



## **PUBLIC DISCLOSURE**

April 8, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Interstate Federal Savings and Loan Association of McGregor  
Charter Number 703560

154 Main Street  
McGregor, Iowa 52157

Office of the Comptroller of the Currency  
Des Moines Field Office  
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 Outstanding.**

Interstate Federal Savings and Loan Association of McGregor's (Interstate) lending performance reflects an outstanding response to the needs of its assessment area (AA). This conclusion is based on the following:

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

**SCOPE OF EXAMINATION**

We evaluated Interstate 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.

Interstate's primary product is residential real estate (RE) loans. The following table shows the percentage of loan originations by loan type from January 1, 2012 to December 31, 2013.

<b>Table 1 - Loan Originations</b>		
<b>Loan Type</b>	<b>% by Dollar</b>	<b>% by Number</b>
Residential RE	96	94
Agricultural	4	6

*Source: Bank-provided origination reports*

To evaluate Interstate's lending performance, we selected a random sample of 20 residential RE loans originated between January 1, 2012 and December 31, 2013.

**DESCRIPTION OF INSTITUTION**

Interstate is a \$9 million mutual thrift located in downtown McGregor, Iowa. The bank operates with one office and no automated teller machines (ATMs). There have been no changes in the bank's offices or ATMs since the prior CRA examination.

Interstate’s primary focus is to offer mortgage loans for the construction, purchase, refinance, and improvement of 1-4 family dwellings. As of December 31, 2013, the bank’s loan portfolio totaled \$6.2 million, or 71 percent of total assets. The December 31, 2013 call report identified \$6.1 million in RE loans and \$96 thousand in consumer loans.

There are no legal or financial impediments to Interstate’s ability to meet the credit needs of its AA. Interstate received a satisfactory rating at its last CRA examination dated August 29, 2008.

**DESCRIPTION OF ASSESSMENT AREA**

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 Clayton County and the southern part of Allamakee County. Interstate’s CRA public file contains a map of the AA. The AA includes seven contiguous census tracts (CTs). All seven 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 22,111. Approximately 10 percent of AA households are below the poverty level. The following table shows the number and percent of AA families within each income level.

<b>Table 2 – Family Income within Clayton-Allamakee County</b>		
<b>Income Category</b>	<b>Number</b>	<b>Percent</b>
Low	1,044	17
Moderate	1,148	18
Middle	1,767	28
Upper	2,257	36

Source: 2013 Family Demographic Data

Competition in the AA is moderate. Twelve other deposit-taking financial institutions serve the Clayton and Allamakee County AA. Interstate is the smallest of the institutions that serve the AA and ranks last for deposit market share with approximately 0.5 percent. For comparison purposes, we excluded six of the other institutions because the majority of their deposits were located outside of the AA, and/or their asset size was not comparable to Interstate. We used the remaining six institutions for comparison in the lending test, as they obtain a majority of their deposits from inside the AA.

The condition of the local economy is stable; however, unemployment rates remain elevated. Clayton County reported an unemployment rate of 7.6 percent as of March 2014, while Allamakee County’s rate was higher at 8.4 percent. Both are higher than the state of Iowa’s unemployment rate of 4.5 percent, as well as the national average of 6.7 percent, as reported by the Bureau of Labor Statistics.

We contacted a community representative during the examination. The community contact indicated the economy and employment in the area were stable, and major employers appear to be doing well. Major employers in the area include 3M, Cabela's, and Gencor. The representative indicated area institutions are generous with donations to local organizations. Overall, the representative concluded Interstate and other financial institutions in the area meet the credit needs of the community, including low- and moderate-income individuals and families, through appropriate products and services. The representative noted that the primary need is residential RE loans.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

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

### **Loan-to-Deposit Ratio**

Interstate's lending level is more than reasonable and meets the criteria for outstanding performance. Over the past 22 quarters ending December 31, 2013, Interstate's quarterly average LTD ratio was 96 percent. This ratio is significantly above the 76 percent quarterly average LTD ratio of six similarly situated institutions.

### **Lending in Assessment Area**

Interstate originates a substantial majority of residential RE loans inside its AA, which meets the standard for outstanding performance. From our sample, management originated 90 percent of its loans by number and 64 percent of its loans by dollar amount within the AA. However, the sample included one loan originated outside the AA for \$390 thousand, which is large for Interstate and much larger than the rest of the sample. The average origination amount for the remainder of the sample was \$41 thousand. If that large loan is excluded, management originated 95 percent of loans by number and 95 percent of loans by dollar amount within the AA. The following table shows the originations inside and outside of the AA for our entire sample.

Table 3 - Lending in Clayton-Allamakee County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	18	90	2	10	20	750,152	64	427,130	36	1,177,282

Source: Sample of residential RE loans from 2012 and 2013

### Lending to Borrowers of Different Income Levels

The distribution of loans, given the demographics of the AA and the aggregate Home Mortgage Disclosure Act (HMDA) originations, reflects excellent penetration among families of different income levels, including low- and moderate-income.

The distribution of residential RE loans to families of different income levels reflects excellent penetration. Our sample of 20 residential RE loans indicated Interstate originated 10 percent and 50 percent of its loans by number to low- and moderate-income borrowers, respectively. We also compared the aggregate HMDA originations to the AA’s demographic data, presented in **Table 2 – Family Income within Clayton-Allamakee County**, and determined the data was reasonable. Income levels are determined as percentage ranges from the 2012 weighted-average median family income for Iowa of \$59,300.

Table 4 - Borrower Distribution of Residential RE Loans in Clayton-Allamakee County								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans	% of Aggregate HMDA Loans	% of Number of Loans
Residential RE	8	10	19	50	26	10	38	30

Source: 2012 HMDA Data; Sample of residential RE loans from 2012 and 2013

### 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

Interstate has not received any CRA-related complaints since the last CRA examination.

## **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.