



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 30, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community State Bank, National Association
Charter Number: 24403

817 North Ankeny Boulevard
Ankeny, IA 50023

Office of the Comptroller of the Currency

Omaha Field Office
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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.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The Lending Test is rated: Satisfactory

- Community State Bank (CSB) meets the standards for a more than reasonable loan-to-deposit (LTD) ratio rating.
- The majority of the bank's primary product loans are within the assessment area (AA).
- The borrower distribution levels are reasonable.
- The geographic distribution of loans reflects the demographics of the AA.
- There were no complaints regarding the bank's performance in meeting the credit needs of the AA.

The Community Development Test is rated: Outstanding

- CSB's responsiveness to community development (CD) needs and opportunities in its AA is outstanding in light of its capacity and area opportunities.

Scope of Examination

CSB was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

The lending test for CSB covers its performance from January 1, 2007 through October 31, 2009, as this is representative of its lending strategy since the last CRA examination. The evaluation period for the CD test is from December 29, 2005 through November 30, 2009.

CSB's primary loan products are residential real estate and business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The HMDA data was tested and found to be reliable. Therefore, HMDA data was used to evaluate the bank's residential real estate loan performance. To evaluate the bank's business lending performance, we selected a sample of business loans made from January 1, 2007 through October 31, 2009.

Description of Institution

CSB is a full-service financial institution headquartered in Ankeny, Iowa. The bank is 100% owned by the Van Diest Investment Company, which also owns a bank headquartered in Webster City, Iowa. For purposes of the CRA evaluation, CSB is an intrastate bank with offices located only in Iowa. As of October 31, 2009, the bank had a total of ten offices located in communities surrounding Ankeny and Des Moines.

The bank has three Ankeny locations, three Des Moines locations, and one each in Altoona, Johnston, Pleasant Hill, and Waukee. The bank also has a deposit-taking automated teller machine (ATM) located at each branch location. There were no acquisition or merger activities related to CSB during the CRA evaluation period.

As of October 31, 2009, CSB had total assets of \$606 million, total loans of \$391 million, and total deposits of \$428 million. The bank offers a full range of deposit and loan products and services. Business and residential real estate lending are the bank's primary business focus.

There are no financial or legal impediments constraining the bank's ability to meet the credit needs of its AA. CSB received a Satisfactory rating at the prior CRA examination dated December 28, 2005.

Description of Assessment Area

CSB's assessment area consists of Polk County, Iowa in its entirety as well as one census tract in Dallas County, Iowa. Both counties are located in the Des Moines metropolitan statistical area. The census tract in Dallas County was added in December 2006 in response to the opening of the Waukee branch. Polk County has 80 census tracts and the entire AA consists of 81 census tracts. Of the 81 census tracts, 6 are low-income, 20 are moderate-income, 38 are middle-income, and 17 are upper-income. Two of the bank's branches are in moderate-income tracts and two more are in close proximity to census tracts designated as moderate-income. The designated AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income census tracts.

The Des Moines metropolitan community is centered in Polk County and is the driving force of the local economy. The area's economy has seen significant deterioration and remains weak in most industries, particularly in the financial services and manufacturing sectors. Major employers in the area continue to be in the financial activities industry. Wells Fargo and Principal Financial Group represent the major employers with 11,700 and 8,200 employees, respectively. The unemployment rate has increased to 4.7%; however, this remains less than half of the national average. The housing market has also declined. The supply for housing remains tight and prices continue to decline, although the decline is slowing. Competition among financial institutions remains high, and Polk County contains 38 FDIC insured financial institutions. A total of 7.5% of the households in the AA are below the poverty level. Despite the declining market, the economy in Des Moines and surrounding areas has performed better than national trends.

Examiners interviewed a community contact located in the Ankeny area. The community contact described the economic conditions of the area as improving. The contact indicated the primary need in the area was residential real estate and small business lending. The contact concluded that local financial institutions do a good job helping to support the needs of the community and offering financial assistance. They did not identify any unmet needs within the community.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test is satisfactory. The following narratives and tables support our assessment of the bank's performance.

Loan-to-Deposit Ratio

CSB's LTD ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the AA. The bank's LTD ratio averaged 97.26% over the past twenty quarters and was 90.09% as of September 30, 2009. The bank's LTD ratio ranged from a low of 86.72% and a high of 108.01% during this period.

CSB's average LTD ratio compares favorably with other financial institutions that are similarly situated with regards to asset size, location, and product offerings. Five similarly situated banks operated with an average LTD of 83.32% over the past twenty quarters. The LTD ratio of these similarly situated institutions ranged from a low of 59.72% and a high of 106.92% during the same period.

Lending in Assessment Area

CSB exceeds the standards for satisfactory performance with regard to extending credit inside the AA. Our sample indicates a substantial majority (93% by number and 93% by dollar) of the bank's loans are originated to borrowers within the AA. The following table illustrates the bank's performance regarding lending in the AA.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate ¹	689	93%	50	7%	739	\$74,933	93%	\$5,282	7%	\$80,215
Business ²	19	95%	1	5%	20	\$6,714	94%	\$400	6%	\$7,114
Totals	708	93%	51	7%	759	\$81,647	93%	\$5,682	7%	\$87,329

Source: ¹ Data reported under HMDA.

² Bank reports.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Performance in the AA

The borrower distribution of loans in the AA is reasonable. Residential real estate and business loans were identified as credit needs in the AA.

Residential Real Estate Loans

The distribution of home purchase, home improvement, and refinance loans to borrowers of different income levels reflects reasonable penetration. An analysis of residential real estate loans reveals that 7.89% and 17.71% of CSB's residential real estate loans in the loan sample were to low-income and moderate families, respectively.

While the volume of loans to low- and moderate-income families is less than the demographic data, this is not of significant concern as the bank's operations and activities are based in areas predominantly populated by middle- and upper-income families. Also, the AA contains mostly middle- and upper-income census tracts. The following table shows the distribution of residential real estate loans among borrowers of different income levels in the AA.

Borrower Distribution of Residential Real Estate Loans in AA										
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Purchase	17.40%	4.90%	18.49%	11.02%	24.86%	20.00%	39.25%	36.73%	0%	27.35%
Home Improvement	17.40%	10.13%	18.49%	22.47%	24.86%	30.40%	39.25%	33.04%	0%	3.96%
Refinance	17.40%	9.22%	18.49%	20.28%	24.86%	17.05%	39.25%	40.09%	0%	13.36%
TOTAL	17.40%	7.89%	18.49%	17.71%	24.86%	22.49%	39.25%	36.57%	0%	15.24%

Source: Data reported under HMDA

Business Loans

A total of 60% of the bank's business loans originated and purchased during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of \$1 million or less. This is considered reasonable compared to demographic data that shows the majority, or approximately 72% of the area's businesses, are considered small businesses. The sample also indicated a high percentage of borrowing to large businesses with gross annual revenues exceeding \$1 million. This is significantly higher than demographic data, indicating only 5% of businesses in the AA are considered large businesses. However, this is of no concern as several borrowers in the sample had high gross revenues. The following table shows the distribution of loans among businesses of different sizes in the AA.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.26%	5.38%	22.36%	100%
% of Bank Loans in AA by #	60%	40%	0%	100%
% of Bank Loans in AA by \$	60%	40%	0%	100%

Source: Loan Sample, Bank Reports.

Geographic Distribution of Loans

The geographic distribution of loans in the AA is reasonable. Residential real estate and business loans were identified as the primary credit needs in the AA.

Residential Real Estate

The geographical distribution of home purchase, home improvement, and refinance loans reflects reasonable dispersion among census tracts of different income levels. The bank’s distribution of residential real estate loans to borrowers in low- and moderate-income census tracts is below demographic data. However, this is not of significant concern as the majority of the bank’s operations and activities are in middle- and upper-income areas. The following table shows the geographic distribution of residential real estate loans among borrowers in different census tracts in the AA.

Geographic Distribution of Residential Real Estate Loans in AA										
Census Tract Income Level	Low		Moderate		Middle		Upper		Unavailable	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	2.13%	2.02%	19.29%	12.90%	49.00%	55.65%	29.58%	29.43%	0%	0%
Home Improvement	2.13%	0.45%	19.29%	14.80%	49.00%	57.84%	29.58%	26.91%	0%	0%
Refinance	2.13%	0.92%	19.29%	11.93%	49.00%	61.00%	29.58%	26.15%	0%	0%
TOTAL	2.13%	1.16%	19.29%	13.21%	49.00%	58.05%	29.58%	27.58%	0%	0%

Source: Data reported under HMDA.

Business Loans

The geographical distribution of loans to businesses reflects reasonable dispersion among census tracts of different income levels. The loans in our sample indicate the bank did not originate any business loans in low income tracts and fewer loans in moderate income tracts when compared to demographic data. However, this is considered reasonable as fewer businesses are located in low- and moderate-income census tracts when compared to businesses located in middle- and upper-income census tracts. This limits opportunities for the bank to make business loans in low- and moderate-income census tracts. The following table details the bank’s performance as

compared to the percentage of businesses in each census tract income level.

Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	12.56%	0%	9.83%	5%	43.28%	65%	34.33%	30%

Source: Loan Sample, Bank Reports.

Responses to Complaints

Neither the bank nor the Office of the Comptroller of the Currency has received any complaints regarding the bank’s CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The CD Test is rated outstanding. During the evaluation period, CSB provided over \$5 million in CD loans and CRA qualified investments to help meet the CD needs of its AA. In addition, bank personnel provided financial expertise to over 20 CD organizations serving the AA. The bank’s level of CD activities is considered outstanding given its size, capacity, and the needs and opportunities in the AA.

Number and Amount of Community Development Loans

CSB made an outstanding level of CD loans based on the capacity of the bank and the need and availability of opportunities in the AA. The bank originated 17 qualifying loans totaling over \$4 million during the evaluation period. CSB has originated CD loans to a CD finance institution (CDFI) as well as to private, public, and non-profit entities. Examples of these CD loans are listed below.

- The bank is a loan participant in a pool of loans originated by the Neighborhood Finance Corporation (NFC), the aforementioned CDFI. These loans to purchase single-family residences are targeted to individuals in low- to moderate-income neighborhoods within the bank’s AA. The bank originated \$1.5 million in loans to this entity.
- The bank originated seven loans totaling \$1.2 million to a child development center which provides community services targeted to low-to-moderate income individuals.
- The bank originated three loans totaling \$601 thousand to businesses who were making improvements to geographies identified by the Des Moines Neighborhood Revitalization Program. These activities were approved by the City of Des Moines as those which will revitalize designated neighborhoods.

Number and Amount of Qualified Investments

The bank provides an outstanding level of CD investments and donations based on the capacity of the bank, and the need and availability of opportunities in the AAs. The bank had numerous CD investments and donations which were concentrated in organizations whose primary purposes were to provide affordable housing, community services, promote economic development, or revitalize the area. The bank made over \$1 million in qualified investments. Of this total, \$897 thousand went toward qualified investments and \$115 thousand went toward donations to 20 organizations to benefit low-to-moderate income individuals. Examples of these CD investments and donations are listed below.

- The bank originally invested \$250 thousand in bonds and other debt securities with a specific purpose to provide CRA-related investments throughout the entire country. The current book value of the investment is \$338 thousand. Banks are allowed to designate their investment monies toward qualified projects within their AA when and where possible. At the time of this review, the bank's targeted investment provided funding for a multi-family housing project in its AA, which included low-income housing tax credits. The units are restricted to individuals with income at or below 60% of the median income.
- The bank originally invested \$100 thousand in an investment group, with the money used to provide funding to small and new businesses in return for an equity stake of the company. The current book value of the investment is \$59 thousand as the investment has taken a loss. All of the companies are located in the state of Iowa, which is required for the fund to receive income tax credits. Based on the most recent information available, the location of the majority of the companies owned by this fund are located in low- or moderate-income geographies and are providing job creation or retention in the targeted areas.
- The bank invested \$500 thousand into an equity fund which finances affordable housing projects in Iowa only. This effort is associated with a nonprofit corporation which derives income from the ability to obtain equity capital in affordable housing properties. The corporation is able to fund affordable housing projects through the use of the federal low income housing tax credit program. In addition to tax credit syndication, the corporation also provides technical assistance to developers, owners, and management companies on the development and management of tax credit properties.
- The bank contributed \$115 thousand in qualified donations during the evaluation period. The most significant donations during this period were made to the following organizations:
 - Over \$58 thousand in donations were provided to the United Way of Central Iowa which is an organization providing community services to low- or moderate-income individuals.

- Over \$32 thousand in donations were provided to Hope Ministries which is an organization providing community services to low- or moderate-income individuals (specifically homeless, hungry, and hurting individuals).

Extent to Which the Bank Provides Community Development Services

CSB staff provides outstanding responsiveness to CD services. Bank personnel offered services to 22 organizations that serve low-to-moderate income individuals or geographies. CSB's employee involvement in these organizations is focused around providing technical expertise, financial expertise, serving on committees, and assisting with fundraising. Some examples of these CD services are listed below.

- Neighborhood Finance Corporation: A CSB employee serves on the loan committee of this organization, a local CDFI, which provides affordable housing in low- or moderate-income areas.
- Mid-Iowa Development Fund: A CSB employee is a board member and serves on the loan committee. This organization distributes funding to small businesses that cannot receive full funding from conventional financing.
- Luther Park Apartments: Several CSB employees provide mobile banking services including cashing checks and taking deposits to apartments which primarily serve low-to-moderate income individuals.
- Numerous CSB employees participate in educating low-to-moderate income individuals on financial matters such as basic money management, purchasing a home, setting up a 401k, establishing a budget, and promoting implementing effective savings practices. The goal of this education is to promote financial independence among low-to-moderate income individuals.

The bank has branches in locations which serve low-to-moderate income individuals. Two of the bank's branches are in moderate-income tracts, and two more are in close proximity to census tracts designated as moderate-income. The presence of two full-service branches and two deposit-taking ATMs is an indication the bank is helping to provide retail and CD services and increased access to financial services for low-to-moderate income individuals. The provision of these services is considered favorably under the CRA review.

CSB also implemented several programs targeted to benefit low-to-moderate income individuals during the evaluation period. The bank participates in a Special Mortgage Loan Program which reduces closing costs from \$990 to \$490 for qualifying low-to-moderate income individuals. The bank is also involved in a Small Dollar Loan Program in a partnership with Citizens for Community Improvement. The bank has committed \$10,000 to provide unsecured loans to qualifying low-to-moderate income individuals who have immediate needs such as car repair.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.