



PUBLIC DISCLOSURE

June 16, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lee County Bank & Trust, National Association
Charter Number 22123

Eighth Street and Avenue F
Fort Madison, Iowa 52627

Office of the Comptroller of the Currency

1089 Jordan Creek Parkway
Suite 230
West Des Moines, Iowa 50266

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

Lee County Bank and Trust's (LCBT) lending performance reflects a satisfactory response to the needs of its assessment area (AA). This conclusion is based on the following:

- LCBT's loan-to-deposit (LTD) ratio is more than reasonable;
- A majority of LCBT's loans are originated within its AA;
- LCBT's distribution of loans to borrowers of different income levels reflects reasonable penetration; and
- There were no complaints regarding the bank's performance in meeting the credit needs of its AA.

SCOPE OF EXAMINATION

We evaluated LCBT using small bank examination procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test covers the bank's performance from January 1, 2012 to December 31, 2013. This period is representative of the bank's lending strategy since the previous Community Reinvestment Act (CRA) examination.

DESCRIPTION OF INSTITUTION

LCBT is a \$145 million financial institution located in Fort Madison, along the Mississippi River, in Lee County, Iowa. The main office is located near downtown Fort Madison with a drive-up facility and ATM. There is one branch in West Point as well as an additional drive-in branch in Fort Madison. LCBT has four ATMs located throughout the AA: three in Fort Madison, and one in West Point.

Lee Capital Corp., a one-bank holding company, primarily owns LCBT. The bank has no affiliates. LCBT did not close or open any branch offices since the previous CRA examination.

The bank offers a full range of deposit and loan products and services. LCBT's two primary lending products are residential real estate and commercial loans. These two lending categories account for 86 percent of all loans. We used these two loan products for the analysis of this evaluation.

The loan portfolio consists of the following types of loans, consistent with the bank's strategy:

Table 1 - Loan Portfolio Mix		
Loan Category	\$(000)	%
Residential Real Estate Loans	\$47,500	52
Commercial Loans	\$31,608	34
Agricultural Loans	\$9,578	10
Consumer Loans	\$2,310	3
Other Loans	\$849	1
Total Loans	\$91,845	100

Source: 3/31/2014 Bank Call Report

There are no financial constraints, legal constraints, or other factors that would hinder the bank’s ability to meet the credit needs of its AA. The bank’s previous CRA rating as of September 8, 2009 was satisfactory.

To evaluate LCBT’s lending performance, we selected a random sample of 32 residential real estate loans and 20 commercial loans originated between January 1, 2012 and December 31, 2013.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank’s AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The bank’s AA consists of the northern part of Lee County. LCBT’s CRA public file contains a map of the AA. The AA includes six contiguous census tracts (CTs). All six CTs are classified as middle-income. There are no low- or moderate-income CTs in the AA. According to 2010 United States census data, the AA population is 20,933. Approximately 10.5 percent of AA households are below the poverty level. The following table shows the number and percent of AA families within each income level.

Table 2 – Family Income within Northern Lee County		
Income Category	Number	%
Low	1,016	17
Moderate	1,147	20
Middle	1,430	25
Upper	2,195	38

Source: 2014 Family Demographic Data

Competition within the AA is primarily from two state banks that serve some of the same communities and have a similar business focus. According to the FDIC’s Deposit Market Share Report dated June 30, 2013, LCBT ranks second in the Fort Madison area with 34 percent of the market share.

The local economy is considered stable. According to April 2014 data, the unemployment rate for Lee County, Iowa is 6.2 percent, which is above or comparable

to the state and national unemployment rates of 4.3 and 6.3 percent, respectively. Economic activity is relatively diverse with industries in manufacturing, healthcare, and correctional services. Major employers include Pinnacle Food Group, the Iowa State Penitentiary, Fort Madison Community Hospital, Siemens Energy, BNSF, and the local school district.

While assessing the bank's performance, we contacted an economic development official. The contact indicated that LCBT and other local financial institutions were actively meeting the credit needs of the area. The local banks are willing to participate in various economic development loan programs to meet the needs of the communities. Several projects are in development to entice businesses to the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LCBT's performance with regards to the lending test is satisfactory. The bank's LTD ratio is more than reasonable given the bank's size, financial condition, and credit needs of the AA. In addition, LCBT originates a majority of its loans inside the AA. The borrower distribution of residential RE and commercial loans reflects reasonable penetration. We did not complete a geographic distribution of loans, as there are no low- or moderate-income CTs within the AA. LCBT has not received any complaints regarding its CRA performance since the previous examination.

Loan-to-Deposit Ratio

LCBT's net average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly loan-to-deposit ratio averaged 99.45 percent for the period October 1, 2009 to March 31, 2014. LCBT's net average loan-to-deposit ratio is well above other community banks of similar size and location. The average quarterly loan-to-deposit ratios for three other banks range from 62 to 74 percent over the same period. The three peer banks are community banks located in Lee County with total assets ranging from \$71 million to \$147 million.

Lending in Assessment Area

A majority of the loans originated by LCBT are to customers from inside its AA. LCBT's lending to customers within the AA for all loan types is reasonable. The following table details the bank's lending by number and dollar volume during the evaluation period.

Table 3 - Lending in Northern Lee County AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	27	84	5	16	32	2,104	76	651	24	2,755
Commercial	16	80	4	20	20	5,953	96	218	4	6,171
Total	43	83	9	17	52	8,057	90	869	10	8,926

Source: Sample of residential real estate and commercial loans from 2012 and 2013

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

The distribution of loans, given the demographics of the AA, reflects reasonable penetration among families of different income levels, including low- and moderate-income.

Residential Real Estate Loans

The distribution of residential RE loans to families of different income levels reflects reasonable penetration. Our original sample size of 20 loans in this category was expanded to give a clearer picture of residential RE lending. Our overall sample of 32 residential RE loans indicated LCBT originated 15 percent and 19 percent of its loans by number to low- and moderate-income borrowers, respectively.

Table 4 - Borrower Distribution of Residential Real Estate Loans in Northern Lee County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
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
Residential Loans	17	15	20	19	25	19	38	47

Source: 2010 U.S. Census data; Sample of residential real estate loans from 2012 and 2013

Commercial Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. We pulled a sample of 20 commercial loans. Our testing indicated the bank originated 63 percent of commercial loans to small businesses. Small businesses are those with gross annual revenues of \$1 million or less. Demographic data for the AA shows 75 percent of the businesses reporting revenue data have revenues of \$1 million or less, but a large percentage of businesses do not report revenues. The following table displays the distribution of commercial loans among different-sized businesses.

Table 4A - Borrower Distribution of Loans to Businesses in Northern Lee County AA				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	75	4	21	100
% of Bank Loans in AA by #	63	37	0	100
% of Bank Loans in AA by \$	43	57	0	100

Source: 2010 U.S. Census data; Sample of commercial loans from 2012 and 2013

The penetration by dollar amount appears somewhat low at 43 percent, compared to the demographic data at 75 percent. However, the bank data is skewed by the size of the loans originated. In general, larger businesses (with larger revenues) require bigger loans. In our sample, the average origination amount for commercial borrowers with revenues greater than \$1 million was \$397 thousand, while the average origination amount for commercial borrowers with revenues less than \$1 million was only \$236 thousand. The discrepancy is reasonable and expected given the difference in business size. Because of the discrepancy, the comparison of the percentage of bank loans in the AA by number is more meaningful. The bank's performance in this category is reasonable at 63 percent.

Geographic Distribution of Loans

We did not complete an analysis of loan distribution by geographic area, as it would not be meaningful. As previously mentioned, the AA does not contain any CTs classified as low- or moderate-income.

Responses to Complaints

LCBT did not receive any complaints about its performance in helping to meet the credit needs of the AA during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R § 25.28(c), or 12 C.F.R. § 195.28(c), in determining a bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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