

PUBLIC DISCLOSURE

December 9, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Iowa State Bank
Certificate Number: 10497

500 Audubon Street
Sac City, Iowa 50583

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.

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INSTITUTION RATING

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

Iowa State Bank's satisfactory Community Reinvestment Act (CRA) performance under the Lending Test supports the rating. The following points summarize the bank's performance.

- The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs.
- A majority of the small farm, small business, and home mortgage loans reviewed were located inside the assessment area.
- The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.
- The distribution of borrowers reflects reasonable penetration among farms and businesses of different sizes and individuals of different income levels.
- The institution did not receive any CRA-related complaints since the previous evaluation. As a result, this criterion did not affect the rating.

DESCRIPTION OF INSTITUTION

Background

Iowa State Bank is a small community bank that operates three full-service offices in west-central Iowa. Sac City Limited, Carroll, Iowa, a one-bank holding company, owns 100 percent of the institution. The FDIC rated the bank “Satisfactory” at its prior CRA Performance Evaluation dated September 30, 2013, based on Interagency Small Institution Examination Procedures.

Operations

Iowa State Bank’s main office is in Sac City, Iowa. In addition, the bank operates branch facilities in Lake View and Odebolt. Agricultural, home mortgage, and commercial loans are the bank’s primary lending products. Construction and land development and consumer loans are available as well. Checking and savings accounts, and certificates of deposit represent are the bank’s primary deposit products. Alternative banking services include online and mobile banking and three bank-owned automated teller machines. The bank has not opened or closed any offices or been involved in any mergers or acquisitions since the previous evaluation.

Ability and Capacity

Assets totaled approximately \$132.3 million as of September 30, 2019, and included loans totaling \$109.6 million. Deposits totaled \$114.2 million as of the same date. The following table details Iowa State Bank’s loan portfolio composition.

Loan Portfolio Distribution as of 9/30/19		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	10,169	9.3
Secured by Farmland	21,958	20.0
Secured by 1-4 Family Residential Properties	26,638	24.3
Secured by Multifamily (5 or more) Residential	283	0.3
Secured by Nonfarm Nonresidential Properties	16,377	14.9
Total Real Estate Loans	75,425	68.8
Commercial and Industrial Loans	10,995	10.0
Agricultural Production and Other Loans to Farmers	16,711	15.3
Consumer Loans	6,311	5.8
Obligations of State and Political Subdivisions in the U.S.	98	0.1
Other Loans	22	<0.0
Lease Financial Receivables (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	109,562	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments affecting the bank’s ability to meet its assessment area’s credit needs.

DESCRIPTION OF ASSESSMENT AREA

The CRA requires each financial institution to define one or more assessment areas within which its performance will be evaluated. Iowa State Bank designated Sac County, Iowa as its assessment area. Sac County is largely rural in nature and not located within a metropolitan statistical area (MSA). The following includes pertinent demographic and economic information on the assessment area.

Economic and Demographic Data

According to the 2015 American Community Survey (ACS), Sac County contains four middle-income census tracts. The following table provides select demographic information on the assessment area.

Demographic Information of the Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	0.0	100.0	0.0	0.0
Population by Geography	10,101	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	5,409	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	3,529	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	877	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,003	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	847	0.0	0.0	100.0	0.0	0.0
Farms by Geography	224	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	2,839	15.2	19.4	27.8	37.7	0.0
Household Distribution by Income Level	4,406	21.1	16.8	22.2	39.9	0.0
2015 Weighted Average Median Family Income for Nonmetropolitan Iowa		\$61,934	Median Housing Value			\$85,831
			Median Gross Rent			\$529
			Families Below Poverty Level			4.9%

*Source: 2015 ACS Data and 2018 D&B Data. Due to rounding, totals may not equal 100.0 percent.
(*) The NA category consists of geographies that have not been assigned an income classification.*

Sac City, Lake View, and Odebolt are the assessment area's largest communities based on 2010 U.S. Census figures, with populations of 2,220, 1,142, and 1,013, respectively. The assessment area's remaining communities all have populations of less than 1,000.

2018 D&B data indicates that services represent the largest portion of businesses and farms at 34.0 percent, followed by agriculture at 20.9 percent and retail trade at 8.7 percent. In addition, 78.1 percent of the assessment area's businesses and farms have four or fewer employees, and

86.0 percent operate from a single location. Local schools and hospitals are two of the largest employers.

The assessment area’s economy is generally stable and unemployment is low. Between 2016 and 2018, Sac County reported unemployment rates ranging from 2.4 to 3.0 percent. The national unemployment rate ranged from 3.9 to 4.9 percent, and the state of Iowa’s unemployment rate ranged from 2.5 to 3.6 percent during the same period. As of September 2019, Sac County’s unemployment rate was 1.7 percent, which was much lower than the state of Iowa (2.5 percent) and national (3.5 percent) unemployment rates.

Housing is largely owner-occupied and substantially lower in price when compared to the state of Iowa. Specifically, the assessment area’s median housing value is \$85,831 and the statewide value is \$119,200.

Examiners used the Federal Financial Institution Examination Council’s (FFIEC’s) estimated 2018 median family income figure of \$67,800 for nonmetropolitan Iowa to analyze home mortgage loans under the Borrower Profile criterion. The following table details the low-, moderate-, middle-, and upper-income categories for nonmetropolitan Iowa in 2018.

Median Family Income Ranges – Nonmetropolitan Iowa				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
2018 (\$67,800)	<\$33,900	\$33,900 to <\$54,240	\$54,240 to <\$81,360	≥\$81,360
<i>Source: FFIEC</i>				

Competition

The assessment area is moderately competitive for financial services. According to the June 30, 2018 FDIC Deposit Market Share data, ten financial institutions operate 13 offices in the assessment area. Iowa State Bank ranked first with a 27.7 percent of the deposit market share.

Community Contacts

As part of the evaluation process, examiners contact 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 conducted a community contact with a local business. The contact reported the local economy as stable and indicated that there have been no big changes to either farms or main street business. Further, the contact stated that the local financial institutions are meeting the area’s financial needs and that agricultural loans represent the area’s primary credit need.

Credit Needs

Considering information from the community contact, bank management, and demographic and economic data, examiners determined that small farm loans are the assessment area’s primary credit need, followed by home mortgage and small business loans.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated September 30, 2013, to the current evaluation dated December 9, 2019. Examiners used Interagency Small Institution Examination Procedures to conduct the evaluation, which contains a Lending Test. Refer to the Appendices later in the evaluation for a description of this test.

Activities Reviewed

Examiners determined that the bank’s major product lines are small farm, small business, and home mortgage loans. Examiners considered the bank’s business strategy and the number and dollar volume of loans originated during the evaluation period in making this determination. Bank records revealed that its lending focus and product mix remained consistent throughout the evaluation period. Based on the above, examiners reviewed small farm, small business, and home mortgage loans to help evaluate the bank’s CRA performance.

Examiners reviewed the small farm, home mortgage, and small business loans the bank originated and purchased in 2018 to evaluate its record of lending inside the assessment area (e.g. Assessment Area Concentration). Further, they reviewed the small business loans located inside the assessment area to evaluate the bank’s record of lending to businesses of all sizes (e.g. Borrower Profile). Examiners sampled small farm and home mortgage loans from inside the assessment area to evaluate the bank’s record of lending to farms of all sizes and borrowers of all income levels. Bank management indicated that the loans reviewed were representative of the institution’s performance during the entire evaluation period.

The following table provides details on the loans reviewed. The “Universe” columns represent the loans reviewed for the Assessment Area Concentration analysis, and the “Reviewed” columns represent the loans reviewed for the Borrower Profile analysis.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm	74	9,427	45	5,380
Home Mortgage	68	4,770	39	2,982
Small Business	37	2,631	30	1,377
<i>Source: Bank Records from 1/1/18 to 12/31/18.</i>				

Examiners placed slightly more weight on the bank’s small farm lending performance when drawing conclusions since agricultural loans represent the institution’s largest loan product. Home mortgage and small business loans received equal weight. Further, although the number and dollar volume of loans are presented throughout the evaluation, examiners emphasized performance by number of loans when conducting the Borrower Profile review because the number of loans is a better indicator of the farms, businesses, and individuals served.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

Iowa State Bank demonstrated reasonable performance under the Lending Test. Reasonable performance under the Loan-to-Deposit Ratio, Assessment Area Concentration, and Borrower Profile criterion supports this conclusion.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's net loan-to-deposit ratio, calculated from Call Report data, averaged 87.2 percent over the past 25 quarters from September 30, 2013, to September 30, 2019. The ratio ranged from a low of 70.5 percent as of March 31, 2014, to a high of 99.1 percent as of March 31, 2019.

Examiners compared the bank's average net loan-to-deposit ratio to three similarly-situated institutions to evaluate its reasonableness. The similarly-situated institutions were selected based on their asset size, geographic location, and lending focus. As shown in the following table, Iowa State Bank's average net loan-to-deposit ratio is comparable to the similarly-situated institutions' ratios.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 9/30/2019 (\$000s)	Average Net LTD Ratio (%)
Iowa State Bank, Sac City, Iowa	132,342	87.2
First State Bank, Ida Grove, Iowa	170,240	84.2
The Citizens First National Bank, Storm Lake, Iowa	201,093	60.5
Westside State Bank, Westside, Iowa	119,608	102.5

Source: Reports of Condition and Income 9/30/2013 through 9/30/2019

Assessment Area Concentration

A majority of the small farm, small business, and home mortgage loans reviewed were located inside the assessment area, reflecting reasonable performance. The following table provides details.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Small Farm	57	77.0	17	23.0	74	6,799	72.1	2,628	27.9	9,427
Home Mortgage	51	75.0	17	25.0	68	3,598	75.4	1,172	24.6	4,770
Small Business	30	81.1	7	18.9	37	1,377	52.3	1,254	47.7	2,631

Source: 1/1/2018 - 12/31/2018 Bank Data. Due to rounding, totals may not equal 100.0

Geographic Distribution

The assessment area does not contain any low- or moderate-income census tracts. Therefore, examiners did not evaluate the geographic distribution of loans.

Borrower Profile

The distribution of borrowers reflects overall reasonable performance. Examiners focused on the percentage of loans, by number, to farms and businesses with gross annual revenues of \$1 million or less. In addition, examiners focused on the percentage of home mortgage loans, by number, to low- and moderate-income borrowers. Only loans located inside the assessment area were evaluated.

Lending to farms of all sizes and individuals of different income levels is reasonable, and lending to businesses of all sizes is excellent. Details are provided below.

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration among farmers of different sizes. Examiners sampled 45 small farm loans from inside the assessment area to evaluate the bank's performance. The results revealed a lower percentage of small farm loans to borrowers with farm revenues of \$1 million or less, compared to the assessment area's demographics. However, there are mitigating factors explaining this shortfall. Specifically, the 2012 Agricultural Census revealed that approximately 46 percent of Sac County's farmers indicated that farming was not their principle occupation. Further, the census showed that approximately percent of Sac County's farmers did not report interest expense, and approximately 28 percent reported farm revenues of less than \$10,000 a year. This shows that many assessment area farmers, particularly smaller ones, do not use financing to support their operations, explaining why the bank's performance lagged the assessment area's demographics. Additionally, a clear majority of the small farm loans reviewed were to farmers with gross annual revenues of \$1 million or less, reflecting the institution's willingness to lend to farms of all sizes. Considering the above, the bank's performance is reasonable. The following table provides details.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.2	32	71.1	2,982	55.4
>1,000,000	0.4	13	28.9	2,398	44.6
Revenue Not Available	1.3	0	0.0	0	0.0
Total	100.0	45	100.0	5,380	100.0

Source: 2018 D&B Data and 1/1/2018 - 12/31/2018 Bank Data. Due to rounding, totals may not equal 100.0

Small Business Loans

The distribution of small business loans reflects excellent penetration among businesses of different sizes. Examiners reviewed the 30 small business loans located inside the assessment area and all were to borrowers with gross annual revenues of \$1 million or less.

Home Mortgage Loans

The distribution of home mortgage loans reflects reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers. Examiners sampled 39 home mortgage loans from inside the assessment area to evaluate the bank's performance. The results revealed a lower percentage of mortgage loans to low-income borrowers, compared to the assessment area's demographics. Conversely, the results revealed a higher percentage of home mortgage loans to moderate-income borrowers, compared to the assessment area's demographics. Overall, the bank's performance is reasonable. The following table provides details.

Distribution of Home Mortgage Loans by Borrower Income Level					
Borrower Income Level	% of Families	#	%	\$(000s)	%
Low	15.2	5	12.8	205	6.9
Moderate	19.4	11	28.2	614	20.6
Middle	27.8	12	30.8	874	29.3
Upper	37.7	11	28.2	1,289	43.2
Not Available	0.0	0	0.0	0	0.0
Total	100.0	39	100.0	2,982	100.0

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

Response to Complaints

The bank 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 CRA rating.

APPENDICES

SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes;
- 4) The geographic distribution of the bank's loans; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

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).

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 (e.g., geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (e.g., 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 Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

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 (e.g., 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.

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 (also known as non-MSA): 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.