

## **PUBLIC DISCLOSURE**

February 11, 2008

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

**Farmers Savings Bank  
13655**

**345 Highway 151  
Walford, Iowa 52351**

**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.

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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Farmers Savings Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of February 11, 2008. 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.

The following information relating to the bank's performance illustrates Farmers Savings Bank's satisfactory record of meeting the credit needs of the community.

- The bank's average net-loan-to-deposit ratio of 53 percent is less than reasonable when compared to other similarly situated institutions, demonstrating a need for the bank to expand its outreach and emphasis on extending credit.
- Overall, the bank exhibited a satisfactory percentage of small business and residential real estate lending located within the institution's assessment area. Specifically, the bank originated a total of 54 percent by number and by dollar volume of small business loans within the bank's assessment area. In 2006, 67 percent by number and 66 percent by dollar volume of residential real estate loans were within the bank's assessment area; in 2007, 44 percent by number and 56 percent by dollar volume of residential real estate loans were within the bank's assessment area. In aggregate, the bank originated 57 percent by number and 61 percent by dollar volume of residential real estate within the bank's assessment area. Overall, these results demonstrate the bank's reasonable commitment to lending within the local community.
- The distribution of borrowers reflects a less than reasonable level of lending to small business borrowers with annual gross revenues of less than \$1,000,000. Specifically, 71 percent of the bank's sampled loans by number were extended to small business operations with annual gross revenues of less than \$1,000,000, while D&B Corporation data indicates that 90 percent of all small businesses operating in the assessment area who reported income generate annual gross revenues of less than \$1,000,000. Overall, the bank's distribution of loans to small businesses of all revenue levels is considered less than reasonable.
- The bank had an excellent percentage of lending to low-income residential real estate borrowers, and a reasonable percentage of lending to moderate-income residential real estate borrowers, given the demographics of the assessment area and Home Mortgage Disclosure Act (HMDA) aggregate data. Specifically, 2006 HMDA data revealed that the bank extended 25 percent of residential real estate loans by number to low-income borrowers, and extended 13 percent of residential real estate loans to moderate-income borrowers. U.S. Census Bureau data for 2000 indicates that the percentages of families in the bank's assessment area which are low- and moderate-income are 13 percent and 17 percent, respectively, while HMDA aggregate data for 2006 indicates those percentages to be 9 and 22 percent, respectively. Overall, the bank is considered to have a reasonable commitment to meeting the needs of borrowers of all income levels.

- The geographic distribution of loans reflects a reasonable dispersion among the bank's assessment area census tracts with respect to small business and residential real estate lending. This indicates the bank's willingness to extend loans throughout its assessment area, regardless of geography income classification.
- The bank has not received any CRA-related complaints since the bank's April 16, 2003 CRA evaluation.
- No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community needs was identified.

### **SCOPE OF THE EXAMINATION**

The scope of this evaluation covers the period from April 16, 2003, to February 11, 2008. Loan sampling was conducted to arrive at conclusions in relation to the bank's lending performance. Using a statistical formula, regulatory personnel selected loan samples from the bank's commercial portfolio. Examiners determined that 18 small business loans with original balances totaling \$880,375 were extended during the previous 12 months. Accordingly, regulatory personnel sampled 13 small business loans totaling \$858,372 for CRA evaluation purposes. 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.

In addition, because the bank is a reporter of loan data as outlined in Home Mortgage Disclosure (HMDA) requirements, examiners reviewed all residential real estate loans originated from January 2006 through December 2007 for CRA evaluation purposes. The Loan Application Register (LAR) contains information on loans made by Farmers Savings Bank for the purchase or refinance of residential real estate, home improvement, and multi-family housing loans. Income information for the bank's residential real estate loans was obtained from the bank's LAR. Examiners reviewed all 21 residential real estate loans originated in 2006 and 2007 with original balances totaling \$1,731,000.

Given the dollar amount of commercial loans originated per the institution's September 30, 2007 Consolidated Reports of Income and Condition ("Call Report;" see Table 2 on the next page), added weight was given to examiner sampling results in this area. Commercial lending is, by far, the institution's largest area of lending. Conversely, agricultural lending was not reviewed during this evaluation, as it is less than 12 percent of the institution's lending by dollar per the institution's September 30, 2007, Call Report; agricultural lending is less than seven percent by number and less than four percent by dollar volume of the bank's lending portfolio as of January 8, 2008; and bank management has indicated that while the institution does not turn away any loan applicants, agricultural lending is not a focus of the institution at this time. Bank management has indicated that the institution does not have a primary focus in any one area of lending. Given these reasons, examiners limited their review to the commercial and real estate areas of the institution's

lending.

### **DESCRIPTION OF INSTITUTION**

Farmers Savings Bank is a commercial bank with its main office located in Walford, Iowa, and one branch office located in Amana, Iowa. The institution is 100 percent owned by Terry Bancorporation, a one-bank holding corporation. The institution's assessment area includes part of the Cedar Rapids, Iowa and Iowa City, Iowa Metropolitan Statistical Areas (MSA). Farmers Savings Bank offers various products and services including small farm, small business, consumer, and residential real estate credits. The bank owns many automated teller machines, as listed in Table 1 below:

<b>Table 1 – ATM Locations</b>	
Main Bank	Walford, Iowa
Amana Branch	Amana, Iowa
Colonial Manor Aspen Center (Rehabilitation Center)	Amana, Iowa
Club Deli (Restaurant)	Cedar Rapids, Iowa
Ice Arena (Municipal Recreation)	Cedar Rapids, Iowa
Lancer Lanes (Bowling Alley)	Cedar Rapids, Iowa
Xavier High School	Cedar Rapids, Iowa
RJ'Z Express (Convenience Store)	Iowa City, Iowa
Mt. Vernon P-n-P (Convenience Store)	Mt. Vernon, Iowa
380 BP (Convenience Store)	Swisher, Iowa
Walford Citgo (Convenience Store)	Walford, Iowa

The bank's rating at the April 2003 CRA evaluation was "Satisfactory." As of September 30, 2007, total assets of the institution totaled \$44,241,000, which is a nearly six percent increase from the September 30, 2003 figure of \$41,840,000. The bank's total deposits increased by 11 percent during this period, from \$34,344,000 to \$38,140,000. Also during this period, the bank's total loans have grown 25 percent from \$15,807,000 to \$19,775,000. By far, the largest category increase measured by dollar volume of loans has been in commercial lending, which grew from \$8,553,000 to \$10,845,000, an increase of 27 percent. Real Estate lending increased from \$4,061,000 to 5,276,000, an increase of 30 percent. Consumer lending grew from \$618,000 to \$1,253,000, an increase of 103 percent; however, the actual dollar amount involved as a percentage of the bank's lending portfolio is not material, and examiners did not evaluate this

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category of lending. Agricultural lending fell from \$2,373,000 to \$2,293,000, a decrease of 3 percent, and Other lending fell from \$202,000 to \$108,000, a decrease of 47 percent. Current 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.

<b>Table 2 – Loan Portfolio Distribution as of September 30, 2007</b>		
<b>Loan Category</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans</b>
Construction, Land Development, and Other Land	6,046	30
Secured by Farmland	1,359	7
Secured by 1-4 Family Residential Properties	4,565	23
Secured by Multi-Family (5 or more) Residential Properties	711	4
Secured by Non-farm Non-residential Properties	2,361	12
<b>Total Real Estate Loans</b>	<b>15,042</b>	<b>76</b>
Agricultural Production and Other Loans to Farmers	934	5
Commercial and Industrial	2,438	12
Consumer	1,253	6
Obligations of States and Political Subdivisions in the U.S.	108	1
Other	0	0
Lease Financing Receivables (net of unearned income)	0	0
Gross Loans	19,775	100
Less: Unearned Income	0	0
<b>Total Loans and Leases</b>	<b>19,775</b>	<b>100</b>

Source: Report of Condition

As indicated in Table 2, Commercial lending (comprised of *Construction, Land Development, and Other Land*; *Non-farm Non-residential Properties*; and *Commercial and Industrial*) accounts for 54 percent of the bank's portfolio. Residential real estate (comprised of *1-4 Family Residential Properties* and *Multi-Family (5 or more) Residential Properties*) accounts for 27 percent of the portfolio. Agricultural lending (comprised of *Secured by Farmland* and *Agricultural Production and Other Loans to Farmers*) and consumer lending account for 12 and 6 percent of the bank's portfolio, respectively. Examiners reviewed the bank's lending relative to residential real estate and small business loan products as these products make up a significant portion of the bank's

lending portfolio. Residential real estate loans referenced in the evaluation for institution’s that are subject to 12 CFR Part 203 – Home Mortgage Disclosure refer to home mortgage loans as defined in 12 CFR Part 345 – Community Reinvestment.

**DESCRIPTION OF FARMERS SAVINGS BANK’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 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 \$43,887 for the non-metropolitan area of the State of Iowa, \$54,241 for the Cedar Rapids, Iowa MSA, and \$56,018 for the Iowa City, Iowa, MSA. Table 3 illustrates the various income category definitions used in this evaluation. Because the bank’s non-metropolitan counties do not differ significantly demographically from the metropolitan county, examiners did not separately analyze the results of metropolitan and non-metropolitan assessment areas. Further, regulatory personnel did not identify any gaps or anomalies in lending performance in the metropolitan and non-metropolitan assessment areas.*

<b>Table 3 – 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.*

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Farmers Savings Bank's assessment area includes Benton County, Iowa census tracts 9805 and 9806; Iowa County, Iowa census tracts 9901, 9902, and 9904; Johnson County, Iowa census tracts 101 and 102; and Linn County, Iowa census tracts 10.01 through 10.03, 29, 30.01 and 30.02, 106, and 107. There are eleven middle-income, and four upper-income census tracts in the assessment area. The bank's main office is located in Benton County census tract 9805, and the bank's branch in Amana, Iowa is located in Iowa County census tract 9901. Both locations are in middle-income tracts. According to U.S. Census Bureau data, the population of Benton County has increased 12.8 percent; the population of Iowa County has increased 7.1 percent; the population of Johnson County has increased 15.5 percent; and the population of Linn County has increased 13.6 percent over the ten years between 1990 and 2000. The population of the State of Iowa grew 5.4 percent over that same time period.

According to 2000 U.S. Census Bureau data, Farmers Savings Bank's assessment area includes 25,998 households, of which 18,482 are considered families. Of those families, 13 percent are low-income, 17 percent are moderate-income, 28 percent are middle-income, and 42 percent are upper-income. Approximately three percent of the families in the assessment area are below the poverty level<sup>1</sup>, and the median family income of the assessment area is \$57,732.

Furthermore, 2000 U.S. Census data reports 74 percent of the housing in the assessment area as owner-occupied, 22 percent as occupied rental, and four percent vacant. Housing is primarily 1-4 family units with 88 percent of housing within this category. Twelve percent of housing is comprised of homes with 5 or more units. The median housing value for the Cedar Rapids, Iowa MSA is \$101,737; the Iowa City, Iowa MSA's median housing value is \$121,469; the State of Iowa's non-MSA median housing value is 70,158; and the median housing value for the bank's assessment area as a whole is \$114,008. Iowa's statewide average median housing value is \$82,100.

### **Economic Characteristics**

According to the 2005 Iowa Workforce Development Annual County Profile, the largest segment of the population of Benton and Iowa Counties is employed in either manufacturing or retail trades. Some of the largest employers in Benton County are Benco Manufacturing, Frontier Natural Brands, and Fareway Stores, while some of the largest employers in Iowa County are Kinze Manufacturing and Williamsburg Manufacturing. The largest segment of the population in Johnson and Linn Counties is employed in the education and health services or retail trade sectors. Some of the largest employers in Johnson County are Mercy Hospital and Hy-Vee Food Stores, while some of the largest employers in Linn County are Rockwell Collins, Life Investors Insurance Company, and Hy-Vee Food Stores.

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<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 the 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*)

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According to Iowa Workforce Development statistics, the December 2007 unemployment rate for Benton County remained unchanged from the December 2006 rate of 4.5 percent, while the unemployment rate for Iowa, Johnson, and Linn Counties increased from 3.7 percent to 3.8 percent, increased from 2.5 percent to 2.8 percent, and increased from 3.7 percent to 4.0 percent during the same time period, respectively. By comparison, the State of Iowa reported a statewide unemployment level of 4.0 percent in December 2007, an increase from the reported level of statewide unemployment of 3.5 percent in December, 2006.

According to 2007 D&B Corporation data, the institution's assessment area contains 5,274 businesses and 783 farms. A comparison of 1997 and 2002 Agricultural Census reports reveals that the average size of farms in Benton County remained unchanged during the period, the size of farms in Iowa County grew two percent during the period, the size of farms in Johnson County grew 10 percent during the period, and the average size of farms in Linn County also grew 10 percent during the period. Farm sizes increased 5 percent statewide. The number of farms decreased in Benton, Iowa, Johnson, and Linn Counties by 8, 2, 8, and 10 percent, respectively. Statewide, the number of farms decreased by 6 percent.

### Competition

Financial data submitted by banks for 2006<sup>2</sup> reports 23 financial institutions operating from 32 locations within Farmers Savings Bank's assessment area. These institutions range from small community banks to larger financial institutions operating branch locations within close proximity to the bank. Overall, the bank's 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 individual contacted reported that there is a demand for residential real estate loans in the Norway, Newhall, and Atkins, Iowa areas. The contact indicated that the county is experiencing growth in the business sector and a slowing of the housing sector. The contact also indicated that there is growth in the small business sector, with some larger business opportunities in the development stages. The contact stated that there appears to be more growth in the cities and towns nearer the eastern border of Benton County. The contact mentioned that banks appear to be active in supporting initiatives in the area, and that several banks in the area are very supportive of the Benton Development Group, with Farmers Savings Bank being one of those banks. Additionally, the community contact stated that the real estate market in the assessment area is active, and that retail space is moving slowly. The contact's experience is that there are more females buying real estate recently, though the contact has no opinion as to why this has become a trend. The contact also stated that it seems that the smaller banks are doing a better job of supporting local initiatives and lending needs than the larger institutions in the area.

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<sup>2</sup> According to 2006 data received from Sheshunoff Information Services

## 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.*

Farmers Savings Bank's average net-loan-to-deposit ratio is less than reasonable when compared to other similarly situated institutions. Examining personnel compared the bank's average ratio to those of five other 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. Information pertaining to this review appears in Table 4; selected comparables are listed alphabetically by location of the institutions' main office.

<b>Table 4 – Comparable Financial Institution Analysis</b>		
<b>Institution</b>	<b>Total Assets \$ (000s)*</b>	<b>Average Net LTD Ratios</b>
<b>Farmers Savings Bank, Walford, IA</b>	<b>44,241</b>	<b>53</b>
Atkins Savings Bank, Atkins, IA	36,847	54
Fairfax State Savings Bank, Fairfax, IA	101,412	58
Palo Savings Bank, Palo, IA	31,331	69
Swisher Trust & Savings Bank, Swisher, IA	36,351	59
The Watkins Savings Bank, Watkins, IA	45,327	74

*Source: Reports of Condition for 18 quarter-ends from June 30, 2003, to September 30, 2007. \*Total assets are as of September 30, 2007.*

As demonstrated in Table 4, Farmers Savings Bank's average net-loan-to-deposit ratio is 53 percent, and the average net loan-to-deposit ratio at the May 28, 2003, CRA examination was 70 percent. The most recent net loan-to-deposit ratio reported as of September 30, 2007, was 51 percent. The institution's net loan-to-deposit ratio is the lowest in comparison with similarly situated lenders. Bank management has indicated that the decline in the bank's net loan-to-deposit

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ratio since the previous evaluation is generally due to the bank's close proximity to the city of Cedar Rapids, Iowa and the very competitive banking environment of the bank's assessment area, in general. Management also stated that online mortgage lending offers and in-house financing provided by vehicle dealerships are difficult for the bank to match. The bank offers Small Business Administration (SBA) and Farm Service Agency (FSA) lending, but no customers of the bank have asked for such programs in the recent past. The institution has the ability to originate mortgage loans which are subsequently sold through secondary market relationships. From April 16, 2003 through February 11, 2008, lending officials originated 30 loans totaling \$3,431,515 through these arrangements. This activity is not reflected within the bank's lending volume or net loan-to-deposit ratio calculations. Overall, the bank's position and performance with respect to their average net loan-to-deposit ratio is less than reasonable.

### ***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.*

Overall, the bank's assessment area concentration is satisfactory. As Table 5 indicates, in aggregate, the bank extended a majority of small business loans within the assessment area. With respect to residential real estate lending, the bank extended a majority of loans by number within the assessment area in 2006 but not in 2007, and a majority of loans by dollar volume within the assessment area for both years.

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<b>Table 5 – Distribution of Loans Inside and Outside of the AA</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>	
Small Business	7	54	6	46	13	462	54	396	46	858
<b>Total</b>	<b>7</b>	<b>54</b>	<b>6</b>	<b>46</b>	<b>13</b>	<b>462</b>	<b>54</b>	<b>396</b>	<b>46</b>	<b>858</b>
HMDA										
2006	8	67	4	33	12	510	66	259	34	769
2007	4	44	5	56	9	540	56	422	44	962
<b>Total</b>	<b>12</b>	<b>57</b>	<b>9</b>	<b>43</b>	<b>21</b>	<b>1,050</b>	<b>61</b>	<b>681</b>	<b>39</b>	<b>1,731</b>

Source: Examiner sampling, as well as 2006 and 2007 HMDA LAR

Specifically, CRA sampling shows that 54 percent by number and by dollar volume of small business loans lie within the bank’s assessment area. This represents a reasonable record of lending within the bank’s assessment area within the small business sector.

Examination of Farmers Savings Bank’s 2006 HMDA LAR revealed that 67 percent by number and 66 percent by dollar volume of residential real estate lending was within the bank’s assessment area, while the 2007 HMDA LAR revealed that 44 percent by number and 56 percent by dollar volume of residential real estate lending was within the bank’s assessment area. In aggregate, the bank has 57 percent by number and 61 percent by dollar volume of residential real estate lending inside the bank’s assessment area. Management explained that the bank is faced with intense competition from other institutions for residential real estate loans both within and outside the assessment area; therefore, bank officials stated it is their lending strategy to extend loans whenever possible to ensure that this credit need is being met. As stated previously, the bank has increased its residential real estate loan portfolio 30 percent from the September 30, 2003 Call Report to the September 30, 2007 Call Report. Given these circumstances, the bank has a reasonable record of lending within the bank’s assessment area.

Based on the results detailed in Table 5, the institution’s overall record of lending in the assessment area is reasonable.

The majority of the remaining analysis will focus on number of loans originated, rather than on the dollar volume, since loans extended to smaller commercial business operations and to low- and moderate-income residential real estate borrowers are generally for smaller dollar amounts when compared to the size of larger commercial business operations and loans to middle- and upper-income residential real estate borrowers, respectively. Analyzing loan dollar volume will generally not provide a representative picture of the bank’s lending performance. Of the

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outstanding loans reviewed, only those located inside the bank's assessment area were analyzed for borrower profile and geographic distribution.

### ***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 (small business), as applicable. Income categories used are compared to the Department of Housing and Urban Development's (HUD) estimates for residential real estate loans and D&B Corporation Data established revenue categories for small business loans sampled, as applicable.*

CRA sampling revealed an overall reasonable distribution of loans extended to small business and residential real estate borrowers. This reflects management's reasonable commitment to provide financing to borrowers at all income and revenue levels.

### **Small Business Loans**

*To aid in evaluating the institution's performance in lending to small businesses of different sizes, examiners used D&B Corporation data. D&B Corporation provides a breakdown of the number of 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. Gross revenue information for the bank's loan samples were obtained from loan files and discussions with loan officers.*

Regulatory personnel reviewed the number of small business loans extended to operations of different revenue levels operating *within* the bank's assessment area. Sampling results show a less than reasonable amount of lending to small business 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 small business operations.

<b>Table 6 – Distribution of Small Business Loans by Gross Annual Revenues</b>					
<b>Gross Annual Revenues</b>	<b>Businesses in the AA</b>	<b>Distribution of Small Business Loans Sampled</b>			
	<b>% of #</b>	<b>#</b>	<b>%</b>	<b>\$ (000's)</b>	<b>%</b>
<\$100,000	31	1	14	3	1
\$100,000-<\$250,000	16	2	29	175	38
\$250,000-<\$500,000	7	2	28	89	19
\$500,000-<\$1,000,000	4	0	0	0	0
≥\$1,000,000	6	2	29	195	42
Revenues Not Reported	36	0	0	0	0
<b>Total</b>	<b>100</b>	<b>7</b>	<b>100</b>	<b>462</b>	<b>100</b>

Source: Loan files and 2007 D&B Corporation Data.

The column labeled “Businesses in the AA” in Table 6 lists the total percentage of businesses in each revenue category, including those businesses that did not report gross annual revenues to D&B Corporation. D&B Corporation data indicates that, of businesses within the assessment area which reported income, 48 percent by number generate less than \$100,000 in gross annual revenues. Examiner sampling found that 14 percent of loans by number were extended to small business operations that generated less than \$100,000 in annual gross revenues. Management’s response to this disparity is that most smaller businesses have established banking relationships with their bank of choice already, and that it is difficult to pull those business accounts to Farmers Savings Bank, especially when the small business owner also has personal lines at their current bank. Management also stated that the bank is trying to diversify the lending portfolio, and part of that diversification is to be more proactive in reaching out to the community and finding new lending opportunities, which would include small business lending. The bank offers Small Business Administration (SBA) lending, but there have not been any recent customer requests for that particular program. Management feels that there are other banks in the area that are making more headway within the business community because the commercial borrower is their focus, and that larger banks are setting up branches which encroach upon Farmers Savings Bank’s local area. Still, the disparity between examiner sampling and D&B Corporation data in this revenue category is less than reasonable, given community contact information discussed previously and the demographics of the assessment area.

D&B Corporation demographic data indicates that 25 percent by number of small business entities within the assessment area which reported income reside in the \$100,000 to less than \$250,000 gross annual revenues category. Examiner sampling revealed that the bank is lending 29 percent by number of their small business loans in this category, which is reasonable. D&B Corporation

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data indicates that four percent of the businesses within the assessment area are in the \$500,000 to less than \$1 million gross annual revenue category; examiner sampling revealed no loans in that category. Management had no explanation for this disparity, other than to say that they did not believe that there were any businesses in that size in the local area. Also, D&B Corporation data suggests that the total percentage of small businesses *which reported revenues* under \$1 million is 90 percent; examiner sampling revealed that 71 percent of the bank's small business lending was in this category. Management explained that the remaining 29 percent of the sample which was in the category of businesses with *reported* gross annual revenues of \$1 million and over are long-term customers who, over time, have grown to that size; and that the bank has not had any new customers of that size come to the bank in the recent past.

Considering the foregoing factors, the bank's lending to small business customers in the assessment area is considered less than reasonable to small businesses with *reported* gross annual revenues of less than \$100,000, as well as to small businesses with *reported* gross annual revenues of under \$1 million.

### 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 (MFI), as applicable, for the years 2006 and 2007 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 (MSA and/or Non-MSA, as applicable) to determine whether each borrower should be considered low-, moderate-, middle-, or upper-income. The HUD estimated MFI categories (MSA and/or Non-MSA, as applicable) for each year is illustrated in Table 7. Income information for the bank's loans were obtained from the bank's HMDA LARs for the years 2006 and 2007.*

Regulatory personnel determined the borrower income distribution for residential real estate loans originated within the assessment area. Table 7 details the Cedar Rapids, Iowa MSA; Iowa City, Iowa MSA; and non-MSA median family incomes for 2006 and 2007, as well as the dollar amounts used to classify families (or borrowers) by income level.

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<b>Table 7 – Median Family Income Ranges (HUD Estimated)</b>						
<b>Income Category</b>	<b>Cedar Rapids MSA MFI</b>		<b>Iowa City MSA MFI</b>		<b>Iowa Non-MSA MFI</b>	
	<b>2006 (\$65,200)</b>	<b>2007 (\$63,800)</b>	<b>2006 (\$68,000)</b>	<b>2007 (\$63,600)</b>	<b>2006 (\$52,800)</b>	<b>2007 (\$53,100)</b>
Low (< 50%)	<\$32,600	<\$31,900	<\$34,000	<\$31,800	<\$26,400	<\$26,550
Moderate (50 - < 80%)	\$32,600 to <\$52,160	\$31,900 to <\$51,040	\$34,000 to <\$54,400	\$31,800 to <\$50,880	\$26,400 to <\$42,240	\$26,550 to <\$42,480
Middle (80 - < 120%)	\$52,160 to <\$78,240	\$51,040 to <\$76,560	\$54,400 to <\$81,600	\$50,880 to <\$76,320	\$42,240 to <\$63,360	\$42,480 to <\$63,720
Upper (≥ 120%)	≥\$78,240	≥\$76,560	≥\$81,600	≥\$76,320	≥\$63,360	≥\$63,720

*Source: U.S. Department of Housing and Urban Development*

<b>Table 8 – Distribution of Residential Loans by Borrower Income Level</b>							
<b>HMDA Year</b>	<b>Income Classification</b>	<b>Number of Loans</b>		<b>Dollar Volume of Loans \$(000s)</b>		<b>Percent of Assessment Area Families</b>	<b>HMDA Aggregate Lending (% by number of loans) Cedar Rapids MSA</b>
		<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>		
<b>2006</b>	<b>Low</b>	2	25	117	23	13	9
	<b>Moderate</b>	1	13	89	17	17	22
	<b>Middle</b>	2	25	230	45	28	28
	<b>Upper</b>	2	25	67	13	42	27
	<b>Income NA</b>	1	12	7	2	0	14
	<b>Totals</b>	8	100%	510	100%	100 %	100%
<b>2007</b>	<b>Low</b>	0	0	0	0	13	
	<b>Moderate</b>	1	25	46	9	17	
	<b>Middle</b>	0	0	0	0	28	
	<b>Upper</b>	3	75	494	91	42	
	<b>Income NA</b>	0	0	0	0	0	
	<b>Totals</b>	4	100%	540	100%	100%	

*Source: 2006 and 2007 HMDA Loan Application Registers and 2000 U.S. Census data. No HUD Aggregate Data available for 2007 as of this evaluation.*

The limited number of residential real estate loans to borrowers in the assessment area during 2007 left examiners unable to form conclusions regarding the bank’s lending performance during that period; therefore, examiners concentrated on evaluating the bank’s residential real estate lending during 2006. Only two of the bank’s census tracts are in the Iowa City, Iowa MSA, while ten census tracts are in the Cedar Rapids, Iowa MSA and three census tracts are in non-MSA areas;

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The bank's residential real estate lending to low-income borrowers during 2006 was considered to be excellent, when compared to U.S. Census data, and excellent, compared to HMDA aggregate data. Specifically, HMDA LAR data revealed that Farmers Savings Bank extended 25 percent of their residential real estate loans by number to low-income borrowers, while 2000 U.S. Census data shows that 13 percent of families in the assessment area are considered low-income, and HMDA aggregate data for the Cedar Rapids MSA indicates that banks reporting HMDA data in that MSA averaged nine percent lending by number to low-income borrowers. In addition, the bank's lending to moderate-income borrowers is reasonable, considering that the bank extended 13 percent of their loans by number to moderate-income borrowers. The U.S. Census data reports that 17 percent of families in the assessment area are moderate-income families, and HMDA aggregate data for the Cedar Rapids MSA indicates that banks reporting HMDA data averaged 22 percent lending to moderate-income borrowers. Overall, the distribution of borrowers reflects a reasonable level of lending at all income levels. Additionally, the bank's HMDA lending data was compared to aggregate lending data for the Iowa City, Iowa MSA, and no lending issues or inconsistencies were identified.

In conclusion, CRA sampling revealed a less than reasonable distribution of loans extended to small businesses, and a reasonable distribution of lending to residential real estate borrowers. This reflects management's overall reasonable commitment to provide financing to borrowers at all income and revenue levels.

### ***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 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 reviewed loans by CT. Detailed below is an analysis of this performance criterion for the bank.*

The geographic distribution of loans reflects a reasonable dispersion to small business and residential real estate borrowers, indicating the bank's willingness to extend loans throughout the assessment area.

Tables 9 and 10 show the demographic distribution of lending inside the assessment area, based on the income level of the geography. As stated previously in this evaluation, Farmers Savings Bank's assessment area is comprised of eleven middle-, and four upper-income geographies. The bank's main office is located in census tract 9805, and the bank's Amana branch is located in census tract 9901, both of which are middle-income geographies.

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**Table 9 – Distribution of Small Business Loans by Income Category of the Geography for the AA**

Geography Income Level	Businesses in the AA	Distribution of Small Business Loans Sampled			
	% of #	#	%	\$ (000's)	%
Low	0	0	0	0	0
Moderate	0	0	0	0	0
Middle	73	7	100	462	100
Upper	27	0	0	0	0
<b>Total</b>	<b>100</b>	<b>7</b>	<b>100</b>	<b>462</b>	<b>100</b>

Source: 2007 D&B Corporation Data & examiner sampling

The distribution of small business lending is reasonable, given the bank’s location and the demographics of the assessment area. All of the bank’s lending to small business borrowers is in the middle-income geographies. This is reasonable, given that the bank’s assessment area is comprised of mainly middle-income census tracts, and the bank and its branch are located in middle-income census tracts. According to management, the lack of small business lending in the upper-income geographies of the bank’s assessment area is due to an elevated level of competition among lenders in the Cedar Rapids area.

**Table 10 – Distribution of Residential Real Estate Loans by Income Category of the Geography for the AA**

HMDA Year	Census Tract Income Level	Number of Loans		Dollar Volume of Loans \$ (000s)		Percent of Families	HMDA Aggregate Lending (% by number of loans) Cedar Rapids MSA
		#	%	\$	%		
2006	Low	0	0	0	0	0	0
	Moderate	0	0	0	0	0	0
	Middle	7	88	489	96	71	77
	Upper	1	12	21	4	29	23
	<b>Totals</b>	<b>8</b>	<b>100%</b>	<b>510</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
2007	Low	0	0	0	0	0	
	Moderate	0	0	0	0	0	
	Middle	3	75	276	51	71	
	Upper	1	25	264	49	29	
	<b>Totals</b>	<b>4</b>	<b>100%</b>	<b>540</b>	<b>100%</b>	<b>100%</b>	

Source: 2006 and 2007 HMDA Loan Application Registers and 2000 U.S. Census Data. No HUD Aggregate Data available for 2007 as of this evaluation.

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As aforementioned in the borrower profile section above, 2007 HMDA data relating to the bank's residential real estate lending was not a sufficient number to warrant any examiner conclusions at the present CRA evaluation, and Iowa City; Iowa MSA HMDA aggregate information was excluded from this analysis.

The distribution of residential real estate lending is reasonable, given the demographics of the assessment area. U.S. Census data indicates that 71 percent of families in the assessment area are located in middle-income census tracts, and HMDA aggregate data for the Cedar Rapids, Iowa MSA indicates that banks reporting HMDA data originated an average of 77 percent of their loans by number to middle-income borrowers. Farmers Savings Bank originated 88 percent of their residential real estate loans by number in middle-income geographies. This is reasonable, given that the bank's assessment area is comprised of mainly middle-income census tracts, and the bank and its branch are located in middle-income census tracts. This demonstrates management's commitment to meeting the needs of the local geographies within the bank's assessment area. Additionally, the bank's HMDA lending data was compared to aggregate lending data for the Iowa City, Iowa MSA, and no lending issues or inconsistencies were identified.

In conclusion, the geographic distribution of loans reflects a reasonable dispersion to small business and residential real estate borrowers, indicating the bank's willingness to extend loans throughout 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.*

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 and other applicable 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.