



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

December 28, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community State Bank, National Association
Charter Number 24403**

**817 North Ankeny Boulevard
Ankeny, Iowa 50021**

**Comptroller of the Currency
Omaha North Field Office
13710 FNB Parkway, Suite #110
Omaha, Nebraska 68154**

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 Satisfactory.

The Lending Test is rated: Satisfactory.

- The loan-to-deposit ratio of 84% is reasonable considering the bank's size, structure, and business focus.
- A majority of the bank's primary loan products are within the bank's assessment area.
- An analysis of residential real estate loans reveals a reasonable distribution of loans to borrowers of different income levels.
- The bank's geographic distribution of loans within its assessment area is reasonable.
- There have not been any complaints regarding the bank's CRA performance.

The Community Development Test is rated: Satisfactory.

- The bank has made a satisfactory level of community development loans during the evaluation period.
- CRA investments and cash donations to various community organizations that serve community development purposes are at satisfactory levels.
- The bank's staff provides an adequate responsiveness to community development services.

SCOPE OF EXAMINATION

This CRA evaluation was conducted using the intermediate small bank performance evaluation procedures. The evaluation covers the bank's CRA performance since its April 1, 2003 conversion to a national bank charter through December 28, 2005. The bank's primary loan products are commercial and one-to-four family residential loans. Commercial loans represent about 60% of originations during this time period, and residential loans 25%. Examiners sampled 75 commercial and 23 residential loans made during this timeframe to assess the bank's lending performance.

The bank's affiliates do not conduct lending activities in the bank's assessment area. As such, they were not considered in this evaluation.

DESCRIPTION OF INSTITUTION

Community State Bank, N. A. (CSB) is a nationally chartered bank headquartered in Ankeny, Iowa, an outlying community just north of the City of Des Moines. The bank is owned by the Van Diest Investment Company, which also owns a bank headquartered in Webster City, Iowa. As of December 31, 2005, CSB had total assets of \$573 million, total loans of \$375 million, and total deposits of \$407 million. All the bank's offices are in communities surrounding Ankeny and Des Moines. The bank has three Ankeny locations, three in Des Moines, and one each in Altoona, Johnston, and Pleasant Hill. There are no financial or legal impediments constraining the bank's ability to meet the credit needs of its assessment area.

The Des Moines suburbs are rapidly growing as much of the new housing stock has developed north and west of the city. Bank management has recognized this economic growth, and their business strategy has been to increase the bank's loan volume as the community has grown. Since the bank's last CRA public evaluation, gross loans have grown from \$237 million to \$375 million as of December 31, 2005 for an increase of 58%. Most of the loan growth has been in the bank's primary products.

The bank received a Satisfactory rating on its last CRA Performance Evaluation dated March 1, 2002.

DESCRIPTION OF POLK COUNTY

CSB's assessment area consists solely of Polk County, Iowa, which is in the Des Moines metropolitan statistical area. The Des Moines metropolitan community is centered in Polk County and is the driving force of the local economy. According to Economy.com, Des Moines is one of the fastest growing metropolitan areas in the Midwest. The area's economy will be bolstered by expansion of its financial services based economy and ongoing public construction projects. However, the housing market is growing at a slower-than-average pace and remains one of the most affordable markets in the nation. The population of the Des Moines metropolitan community is 512 thousand. About 16% of all nonfarm jobs in the community are in the financial activities industry with Wells Fargo and the Principal Financial Group as major employers with approximately 11 thousand and 8 thousand employees, respectively. Ankeny's population approximates 33 thousand, and its largest employers are John Deere (1,250 employees), Ankeny Community Schools (820 employees), and the Des Moines Area Community College (700 employees).

Polk County has 80 census tracts. Fifty-four of these are middle- or upper-income areas, twenty are moderate-income areas, and six are low-income areas. All of the low- or moderate-income areas are within the City of Des Moines. 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.

While CSB has just a 4% deposit market share of the FDIC insured deposits in Polk County, it has a 42% market share of these deposits in Ankeny, 27% in Altoona, 10% in Johnston, and 2% in Des Moines (including Pleasant Hill). The bank's Ankeny offices are responsible for 62% of the bank's deposit volume and 73% of its loan volume. Competition for loans and deposits is strong and growing as more banks are establishing offices in CSB's market. There were 33 FDIC-insured depository institutions in Polk County as of the FDIC's June 30, 2005 deposit summary. At the prior CRA review, there were 29 FDIC-insured institutions in Polk County. However, these numbers do not include information on credit unions, which have a significant presence in the Ankeny market. In addition, several banks have established or have received regulatory approval to establish additional branches in Ankeny since the prior CRA review.

Examiners interviewed three community contacts while performing this evaluation. These contacts were located within the bank's assessment area and within close proximity to the main bank and one branch location. The organizations represented by these contacts primarily promote economic development within their respective communities and target much of their activities to small businesses. Their overall development focus is for the greater benefit of the

communities served.

The community contacts indicated all institutions within the assessment area are meeting the credit needs of the community. In addition, the contacts stated the local banks readily provide time and resources to many community projects. The contacts were unaware of community development projects specifically targeted to low- or moderate-income individuals or geographies.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

CSB is rated Satisfactory on the Lending Test. The Lending Test includes an assessment of the following five components:

- Lending in Assessment Area;
- Loan-to-Deposit Ratio;
- Borrower Distribution;
- Geographic Distribution; and
- Response to CRA Complaints.

Lending in Assessment Area

A majority (80% by number and 57% by dollar) of the commercial and residential loans sampled were within the bank's assessment area, reflecting a good commitment of meeting the credit needs of the assessment area. The ratio by dollar is smaller due to the presence of several larger commercial loans in the sample.

Loan-to-Deposit Ratio

CSB's loan-to-deposit ratio is reasonable considering the bank's size, structure, and business focus. The bank's loan-to-deposit ratio for the 15 quarters since the last evaluation averaged 84%. Over that period, the bank's ratio ranged from a low of 75% and to a high of 98% as of September 30, 2005. Similarly situated banks chartered in Polk County averaged an 84% loan-to-deposit ratio over that same period.

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

An analysis of loans made from April 1, 2003 to December 28, 2005 to borrowers within the assessment area reveals a reasonable distribution of loans to businesses of different sizes and borrowers of different income levels.

CSB's loans to commercial borrowers with gross revenues less than \$1 million closely approximate the distribution of businesses in Polk County, 52% compared to 60%. While the distribution is less than the Polk demographics, many of the bank's customers are involved in commercial construction. The sales value of real estate and buildings on a per unit basis is much higher than general business product lines. Therefore, it is unlikely for a commercial construction business to have revenues less than \$1 million.

Table 1A – Borrower Distribution of Loans to Businesses in Polk County				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	60.13%	6.35%	33.52%	100.00%
% of Bank Loans in AA by #	51.67%	35.00%	13.33%	100.00%
% of Bank Loans in AA by \$	36.35%	47.84%	15.81%	100.00%

Source: Dunn and Bradstreet; loan sample.

An analysis of residential real estate loans reveals that 10% of CSB’s one-to-four family residential loans in the loan sample were to low-income families. The volume of loans to low-income families is less than the assessment area demographic because the majority of the bank’s operations and activities have been based in Ankeny, Altoona, and Johnston, which are predominantly populated by middle- and upper-income families. The bank helps meet the needs of low-income families through its community development activities, which include lending programs targeted for low-income families. Please refer to the Community Development Test comments in this evaluation for additional information. CSB’s one-to-four family residential loans to moderate-income families comprised 25% of the loan sample. This is higher than the demographics for Polk County.

Table 1B - Borrower Distribution of Residential Real Estate Loans in Polk County, Iowa								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Total	17.56%	10.00%	18.72%	25.00%	25.08%	35.00%	38.64%	30.00%

Source: U.S. Census data; loan sample.

Geographic Distribution

The bank’s geographic distribution of loans to borrowers in low- and moderate-income census tracts is reasonable given its locations. It also reflects the characteristics of the communities of Ankeny, Altoona, and Johnston, which represent the significant majority of the bank’s operations and deposit base. These communities contain all middle- or upper-income areas.

CSB’s geographic distribution of commercial loans is reasonable as it reflects the characteristics of the communities representing the bank’s primary base of operations.

Table 2A - Geographic Distribution of Business Loans in Polk County				
Census Tract Income Level	Low	Moderate	Middle	Upper
% Number of Commercial Loans	0.00%	8.33%	53.33%	38.33%
% of AA Businesses	15.23%	10.93%	45.20%	28.65%

Source: Dunn and Bradstreet; loan sample.

The bank's distribution of residential real estate loans to borrowers in low- and moderate-income areas is below the demographics. However, CSB has made community development loans that which specifically target affordable housing projects in low- or moderate-income census tracts. Please refer to the Community Development Test comments in this evaluation for additional information.

Table 2B – Geographic Distribution of Residential Real Estate Loans in Polk County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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 Total	2.20%	0.00%	19.87%	10.00%	50.48%	65.00%	27.45%	25.00%

Source: U.S. Census data; loan sample.

Responses to CRA Complaints

Neither the bank nor the OCC has received any complaints regarding the bank's CRA performance.

Community Development Test

CSB is rated Satisfactory on the Community Development Test. The Community Development Test is comprised of the following three components:

- Community Development Lending;
- Qualified Investments; and
- Community Development Services.

Overall, CSB demonstrates a satisfactory responsiveness to the community development needs of its assessment area through community development loans, qualified investments and donations, and community development services. This assessment is based on the bank's capacity, and needs and availability for such community development opportunities in the assessment area.

Community Development Lending

CSB has made a satisfactory level of community development loans during the evaluation period. As of the CRA examination date, CSB had a \$2.2 million commitment in a pool of loans with a community development finance institution (CDFI) and has originated another 18 community development loans totaling \$2.2 million to private, public, or non-profit entities. Examples of these community development 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 assessment area. The total loan pool was \$66 million, and the pro rata share of this pool is consistent with the market share of deposits within the metropolitan statistical area. As of this review date, CSB had 3.58% of the deposit market share and a 3.28% pro rata share of the loan pool.
- The bank originated fourteen loans totaling \$1.2 million to two related borrowers for the purpose of constructing affordable housing in low- to moderate-income geographies within its assessment area. These loans are targeted to individuals using NFC financing. The borrowers identify unimproved lots within areas specifically designated by NFC for revitalization.
- The bank originated two loans totaling \$629 thousand to a public entity, which is currently in process of applying for non-profit status. This entity provides office space to a number of community groups and organizations that provide community services to low- or moderate-income individuals within the assessment area. In addition, a portion of the loan origination provides operating funds to this entity, which in turn provides interim financing to some of these groups until they receive federal funding reimbursement.
- The bank originated two loans totaling \$340 thousand to a non-profit organization, whose primary purpose is to provide community development services targeted to low- or moderate-income individuals.

Qualified Investments

The bank provides a satisfactory level of CRA investments and cash donations to various community organizations that serve community development purposes. Examples of these community development investments and donations are listed below.

- The bank invested \$290 thousand in a nation-wide mutual fund, with the fund's specific purpose to provide CRA-related investments throughout the entire country. Banks are allowed to designate their investment monies toward qualified projects within their assessment area 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 assessment area (West Des Moines), which included low-income housing tax credits. While the location of the project is not in a low- or moderate-income area, the units are restricted to

individuals with income at or below 60% of the median income.

- The bank 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. All of the companies are located in the state of Iowa, which is required for the fund to receive income tax credits. Based upon 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 has contributed \$62 thousand in qualified donations during the evaluation period. The most significant donation during this period went to the United Way of Central Iowa, an organization providing community services to low- or moderate-income individuals, with total donations of \$41 thousand.

Community Development Services

CSB staff provides an adequate responsiveness to community development services. Bank personnel provide various financial and technical expertise to ten different organizations, all serving low- or moderate-income individuals or geographies. Some examples of these community development 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 for seven area counties to small businesses that cannot receive full funding from conventional financing.

The bank's nine full service locations are in predominantly middle- and upper-income areas. Two of its branches and ATMs are located in moderate-income areas, and two others branches and ATMs border on moderate-income tracts.

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.