the bank’s level of lending within the smallest revenue category is considered reasonable given further analysis of the data. Management indicated, and census data supports, that farms within this category, due to their size of operation, typically have limited need for financing. For example, the 2002 Agricultural Census reveals that assessment area farms reporting less than \$100,000 in revenues had average annual market sales of \$72,253 and represented only 13 percent of total agricultural sales. Furthermore, the 2002 Census also reports that 45 percent of farm operations in Chickasaw, Fayette, and Winneshiek Counties reported no interest paid, indicating limited credit needs. Finally, management stated many farmers are “hobby farmers.” Agricultural Census data for 2002 supports this statement. Specifically, only 68 percent of operators reported farming as their principal occupation; therefore, approximately 32 percent of farms within the assessment area are operated by “hobby farmers,” with less of a need for borrowing. As these statistics demonstrate, credit needs of smaller farming operations are likely to be much less than those of larger operations. In addition, 92 percent of agricultural loans sampled were granted to entities in the bank’s assessment area that had gross revenues less than \$1,000,000. Comparatively, 2005 D&B Corporation Data states that 100 percent of farms in the assessment area had revenues less than \$1,000,000. As is indicated in Table 5, the bank financed three farms with revenues equal to or greater than \$1,000,000. D&B Corporation data indicates that three farms had revenues equal to or greater than \$1,000,000. It is also recognized that six farms, or slightly over 1 percent, did not report to D&B Corporation. Management indicated that there are more farms in the assessment area that have revenues equal to or greater than \$1,000,000.

Overall, the bank demonstrates reasonable performance in its loan distribution among agricultural operations of all revenue levels.

---

**Small Institution Performance Evaluation**

---

Next, regulatory personnel also reviewed the number of commercial loans extended to operations of different revenue levels operating *within* the bank’s assessment area. Sampling results show a reasonable level of lending to commercial borrowers with gross revenues less than \$1,000,000 given the demographics of the assessment area. Table 6 illustrates the bank’s penetration of lending to commercial operators.

| <b>Table # 6 – Distribution of Commercial Loans by Gross Annual Revenues</b> |                             |   |            |                   |            |
|--|-----------------------------|---|------------|-------------------|------------|
| <b>Gross Annual Revenues</b>   | <b>Businesses in the AA</b> | <b>Distribution of Commercial Loans Sampled</b> |            |                   |            |
|  | <b>% of #</b>               | <b>#</b>  | <b>%</b>   | <b>\$ (000’s)</b> | <b>%</b>   |
| <\$100,000   | 51                          | 7   | 28         | 178               | 12         |
| \$100,000-<\$250,000   | 24                          | 8   | 32         | 95                | 7          |
| \$250,000-<\$500,000   | 12                          | 3   | 12         | 67                | 5          |
| \$500,000-<\$1,000,000   | 5                           | 2   | 8          | 96                | 7          |
| ≥\$1,000,000   | 8                           | 5   | 20         | 967               | 69         |
| <b>Total</b>   | <b>100</b>                  | <b>25</b>                                       | <b>100</b> | <b>1,403</b>      | <b>100</b> |

*Source: Loan files and 2005 D&B Corporation Data. (Note: 491 or nearly 35 percent, of the commercial non-farm businesses in the AA that did not report incomes to D&B Corporation are excluded from this analysis.)*

The bank’s lending performance is lower than demographic data for commercial operations generating less than \$100,000 in gross annual revenues. D&B Corporation Data indicates 51 percent of assessment area businesses generate less than \$100,000 in gross annual revenue. Of the sampled commercial loans within the bank’s assessment area, 28 percent by number and 12 percent by dollar volume were extended to commercial operations that generated less than \$100,000 in gross annual revenues. Bank management indicated and examiners confirmed that the bank had a low denial rate to commercial operations. Further, examiners confirmed that the bank’s underwriting criteria is not restrictive as to prevent small commercial operations from obtaining credit. Further, the number of loans advanced to commercial operations generating over \$1,000,000 is higher than area demographics regarding the percentage of reporting businesses that generated revenues at that level. Bank management indicated they have been actively involved in recruiting and financing larger manufacturing businesses to the local industrial parks to further develop the local area. A community contact also confirmed the bank’s favorable local lending focus. Further, bank management indicated their higher lending limit allows them to finance larger commercial operations.

---

**Small Institution Performance Evaluation**

---

In conclusion, CRA sampling for commercial lending revealed a reasonable distribution of loans to businesses of all revenue levels, reflecting management's commitment to the local commercial sector.

*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 (MFI) for the years sampled were used to determine the income level for the residential real estate loans reviewed. Therefore, the borrower income reported to the institution 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 HUD estimated MFI categories for each year is illustrated in Table 7.*

Next, regulatory personnel determined the borrower distribution for residential real estate loans originated *within* the assessment area. Table 7 details the State of Iowa *non-metropolitan* median family income for 2006 and the dollar amounts used to classify families (or borrowers) by income level.

| <b>Table # 7 – Median Family Income Ranges (HUD Estimated)</b> |   |
|--|---|
| <b>Income Category</b>   | <b>2006 Statewide Iowa Non-MSA MFI (\$52,800)</b> |
| Low (< 50%)  | < \$26,400  |
| Moderate (50 - < 80%)  | \$26,400 - < \$42,240                             |
| Middle (80 - < 120%)   | \$42,240 - < \$63,360                             |
| Upper (≥ 120%)   | ≥ \$63,360  |

*Source: Department of Housing and Urban Development*

The sample of residential real estate loans originated to borrowers of different income levels by number and dollar volume is depicted in Table 8; this data includes only those loans granted *inside* the bank's assessment area.

| <b>Table # 8 – Distribution of Residential Real Estate Loans by Borrower Income Level</b> |                                |  |            |                  |            |
|---|--------------------------------|--|------------|------------------|------------|
| <b>Median Family Income Level</b>   | <b>% of Families in the AA</b> | <b>Distribution of Residential Real Estate Loans Sampled</b> |            |                  |            |
|   | <b>%</b>                       | <b>#</b>   | <b>%</b>   | <b>\$ (000s)</b> | <b>%</b>   |
| Low   | 15                             | 3  | 13         | 99               | 7          |
| Moderate  | 20                             | 7  | 30         | 298              | 19         |
| Middle  | 30                             | 7  | 31         | 670              | 43         |
| Upper   | 35                             | 6  | 26         | 477              | 31         |
| <b>Total</b>  | <b>100</b>                     | <b>23</b>  | <b>100</b> | <b>1,544</b>     | <b>100</b> |

Source: 2000 U.S. Census Bureau Data & examiner sampling

The distribution of residential real estate loans sampled demonstrates the bank’s willingness to extend loans to low-income borrowers. Specifically, CRA sampling revealed the bank extended 13 percent of their loans to low-income borrowers. Comparatively, 2000 U.S. Census data shows 15 percent of families are considered low-income. The bank’s lending to low-income borrowers is reasonable given 2000 U.S. Census Bureau data indicates that 7 percent of families in the assessment area are below the poverty level. Management indicated these families are part of the low-income category and would likely have difficulty qualifying for residential real estate loans due to insufficient income to service the debt or insufficient funds for a down payment.

The bank’s level of lending to moderate-income borrowers is significantly better than area demographics and reflects a strong performance. Specifically, the bank extended 30 percent of loans to moderate-income families. In comparison, U.S. Census data indicates 20 percent of families are moderate-income.

The distribution of borrowers reflects a more than reasonable level of residential real estate lending to low- and moderate-income borrowers given the demographics of the assessment area. This illustrates the bank’s strong commitment to meeting the needs of residential real estate loan customers of all income levels.

Overall, loan penetration among borrowers of varying income levels and farms and commercial operations of varying revenues is reasonable.

***Geographic Distribution of Lending***

*The geographic distribution of lending is another small institution performance criterion that examiners review. 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*

---

**Small Institution Performance Evaluation**

---

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.

Tables 9, 10, and 11 show the geographic distribution of lending inside the assessment area, based on the income level of geography. As stated previously in this evaluation, State Bank of Lawler has all middle-income geographies with offices locations in New Hampton (census tract 9704), Lawler (9703), Fredericksburg (9703), and Waucoma (9807).

| <b>Table # 9 – Distribution of Agricultural Loans by Geography for the AA</b> |                        |   |            |                   |            |
|---|------------------------|---|------------|-------------------|------------|
| <b>Census Tract</b>   | <b>Farms in the AA</b> | <b>Distribution of Agricultural Loans Sampled</b> |            |                   |            |
|   | <b>% of #</b>          | <b>#</b>  | <b>%</b>   | <b>\$ (000's)</b> | <b>%</b>   |
| Chickasaw CT # 9701   | 26                     | 10  | 26         | 257               | 9          |
| Chickasaw CT # 9702   | 8                      | 0   | 0          | 0                 | 0          |
| Chickasaw CT # 9703   | 13                     | 15  | 38         | 2,041             | 70         |
| Chickasaw CT # 9704   | 4                      | 1   | 3          | 4                 | 0          |
| Fayette CT # 9807   | 28                     | 6   | 15         | 166               | 6          |
| Winneshiek CT# 9505   | 21                     | 7   | 18         | 442               | 15         |
| <b>Total</b>  | <b>100</b>             | <b>39</b>   | <b>100</b> | <b>2,910</b>      | <b>100</b> |

Source: 2005 D&B Corporation Data & examiner sampling

The distribution of sampled agricultural loans is reasonable considering area demographics and the location of State Bank of Lawler’s offices and area competition. Although no loans appeared in the sample in census tract 9702, management indicated, and examiners confirmed, that this census tract is a distance from the bank’s office locations and numerous other financial institutions share the same market area. In addition, the bank has a lower concentration of loans in census tract 9704. This census tract primarily consists of the town of New Hampton, where limited agricultural lending opportunities exist. The greatest concentration of loans was extended in the census tract 9703, where the bank has two office locations.

| <b>Table # 10 – Distribution of Commercial Loans by Geography for the AA</b> |                             |   |            |                   |            |
|--|-----------------------------|---|------------|-------------------|------------|
| <b>Census Tract</b>  | <b>Businesses in the AA</b> | <b>Distribution of Commercial Loans Sampled</b> |            |                   |            |
|  | <b>% of #</b>               | <b>#</b>  | <b>%</b>   | <b>\$ (000's)</b> | <b>%</b>   |
| Chickasaw CT # 9701  | 17                          | 1   | 4          | 2                 | 0          |
| Chickasaw CT # 9702  | 11                          | 0   | 0          | 0                 | 0          |
| Chickasaw CT # 9703  | 14                          | 9   | 36         | 589               | 42         |
| Chickasaw CT # 9704  | 25                          | 10  | 40         | 626               | 45         |
| Fayette CT # 9807  | 17                          | 5   | 20         | 186               | 13         |
| Winneshiek CT# 9505  | 16                          | 0   | 0          | 0                 | 0          |
| <b>Total</b>   | <b>100</b>                  | <b>25</b>                                       | <b>100</b> | <b>1,403</b>      | <b>100</b> |

Source: 2005 D&B Corporation Data & examiner sampling

When factoring in demographics, competition, and the location of State Bank of Lawler’s offices, the commercial geographic distribution is considered reasonable. Table 10 indicates only 4 percent of loans are in census tract 9701 compared to D&B Corporation data which indicates 17 percent of loans in this census tract. This is reasonable because census tract 9701 is a large census tract with all the towns located on the western side of the county. The bank’s offices are located in the eastern side of the county. Management indicated that there is strong competition from other financial institutions also serving this market area. Further, the bank is not lending in census tracts 9702 and 9505. Management indicated, and examiners confirmed, that these census tracts are a distance from the bank’s office locations, and numerous other financial institutions share the same market area. The greatest concentration of loans was extended in census tracts 9703, 9704, and 9807, where the bank has all of its office locations.

| <b>Table # 11 – Distribution of Residential Real Estate Loans by Geography for the AA</b> |                                |   |            |                  |            |
|---|--------------------------------|---|------------|------------------|------------|
| <b>Census Tract</b>   | <b>% of Families in the AA</b> | <b>Distribution of Residential Real Loans Sampled</b> |            |                  |            |
|   | <b>%</b>                       | <b>#</b>  | <b>%</b>   | <b>\$ (000s)</b> | <b>%</b>   |
| Chickasaw CT # 9701   | 18                             | 4   | 17         | 529              | 34         |
| Chickasaw CT # 9702   | 13                             | 0   | 0          | 0                | 0          |
| Chickasaw CT # 9703   | 16                             | 12  | 52         | 458              | 30         |
| Chickasaw CT # 9704   | 19                             | 5   | 22         | 497              | 32         |
| Fayette CT # 9807   | 17                             | 2   | 9          | 60               | 4          |
| Winneshiek CT# 9505   | 17                             | 0   | 0          | 0                | 0          |
| <b>Total</b>  | <b>100</b>                     | <b>23</b>   | <b>100</b> | <b>1,544</b>     | <b>100</b> |

Source: 2000 U.S. Census Bureau Data & examiner sampling

The distribution of sampled residential real estate loans is reasonable considering area demographics and the location of State Bank of Lawler’s offices and competition. As Table 11 indicates, the bank is not lending in census tracts 9702 and 9505. As stated previously, management indicated, and examiners confirmed, that these census tracts are a distance from the bank’s office locations and numerous other financial institutions share the same market area. The greatest concentration of loans was extended in census tracts 9703 and 9704, where the bank has three of its office locations.

Management indicated that the bank markets to all census tracts and considers all applications without regard to their geographical origin. Examiner review of loan applications not originated from throughout the assessment area revealed a limited number of denials. Further, the analysis revealed that the applicants were denied because they did not qualify under the bank’s underwriting criteria. Examiner review of the bank’s lending and underwriting policies revealed no restrictions that would prevent qualified applicants from obtaining credit. There was no evidence from management or community contact discussions, or review of the bank’s lending decisions or marketing activities to indicate that the institution is not willing to serve any particular geography of the assessment area.

Overall, the geographic distribution of loans reflects a reasonable dispersion among all geographies, indicating the bank’s willingness to extend loans throughout 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.*

The institution has not received any CRA-related complaints since the bank's previous FDIC CRA evaluation.

**FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

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

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified during the review of the bank's compliance with fair lending laws and regulations.