

PUBLIC DISCLOSURE

January 5, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Citizens State Bank
5822**

**820 11th Avenue SW
Waukon, Iowa 52172**

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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 **Citizens State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of January 5, 2009. 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 Citizens State Bank's satisfactory record of meeting the credit needs of the community.

- The bank's average net-loan-to-deposit ratio of 113 percent is excellent when compared to other similarly situated institutions, demonstrating the institution's strong commitment to extend credit.
- Overall, the bank exhibited a reasonable percentage of small farm, small business, and residential real estate lending located within the institution's assessment area. In aggregate, the bank originated 80 percent by number and 65 percent by dollar volume of total sampled loans 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 an overall reasonable level of lending to small farm and small business borrowers with annual gross revenues of less than \$1 million. Specifically, 64 percent of the bank's sampled loans by number were extended to small farm operations with annual gross revenues of less than \$1 million, and 50 percent of the bank's sampled loans by number were extended to small business operations with annual gross revenues of less than \$1 million. Multiple small farm and small business loans in the sample were made to a few individual borrowers with gross annual revenues of over \$1 million, which masked the true nature of the institution's lending at these revenue levels. Overall, the bank's distribution of loans to small farm and small businesses of all revenue levels is considered reasonable.
- The bank had a reasonable percentage of lending to low- and moderate-income residential real estate borrowers. Specifically, the bank extended 11 percent of residential real estate loans by number to low-income borrowers, and 19 percent to moderate-income borrowers, which is comparable to US Census data. Overall, the bank is considered to have a reasonable commitment to meeting the needs of residential real estate 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 farm, small business, and residential real estate lending. Overall, the bank's geographic dispersion of lending is reasonable. This indicates the bank's willingness to extend loans throughout its assessment area.
- The bank has not received any CRA-related complaints since the institution's November 24, 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 November 24, 2003, to January 5, 2009. 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 agricultural, commercial, and residential real estate portfolios. Examiners determined that 174 small farm loans with original balances totaling \$8,571,351; 139 small business loans with original balances totaling \$10,895,235; and 108 residential real estate loans with original balances of \$9,343,646 were extended during the previous 12 months. Accordingly, regulatory personnel sampled 43 small farm loans totaling \$2,032,000; 35 small business loans totaling \$2,576,000; and 36 residential real estate loans totaling \$3,205,881 for CRA evaluation purposes. Small farm loans are defined as "loans secured by farmland (including farm residential and other improvements) or to finance agricultural production and other loans to farmers with original amounts of \$500,000 or less." Small business loans are defined as "loans secured by non-farm, non-residential properties and commercial and industrial loans with original amounts of \$1 million or less." 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.

Given the dollar amount of agricultural, commercial, and residential real estate loans originated per the institution's September 30, 2008 Consolidated Reports of Income and Condition ("Call Report;" see Table 1), as well as information derived from discussions with the institution's management, equal weight was given to examiner sampling results in all areas of the institution's lending performance.

DESCRIPTION OF INSTITUTION

Citizens State Bank is a commercial bank with its main office located in Waukon, Iowa. Branches are located in Decorah and Postville, Iowa. The institution is 100 percent owned by Fidelity Company of Dubuque, Iowa, a multiple-bank holding corporation. Citizens State Bank has five affiliates: Fidelity Bank & Trust in Dyersville, Iowa; Iowa Bank in Bellevue, Iowa; Cascade State Corp in Cascade, Iowa (which controls Security State Bank in Anamosa, Iowa); and Community State Bank in Tipton, Iowa. The institution's assessment area includes all of Winneshiek County, Iowa; as well as Allamakee County census tracts 9602, 9603, and 9605; Fayette County census tract 9806; and Clayton County census tract 9702. Citizens State Bank offers various products and services including agricultural, commercial, consumer, and residential real estate credits. The bank offers Small Business Administration and U.S. Department of Agriculture Farm Service Agency loans. The bank owns three automated teller machines; one machine is located in each of the institution's branch location lobbies. None of the automated teller machines accept deposits.

Small Institution Performance Evaluation

The bank's rating at the November 2003 CRA evaluation was "Satisfactory." As of September 30, 2008, total assets of the institution totaled \$66,958,000, which is a 16 percent increase from the June 30, 2003 figure of \$57,540,000. The bank's total deposits increased 19 percent during this period, from \$43,508,000 to \$51,983,000. Also during this period, the bank's total loans grew 38 percent from \$41,050,000 to \$56,561,000. The largest category increase measured by dollar volume of loans has been in commercial lending, which grew from \$14,547,000 to \$23,008,000, an increase of 58 percent. Residential real estate lending increased from \$7,571,000 to \$11,587,000, an increase of 53 percent. Agricultural lending grew from \$14,207,000 to \$16,975,000, an increase of 19 percent. Consumer lending grew from \$2,747,000 to \$2,924,000, an increase of six percent. Construction and land development lending decreased from \$1,585,000 to \$644,000, a decline of 59 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.

Small Institution Performance Evaluation

Table 1 – Loan Portfolio Distribution as of September 30, 2008		
Loan Category	Dollar Amount (000s)	Percent of Total Loans
1-4 Family Residential Construction Loans	291	1
Other Construction Loans and All Land Development and Other Land Loans	353	1
Secured by Farmland	7,395	13
Secured by 1-4 Family Residential Properties	10,201	18
Secured by Multi-Family (5 or more) Residential Properties	1,386	2
Secured by Non-farm Non-residential Properties	6,484	11
Total Real Estate Loans	26,110	46
Agricultural Production and Other Loans to Farmers	9,580	17
Loans to depository institutions and acceptances of other banks	1,350	3
Commercial and Industrial	16,524	29
Consumer	2,924	5
Obligations of States and Political Subdivisions in the U.S.	0	0
Other	73	<1
Lease Financing Receivables (net of unearned income)	0	0
Gross Loans	56,561	100
Less: Unearned Income	0	0
Total Loans and Leases	56,561	100

Source: Report of Condition

As indicated in Table 1, Agricultural lending (comprised of *Secured by Farmland* and *Agricultural Production and Other Loans to Farmers*) accounts for 30 percent of the bank’s portfolio. Commercial lending (comprised of *Secured by Non-farm Non-residential Properties* and *Commercial and Industrial*) accounts for 40 percent of the bank’s portfolio; residential real estate (comprised of *1-4 Family Residential Properties* and *Secured by Multi-Family (5 or more) Residential Properties*) accounts for 20 percent of the bank’s portfolio; and consumer lending accounts for five percent of the bank’s portfolio. Construction, land development, and other land loans (comprised of *1-4 Family Residential Construction Loans* and *Other Construction Loans and All Land Development and Other Land Loans*) accounts for slightly more than one percent of the bank’s loan portfolio, and Other lending accounts for less than one percent of the bank’s portfolio. Examiners reviewed the bank’s lending relative to small farm, small business, and residential real

estate products as these products make up a significant portion of the bank’s lending portfolio and are considered to be a business focus for the institution.

DESCRIPTION OF CITIZENS STATE 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. Table 2 illustrates the various income category definitions used in this evaluation.

Table 2 – Designation of Geography Income Categories	
Income Category	Definition
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.

As previously stated, Citizens State Bank’s assessment area includes all of Winneshiek County, Iowa, as well as Allamakee County census tracts 9602, 9603, and 9605, Fayette County census tract 9806, and Clayton County census tract 9702. All ten census tracts in the assessment area are middle-income in nature. The bank’s main office is located in Allamakee County census tract 9603; the Postville branch is located in Allamakee County census tract 9605; and the Decorah

branch is located in Winneshiek County census tract 9503. All of Winneshiek County, as well as census tract 9702 in Clayton County, have been designated as underserved middle-income non-metropolitan tracts by the Federal Financial Institution Examination Council (FFIEC). To be designated as an underserved non-metropolitan middle-income geography, an area must meet criteria for population size, density, and dispersion that indicate that an area's population is sufficiently small, thin, and distant from a population center such that the geography is likely to have difficulty in financing the fixed costs of essential community needs.

According to U.S. Census Bureau data, the population of Allamakee County has increased 5.9 percent over the ten years between 1990 and 2000; Fayette and Winneshiek Counties saw population increases over the same time period of .8 and 2.2 percent, respectively. Clayton County's population decreased by 2.0 percent over that same time period, and the population of the State of Iowa grew 5.4 percent over that same time period.

According to 2000 U.S. Census Bureau data, Citizens State Bank's assessment area includes 14,248 households, of which 9,712 are considered families. Of those families, 15 percent are low-income, 20 percent are moderate-income, 29 percent are middle-income, and 36 percent are upper-income. Approximately six percent of the families in the assessment area are below the poverty level¹, and the weighted average of median family income of the assessment area is \$44,230.

Furthermore, 2000 U.S. Census data reports 69 percent of the housing in the assessment area as owner-occupied, 24 percent as occupied rental, and 7 percent vacant. Housing is primarily 1-4 family units with 95 percent of housing within this category. Five percent of housing is comprised of homes with 5 or more units. The State of Iowa's non-MSA median housing value is \$70,158; and the weighted average of the median housing value for the bank's assessment area as a whole is \$81,251.

Economic Characteristics

According to the 2007 Iowa Workforce Development Annual County Profile, the largest segments of the populations of Allamakee, Clayton, Fayette, and Winneshiek Counties are employed in either manufacturing or education and health services. Two of the largest employers in Allamakee County are Northern Engraving Corporation and the Good Samaritan Society; among Clayton County's largest employers are Monona Wire Corporation and G&G Living centers; Fayette County is home to Upper Iowa University and Atwood Mobile Home Products; and Luther College, as well as Textron Service Center are among the largest employers in Winneshiek County.

¹ 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*)

Small Institution Performance Evaluation

According to Iowa Workforce Development statistics, the October 2008 unemployment rate (as compared to the October 2007 unemployment rate) for Allamakee, Clayton, Fayette, and Winneshiek Counties increased from 3.7 percent to 5.9 percent, from 3.4 percent to 4.6 percent, from 3.5 percent to 4.7 percent, and from 2.6 to 3.7 percent, respectively. By comparison, the State of Iowa reported a statewide unemployment level of 4.4 percent in October 2008, an increase from the reported level of statewide unemployment of 3.8 percent in October 2007. A major contributing factor to the rise in unemployment in Allamakee County has been the interruption of production at Agriprocessors Incorporated, which had been the county's largest employer in the recent past.

According to 2007 D&B Corporation data, the institution's assessment area contains 3,140 businesses and 909 farms. According to the 2002 U.S. Department of Agriculture National Agricultural Statistics Service Census of Agriculture, the average size of farms in Clayton, Fayette, and Winneshiek Counties have increased by one percent, two percent, and five percent, respectively. Farm sizes in Allamakee County have remained unchanged, while farm sizes increased five percent statewide. The number of farms decreased in Clayton, Fayette, and Winneshiek Counties by eight percent, two percent, and four percent, respectively. Allamakee County saw a six percent increase in the number of farms. Statewide, the number of farms decreased by 6 percent.

Competition

Financial data submitted by banks for 2006² reports 15 financial institutions operating from 21 locations within Citizens State 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 in conjunction with this examination reported that the recent national economic downturn has not affected the served area nearly as much as it has nearby counties. The representative of a large employer in the area reported to the contact that the company would layoff some workers because of the recent economic downturn, but representatives of other companies in the area reported to the contact that their workforces would remain stable. These representatives also stated that no new hiring or investments would be pursued in the near future, indicating a "wait and see" attitude among businesspeople of the area. Retail sales are suffering, but not as much as in neighboring counties. Housing has remained relatively stable, though values and sales prices have fallen recently. The contact stated that banks are still conservative, still making loans, but with more caution than in the past. The contact

² According to 2006 data received from Sheshunoff Information Services

believes that the financial institutions in the area have been very involved in the economic health and growth of the area. The contact stated that all of the financial institutions were extremely helpful and contributed greatly to flood relief requests after the flooding of 2008.

Given the foregoing analysis by the contact, there appears to be a credit need for student loan/educational purpose loans, commercial and agricultural lending to help businesses and farms in the area weather the current economic downturn, and continued accessibility to mortgage lending.

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.

Citizens State Bank's average net loan-to-deposit ratio is more than reasonable when compared to other similarly situated institutions. Examining personnel compared the bank's 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 3; selected comparables are listed alphabetically by location of the institutions' main office.

Small Institution Performance Evaluation

Table 3 – Comparable Financial Institution Analysis

Institution	Total Assets \$ (000s)	Average Net LTD Ratios
Citizens State Bank, Waukon, Iowa	66,958	113
Central State Bank, Elkader, Iowa	99,106	78
Maynard Savings Bank, Maynard, Iowa	44,506	64
Citizens Savings Bank, Spillville, Iowa	48,966	89
Farmers and Merchants Savings Bank, Waukon, Iowa	97,100	104
Waukon State Bank, Waukon, Iowa	106,410	93

Source: Reports of Condition for 20 quarter-ends from December 31, 2003, through September 30, 2008. Total assets as of September 30, 2008.

As demonstrated in Table 3, Citizens State Bank’s average net loan-to-deposit ratio is 113 percent, which is considerably higher than all comparables except Farmers and Merchants Savings Bank in Waukon, Iowa. The average net loan-to-deposit ratio at the November 24, 2003, CRA examination was 72 percent. The most recent net loan-to-deposit ratio reported as of September 30, 2008, was 108 percent. The institution’s net loan-to-deposit ratio was over 100 percent for all but one quarter-end from December 31, 2003, to September 30, 2008. Overall, the bank’s position and performance with respect to their average net loan-to-deposit ratio is excellent when compared to similarly situated banks in the assessment area.

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 reasonable. As Table 4 indicates, in aggregate, the bank extended a majority of small farm, small business, and residential real estate loans within the assessment area.

Table 4 – Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollars Volume of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$ (000s)
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Small Farm	36	84	7	16	43	1,710	84	322	16	2,032
Small Business	28	80	7	20	35	1,242	48	1,334	52	2,576
Residential Real Estate	27	75	9	25	36	2,110	66	1,096	34	3,206
Total	91	80	23	20	114	5,062	65	2,751	35	7,813

Source: Examiner Sampling

As indicated in Table 4, examiner sampling indicates that the majority of the institution’s lending by number of loans, as well as by dollar volume of loans, is within the assessment area defined by the bank’s management. The lowest percentage of lending indicated above is small business lending by dollar volume. Examiner sampling randomly chose one large dollar amount loan in this category which was not in the assessment area and represented over 67 percent of the amount of loans in this category by dollar volume, which is outside of the assessment area, thus disproportionately lowering the percentage of small business loans by dollar volume inside the assessment area. Overall, the results in Table 4 represent a reasonable record of lending within the bank’s assessment area within the small farm, small business, and residential real estate sectors.

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 and agricultural 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 and agricultural 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 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 farm and 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 farm and small business loans sampled, as applicable.

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

Small Farm and Small Business Loans

To aid in evaluating the institution’s performance in lending to small farm and 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 farm and small business loans extended to operations of different revenue levels operating *within* the bank’s assessment area. Sampling results show a reasonable amount of lending to small farm and small business borrowers with gross revenues less than \$1,000,000, given the demographics of the assessment area. Tables 5 and 6 illustrate the bank’s penetration of lending to small farm and small business operations.

Table 5 – Distribution of Small Farm Loans by Gross Annual Revenues						
Gross Annual Revenues	AA Farms with Reported Revenues	All AA Farms	Distribution of Small Farm Loans Sampled			
	% of #	% of #	#	%	\$ (000’s)	%
<\$250,000	90	90	11	31	313	18
\$250,000-<\$500,000	8	8	5	14	302	18
\$500,000-<\$1,000,000	1	1	7	19	485	28
≥\$1,000,000	1	1	13	36	610	36
Sub-Total	100	100	36	100	1,710	100
Revenues Not Reported	NA	<1	0	0	0	0
Total	100	100	36	100	1,710	100

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

Table 6 – Distribution of Small Business Loans by Gross Annual Revenues						
Gross Annual Revenues	AA Businesses with Reported Revenues	All AA Businesses	Distribution of Small Business Loans Sampled			
	% of #	% of #	#	%	\$ (000's)	%
<\$250,000	74	45	14	50	256	21
\$250,000-<\$500,000	11	7	0	0	0	0
\$500,000-<\$1,000,000	6	3	0	0	0	0
≥\$1,000,000	9	5	14	50	986	79
Sub-Total	100	60	28	100	1,242	100
Revenues Not Reported	NA	40	0	0	0	0
Total	100	100	28	100	1,242	100

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

The columns labeled “All AA Farms” and “All AA Businesses” in Tables 5 and 6, respectively, list the total percentage of farms and businesses in each revenue category, *including those farms and businesses that did not report gross annual revenues to D&B Corporation.*

As evidenced in Table 5, examiner sampling indicates that 64 percent of the institution’s small farm lending is to small farms with less than \$1 million in gross annual revenues. In comparison, D&B Corporation data shows that 99 percent of the farms had revenues of less than \$1,000,000. Among other loans selected, examiner sampling randomly chose a number of individual loans which were made to one single farm operation with annual gross revenues over \$1 million. Additionally, the 13 loans in this revenue category were made to two individual agricultural operations; ten to one operation, and three to the other. The random selection of these loans, coupled with the borrower’s gross annual revenue, serve to disproportionately inflate the percentage of sampled small farm loans made to operations with gross annual revenues of \$1 million and greater, as well as to deflate the percentages of small farm loans in all other categories of revenues. On an added note, comparing and contrasting the dispersion of sampled lending data against demographic data is somewhat restrictive for analysis purposes given that sampled loans are compared against the number of individual farm operations within each revenue category as reported by D&B Corporation, which in the end limits the examiner’s ability to further investigate for potential lending gaps or anomalies. With that said, examiner review of loan applications not originated and the bank’s marketing and underwriting standards did not reveal concerns regarding the availability of credit to local residents. Given the above findings, the data in Table 5 shows the bank’s reasonable efforts to extend credit to farm borrowers in all revenue categories.

Table 6 reveals that examiner sampling of small business loan originations found that 50 percent of loans by number were extended to small business operations that generated less than \$250,000 in annual gross revenues. In comparison, D&B Corporation data shows that 74 percent of the businesses with reported revenues had revenues of less than \$250,000. Among other loans selected, examiner sampling randomly chose a number of individual loans which were made to a few business borrowers with annual gross revenues of \$1 million and over. One business borrower accounts for 43 percent of the number of loans made to businesses with annual gross revenues of \$1 million and over. The random selection of these loans, coupled with the borrower's gross annual revenue, serve to inflate the percentage of sampled small business loans made to operations with gross annual revenues of \$1 million and greater, as well as to deflate the percentages of small business loans in all other categories of revenues. Management indicated that the lack of sampling results for the categories of lending to businesses with gross annual revenues between \$250,000 and less than \$1 million is a function of the area economy; that businesses are typically large and well-capitalized, or small and struggling. Another mitigating factor is that comparing and contrasting the distribution of sampled lending data against demographic data is somewhat restrictive for analysis purposes given that sampled loans are compared against the number of individual businesses within each revenue category as reported by D&B Corporation, which in the end limits the examiner's ability to further investigate for potential lending gaps or anomalies; however, given that 40 percent of businesses in the assessment area did not report revenues to D&B Corporation, the results of this analysis shows the institution's reasonable efforts to extend credit to small business borrowers. Additionally, examiner review of loan applications not originated and the bank's marketing and underwriting standards did not reveal concerns regarding the availability of credit to local residents.

Considering the foregoing factors, the bank's lending to small farm and small business customers with *reported* gross annual revenues of under \$1 million is considered reasonable.

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 2007 and 2008 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.

Regulatory personnel determined the borrower income distribution for residential real estate loans originated within the assessment area. Table 7 details the statewide Iowa non-MSA median family incomes for 2007 and 2008, as well as the dollar amounts used to classify families (or borrowers) by income level. The residential real estate loans originated to borrowers of different income

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levels by number and dollar volume is depicted in Table 8; this data includes only those loans granted *inside* the bank’s assessment area.

Table 7 – Median Family Income Ranges (HUD Estimated)				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
State of Iowa Non-Metropolitan Statistical Area Median Family Income				
2007 (\$53,100)	<\$26,550	\$26,550 to <\$42,480	\$42,480 to <\$63,720	≥\$63,720
2008 (\$53,500)	<\$26,750	\$26,750 to <\$42,800	\$42,800 to <\$64,200	≥\$64,200

Source: Department of Housing and Urban Development

Table 8 – Distribution of Residential Real Estate Loans by Borrower Income Level					
Median Family Income Level	% of Families in the AA	Distribution of Residential Real Estate Loans Sampled			
	%	#	%	\$ (000s)	%
Low	15	3	11	224	11
Moderate	20	5	19	288	14
Middle	29	6	22	319	15
Upper	36	13	48	1,279	60
Total	100	27	100	2,110	100

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

The bank’s residential real estate lending to low- and moderate-income borrowers is considered to be reasonable, as compared to U.S. Census data. Specifically, examiner sampling revealed that Citizens State Bank extended 11 percent of their residential real estate loans by number to low-income borrowers, while 2000 U.S. Census data shows that 15 percent of families in the assessment area are considered low-income. The four percentage point difference is explained by the fact that nearly six percent of the families in the assessment area are below the poverty level. Families with incomes below the poverty level would not likely qualify for a residential real estate mortgage. In addition, the bank extended 19 percent of their loans by number to moderate-income borrowers. The U.S. Census data reports that 20 percent of families in the assessment area by number are moderate-income families. Overall, the distribution of credit to residential real estate borrowers of all income levels is reasonable.

Small Institution Performance Evaluation

In conclusion, CRA sampling revealed a reasonable distribution of loans extended to small farm, small business, and residential real estate borrowers. This reflects management's 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 sampled 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 farm, small business, and residential real estate borrowers, indicating the bank's willingness to extend loans throughout the assessment area.

Tables 9, 10, and 11 show the demographic distribution of lending to small farm, small businesses, and residential real estate borrowers, respectively, based on the income level of the geography. As stated previously in this evaluation, Citizens State Bank's assessment area is comprised of ten middle-income geographies.

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Table 9 – Distribution of Small Farm Loans by Geography for the AA					
Census Tract	Farms in the AA	Distribution of Small Farm Loans Sampled			
	% of #	#	%	\$ (000's)	%
Clayton County CT #9702	14	4	11	131	8
Allamakee County CT #9602	14	1	3	15	1
Allamakee County CT #9603	8	2	6	4	<1
Allamakee County CT #9605	3	6	17	267	15
Fayette County CT #9806	10	2	6	200	12
Winneshiek County #9501	14	2	5	290	17
Winneshiek County #9502	3	0	0	0	0
Winneshiek County #9503	3	0	0	0	0
Winneshiek County #9504	16	16	44	735	43
Winneshiek County #9505	15	3	8	68	4
Total	100	36	100	1,710	100

Source: 2007 D&B Corporation Data & examiner sampling

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Table 10 – Distribution of Small Business Loans by Geography for the AA					
Census Tract	Businesses in the AA	Distribution of Small Business Loans Sampled			
	% of #	#	%	\$ (000's)	%
Clayton County CT #9702	9	2	7	505	40
Allamakee County CT #9602	6	5	18	98	8
Allamakee County CT #9605	9	3	11	35	3
Allamakee County CT #9603	14	12	43	202	16
Fayette County CT #9806	8	1	3	100	8
Winneshiek County #9501	8	1	4	20	2
Winneshiek County #9502	8	4	14	282	23
Winneshiek County #9503	12	0	0	0	0
Winneshiek County #9504	10	0	0	0	0
Winneshiek County #9505	16	0	0	0	0
Total	100	28	100	1,242	100

Source: 2007 D&B Corporation Data & examiner sampling

The distribution of small farm and small business lending is reasonable, given the bank’s location and the demographics of the assessment area. Examiner sampling results shown in Table 9 reveal that the institution is lending to small farm borrowers in the geographic areas between the bank’s branches, and that lending to small farm operations in census tracts which are not between the institution’s branch locations have less lending represented in the results. Specifically, Allamakee County census tract 9605 is located between the institution’s Waukon and Postville branches, and Winneshiek County census tract 9504 is located between the institution’s Postville and Decorah branches. Also, lending to small business operations in the assessment area tend to be clustered around the cities in which the institution has branches. Given the rural nature of the assessment area, the location of small businesses in the area, and the presence of competing financial institutions in the assessment area, these results are expected, and the absence of lending in applicable tracts is not a concern. Overall, the institution’s lending to small farm and small businesses in the assessment area is reasonable, and demonstrates management’s reasonable commitment to meeting the needs of the local geographies within the bank’s assessment area.

Table 11 – Distribution of Residential Real Estate Loans by Geography for the AA

Census Tract	Percent of Total Owner-Occupied Housing Units	Distribution of Residential Real Loans Sampled			
	%	#	%	\$ (000s)	%
Clayton County CT #9702	10	2	7	98	5
Allamakee County CT #9602	7	4	15	417	20
Allamakee County CT #9603	8	7	26	632	30
Allamakee County CT #9605	12	4	15	184	9
Fayette County CT #9806	8	2	7	76	3
Winneshiek County #9501	11	1	4	88	4
Winneshiek County #9502	11	1	4	15	1
Winneshiek County #9503	10	1	4	201	9
Winneshiek County #9504	13	5	18	399	19
Winneshiek County #9505	10	0	0	0	0
Total	100	27	100	2,110	100

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

The distribution of residential real estate lending is reasonable, given the bank’s location and the demographics of the assessment area. Data derived from examiner sampling ties reasonably to data supplied by the U.S. Census Bureau. For instance, census tracts 9602 and 9603 in Allamakee County show a higher examiner sampling percentage than U.S. Census Bureau data. Those two census tracts include the city of Waukon, Iowa, where the institution’s main branch is located, so it is reasonable that those census tracts may have a higher percentage represented in the examiner sampled data results. Also Winneshiek County census tract 9504 has a slightly higher loan percentage than U.S. Census Bureau data due to a number of new housing developments being built in the area between the Decorah and Postville branches. Overall, the institution’s lending to residential real estate borrowers in the assessment area is reasonable, and demonstrates management’s reasonable commitment to meeting the needs of the local geographies within the bank’s assessment area.

In conclusion, the geographic distribution of loans reflects a reasonable dispersion to small farm, 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.