

PUBLIC DISCLOSURE

October 7, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Wayland State Bank
Certificate Number: 1862

301 South Main Street
Mount Pleasant, Iowa 52641

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Kansas City Regional Office

1100 Walnut Street, Suite 2100
Kansas City, Missouri 64106

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

Institution Rating	1
Scope of Evaluation	2
Description of Institution	3
Description of Assessment Area	4
Conclusions on Performance Criteria	6
Discriminatory or Other Illegal Credit Practices Review	9
Glossary	10

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**. An institution in this category has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Wayland State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test performance.

- The average net loan-to-deposit ratio is reasonable given the institution's asset size, financial condition, and the credit needs of the assessment area.
- A majority of the small business, small farm, and home mortgage loans reviewed were extended inside the assessment area.
- The geographic distribution of loans was not analyzed since there are no low- or moderate-income census tracts in the assessment area.
- The distribution of borrowers reflects reasonable penetration among businesses and farms of different revenue sizes, and individuals of different income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the rating.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated May 6, 2013, to the current evaluation dated October 7, 2019. Examiners used Interagency Small Institution Examination Procedures to evaluate the bank's CRA performance. These procedures include a review of the institution's performance under the Lending Test based on the following criteria:

- Loan-to-Deposit Ratio
- Assessment Area Concentration
- Geographic Distribution
- Borrower Profile
- Response to CRA-related complaints

This evaluation does not include any lending activity performed by affiliates.

Loan Products Reviewed

Based on a review of the June 30, 2019, Consolidated Reports of Condition and Income (Call Report), the bank's primary loan products include small business, small farm, and home mortgage loans. Specifically, these categories represented 39.1 percent, 30.5 percent, and 25.3 percent of the loan portfolio by dollar volume, respectively, and are the primary focus of the institution's business strategy. Small business lending was given more weight in this evaluation due to the business strategy of the bank and the higher percentage by dollar volume of this loan type in the overall loan portfolio.

No other loan types, such as construction and land development, or consumer loans represent a major product line. Therefore, they provided no material support for conclusions or ratings and are not presented.

Bank records indicate the lending focus and product mix remained consistent throughout the evaluation period. Examiners reviewed small business, small farm and home mortgage loans originated from January 1, 2018, to December 31, 2018. Management indicated a review of loans from this time period would be representative of the institution's performance throughout the entire evaluation period. Specifically, examiners reviewed the entire universe of 104 small business loans totaling \$8,538,408 for the Assessment Area Concentration analyses. A sample of 45 small business loans originated within the assessment area totaling \$3,233,636 was reviewed for the Borrower Profile analysis. Examiners reviewed the entire universe of 31 small farm loans totaling \$2,287,206 for the Assessment Area Concentration analyses. All 22 small farm loans originated within the assessment area totaling \$1,676,524 were reviewed for the Borrower Profile analysis. In addition, examiners reviewed the entire universe 21 home mortgage loans totaling \$2,170,231 for the Assessment Area Concentration analyses. All 20 home mortgage loans originated within the assessment area totaling \$2,117,874 were reviewed for the Borrower Profile analysis. Examiners used 2018 D&B data as a standard of comparison to evaluate small business and small farm lending performance. Home mortgage lending performance was evaluated using 2015 American Community Survey (ACS) data.

Examiners evaluated lending activity based upon both the number and dollar volume of small business, small farm, and home mortgage loans. While number and dollar volume are presented, examiners emphasized performance by number of loans because number of loans is a better indicator of the number of individuals, farms and businesses served.

DESCRIPTION OF INSTITUTION

Background

Wayland State Bank received a “Satisfactory” rating at its previous FDIC Performance Evaluation dated May 6, 2013, based on Interagency Small Institution Examination Procedures. The bank is owned by Heartway Bancorporation, Wayland, Iowa, a one-bank holding company.

Operations

Wayland State Bank operates from its main office located at 301 South Main Street in Mount Pleasant, Iowa (census tract 9701.00), with two branch offices, one in Wayland (9703.00) and one in Winfield (9703.00), Iowa. All branches are located in middle-income geographies in Henry County. In addition, the bank maintains a deposit taking automated teller machine at each of its offices. Since the previous evaluation, the bank acquired Peoples State Bank on October 1st, 2016, a one office institution, in Winfield. Prior to the acquisition, the bank had two offices and two ATMs.

The institution offers commercial, agricultural, home mortgage, and consumer loans. The institution also provides a variety of deposit products including checking, savings, health savings accounts, individual retirement accounts, and certificates of deposit. Alternative banking services include internet banking and mobile banking.

Ability and Capacity

Wayland State Bank had total assets of approximately \$110.6 million as of June 30, 2019, including total loans of approximately \$59.5 million and total securities of \$31.1 million. The loan portfolio distribution is illustrated in the following table.

Loan Portfolio Distribution as of June 30, 2019		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	244	0.4%
Secured by Farmland	12,355	20.8%
Secured by 1-4 Family Residential Properties	14,249	23.9%
Secured by Multi-family (5 or more) Residential Properties	840	1.4%
Secured by Non-farm Non-Residential Properties	12,720	21.4%
Total Real Estate Loans	40,408	67.9%
Commercial and Industrial Loans	10,508	17.7%
Agricultural Production and Other Loans to Farmers	5,790	9.7%
Consumer	2,481	4.2%
Obligations of States and Political Subdivisions in the United States	341	0.6%
Other Loans	-	0.0%
Less: Unearned Income	-	0.0%
Total Loans	59,528	100.0%
<i>Source: 06/30/2019 Reports of Condition and Income</i>		

Examination personnel did not identify any financial, legal, or other impediments that affect the institution's ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its CRA performance will be evaluated. The bank designated a single assessment area that includes the entirety of Henry County and portions of Louisa and Washington Counties in southeastern Iowa. The assessment area includes non-metropolitan and Metropolitan Statistical Area census tracts. This is an increase since the previous evaluation with the inclusion of census tract 4502.00 in Louisa County.

Economic and Demographic Data

The assessment area consists of seven census tracts. Based on 2015 American Community Survey (ACS), all census tracts are classified as middle income. Since the prior evaluation, census tract 9703.00 in Henry County changed from a moderate-income geography to a middle-income geography as a result of the 2015 ACS. The following table illustrates select demographic information for the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	7	0.0	0.0	100.0	0.0	0.0
Population by Geography	27,331	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	11,266	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	7,667	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	2,679	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	920	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	1,761	0.0	0.0	100.0	0.0	0.0
Farms by Geography	418	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	7,235	20.5	19.5	25.6	34.3	0.0
Household Distribution by Income Level	10,346	20.7	17.8	18.4	43.1	0.0
Median Family Income – Nonmetropolitan Iowa		\$61,934	Median Housing Value			\$110,615
			Median Gross Rent			\$617
Median Family Income MSA - 26980 Iowa City, IA MSA		\$81,027	Families Below Poverty Level			9.2%

Source: 2015 ACS Census and 2018 D&B Data. (*) The NA category consists of geographies that have not been assigned an income classification.

Service industries represent the largest portion of businesses in the assessment area at 34.7 percent; followed by agriculture, forestry, and fishing (19.2 percent); and retail trade (11.5 percent). In addition, 74.1 percent of area businesses have four or fewer employees and 88.5 percent operate from a single location. The largest employers in the area include local school districts, Wal-Mart distribution center, Heatilator, Alaniz/Metro Group, Henry County Health Center, Iowa Wesleyan University, and West Liberty Foods.

Unemployment data obtained from the Bureau of Labor Statistics for Henry, Louisa, and Washington counties are presented in the following table. For comparison purposes, the table also includes the unemployment figures for the State of Iowa. As illustrated in the table, the average annual unemployment rates have been declining from 2014 to 2019, signaling improving economic conditions during the evaluation period.

Average Annual Unemployment Rates						
Area	2014	2015	2016	2017	2018	July 2019
	%	%	%	%	%	%
Henry County	4.4	3.9	3.5	3.0	2.5	2.8
Louisa County	4.5	3.8	3.9	3.3	2.6	2.8
Washington County	3.6	3.1	2.9	2.9	2.3	2.3
State of Iowa	4.2	3.8	3.6	3.1	2.5	2.7

Source: Bureau of Labor Statistics

Competition

The assessment area offers modest competition in the market for financial services. According to the FDIC Deposit Market Share data, as of reporting year 2019, there were 16 financial institutions operating 31 branches within the assessment area. Of these institutions, Wayland State Bank ranked 5th with 7.2 percent of the deposit market share.

Community Contact

As part of the evaluation process, examiners contact independent third parties active in the assessment area to assist in identifying credit and community development needs. This information helps determine whether local financial institutions are responsive to these needs. It also shows what credit and community development opportunities are available.

Examiners reviewed an existing community contact conducted by regulatory personnel that focused on a broader area that included Henry and Louisa Counties. The contact stated that the local economy, specifically in the vicinity of Mt. Pleasant and Burlington, in neighboring Des Moines County, was fairly strong.

Identified strengths were: Community Development Block Grants projects within the city of Wayland, a pilot program for creating housing in the upper floors of existing commercial buildings with interest in Mount Pleasant and Wayland. Identified weaknesses were: lack of housing in a number of area communities, including owner-occupied and rental housing, both single family and multi-family dwellings. Hesitance on the part of individuals that could qualify for housing assistance due to unfamiliarity with the lending process has been an issue. Area financial institutions are meeting the general banking and credit needs in the area, and creditworthy individuals and businesses are able to obtain needed financing.

Considering information from the community contact, bank management, and demographic and economic data, examination personnel determined that small business, small farm, and home mortgage loans represent a primary credit need for the assessment area.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Wayland State Bank demonstrated overall reasonable performance under the Lending Test. The institution's Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile performance supports this conclusion.

Loan-to-Deposit Ratio

The net loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The institution's net loan-to-deposit ratio, calculated from Call Report data, averaged 64.9 percent over the past 25 calendar quarters from June 30, 2013, to June 30, 2019. The ratio ranged from a low of 57.9 percent, as of March 31, 2018, to a high of 73.2 percent, as of September 30, 2014.

The bank's average net loan-to-deposit ratio falls in middle of the average net loan-to-deposit ratios of three similarly-situated lenders, as outlined in the following table. Similarly-situated lenders are defined as financial institutions that are located in or near the assessment area and are the most comparable to the bank based on asset size, market served, product offerings, and loan portfolio composition.

Loan-to-Deposit Comparison		
Bank	Total Assets as of 6/30/19 \$(000s)	Average Net Loan-to-Deposit Ratio (%)
Wayland State Bank Mount Pleasant, Iowa	110,539	64.8
BANK Wapello, Iowa	92,956	101.4
First National Bank in Fairfield Fairfield, Iowa	143,586	93.0
Danville State Savings Bank New London, Iowa	146,369	39.9
<i>Source: Call Reports 6/30/2013 through 6/30/2019</i>		

Assessment Area Concentration

A majority of the small business, small farm, and home mortgage loans, by number and dollar volume, were originated within the assessment area, reflecting a reasonable commitment to meeting the credit needs of the assessment area. See the following table.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollar Amount of Loans \$(000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$	%	\$	%	\$(000s)
Small Business	94	90.4	10	9.6	104	5,795	67.8	2,746	32.2	8,541
Small Farm	22	71.0	9	29.0	31	1,676	73.3	611	26.7	2,287
Home Mortgage	20	95.2	1	4.8	21	2,119	97.6	52	2.4	2,171
Totals	136	87.2	20	12.8	156	9,590	73.8	3,409	26.2	12,999
<i>Source: Bank Data</i>										

Geographic Distribution

This criterion includes a more detailed analysis of the lending inside the assessment area with an emphasis on lending in low- and moderate-income areas. As the delineated assessment area consists solely of middle-income geographies, an analysis of the Geographic Distribution of lending would not yield meaningful results. Therefore, this criterion was not evaluated.

Borrower Profile

The distribution of borrowers reflects reasonable penetration among businesses and farms of different sizes, and individuals of different income levels in the assessment area. The bank's small business, small farm, and home mortgage loan performance supports this conclusion. Examiners focused on the percentage by number of small business and small farm loans made to entities with gross annual revenues of \$1 million or less, and the dispersion of home mortgage loans to low- and moderate-income individuals

Small Business Loans

The distribution of small business loans reflects reasonable penetration among businesses with gross annual revenues of \$1 million or less. The following table shows that lending performance is lower than D&B data. However, the bank's performance is reasonable when relevant performance context information is considered. Of the 13 sampled loans to businesses with gross annual revenues greater than \$1 million, 10 were made to one large business, which skews the percentages.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	81.0	32	71.1	2,941	90.9
>1,000,000	4.3	13	28.9	294	9.1
Revenue Not Available	14.8	0	0.0	0	0.0
Total	100.0	45	100.0	3,235	100.0

Source: 2018 D&B Data; 1/1/2018 - 12/31/2018 Bank Data

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration among farms with gross annual revenues of \$1 million or less. The following table shows that the lending performance is slightly lower than D&B data. Competition for loans in the assessment area has increased causing the number of small farm loans in the bank's portfolio decline. Overall, the bank's lending percentages are considered reasonable in comparison to demographic data.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	97.8	21	95.5	1,668	99.5
>1,000,000	1.0	1	4.5	8	0.5
Revenue Not Available	1.2	0	0.0	0	0.0
Total	100.0	22	100.0	1,676	100.0

Source: 2018 D&B Data; 1/1/2018 - 12/31/2018 Bank Data

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels, especially low- and moderate-income borrowers. The following table shows that lending performance is less than 2015 ACS data. However, it is noted that the community contact indicated that the availability of owner-occupied and rental housing, both single family and multi-family dwellings in the assessment area is low. Overall, the bank's lending percentages are reasonable in comparison to 2015 ACS data.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	20.5	2	10.0	75	3.5
Moderate	19.5	3	15.0	137	6.5
Middle	25.6	5	25.0	605	28.6
Upper	34.3	8	40.0	733	34.6
Not Available	0.0	2	10.0	569	26.9
Total	100.0	20	100.0	2,119	100.0

*Source: 2015 ACS Census; 1/1/2018 - 12/31/2018 Bank Data
Due to rounding, totals may not equal 100.0*

Response to Complaints

The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the rating.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Examiners did not identify any evidence of discriminatory or other illegal credit practices; therefore, this consideration did not affect the institution's overall CRA rating.

GLOSSARY

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family. Other family is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is often analyzed using only quantitative factors (for example, geographic distribution, borrower profile, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area: All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated Area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic

branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-Income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more in the case of a geography.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.