

PUBLIC DISCLOSURE

April 10, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Luana Savings Bank
Certificate Number: 253

100 Harvest Drive
Luana, Iowa 52156

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 areas (AA), including low- and moderate-income (LMI) neighborhoods, in a manner consistent with its resources and capabilities.

Luana Savings Bank's (LSB) satisfactory Community Reinvestment Act (CRA) performance under the Lending Test and Community Development Test supports the overall rating. Examiners did not identify any evidence of discriminatory or other illegal credit practices. The following points summarize the bank's Lending Test and Community Development Test performance.

The Lending Test is rated Satisfactory.

- The loan-to-deposit (LTD) ratio is more than reasonable given the institution's size, financial condition, and AA credit needs.
- Overall, the bank made the majority of its home mortgage, small farm, and small business loans in the AAs.
- The geographic distribution of loans reflects an overall reasonable dispersion throughout the AAs.
- The distribution of borrowers reflects, given the demographics of the AAs, an overall reasonable penetration among individuals of different income levels (including LMI), and farms and businesses of different revenue levels.
- The institution did not receive any CRA-related complaints since the previous evaluation; therefore, this factor did not affect the Lending Test rating.

The Community Development Test is rated Satisfactory.

- The institution demonstrated adequate responsiveness to the community development needs in its AAs through community development loans, qualified investments, and community development services, as appropriate. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the AAs.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from the prior evaluation dated April 30, 2014, to the current evaluation dated April 10, 2017. Examiners used the Interagency Intermediate Small Institution Examination Procedures to evaluate LSB's CRA performance. These procedures include two tests: the CRA Small Bank Lending Test and the Community Development Test.

The Lending Test considered the institution's performance according to the following criteria.

- LTD ratio
- AA concentration
- Geographic distribution
- Borrower profile
- Response to CRA-related complaints

The Community Development Test considered the following factors.

- Number and dollar amount of community development loans, qualified investments, and community development services
- The responsiveness of such activities to the community development needs of the AAs

Banks must achieve at least a Satisfactory rating under each test to obtain an overall Satisfactory rating. This evaluation does not include any lending activity performed by affiliates.

LSB has defined two non-continuous AAs, both in the State of Iowa, which are described in more detail under "Description of Assessment Areas." Both AAs received full-scope reviews after considering such factors as the scope of review and conclusions from the prior CRA Performance Evaluation, available community contact information, reported lending data, AA lending activity, and demographic data on each AA.

Given bank management's business focus for the institution's AAs, the distribution of the dollar volume of loans and funds on deposit by AA, and the number of offices in each AA, the results of various tests from the North and South AAs will be given equal weight in this evaluation. The following table provides detailed information on loans, deposits, and branch locations by AA.

Assessment Area Breakdown of Loans, Deposits, and Branches						
Assessment Area	Loans		Deposits		Branches	
	\$(000s)	%	\$(000s)	%	#	%
North AA	290,960	40.4	583,897	89.1	3	60.0
South AA	428,538	59.6	71,598	10.9	2	40.0
Total	719,498	100.0	655,495	100.0	5	100.0

Source: Bank Records; FDIC Summary of Deposits (6/30/16)

Loan Products Reviewed

Loan reviews were conducted to arrive at conclusions in relation to the bank's lending performance. Examiners determined that the bank's major product lines are small farm, home mortgage, and small business loans. This conclusion considered the bank's business strategy, the number and dollar volume of loans originated during the evaluation period, and a review of the bank's Consolidated Reports of Condition and Income (Report of Condition). Examiners did not evaluate consumer loans due to the limited volume and small portion of the loan portfolio these loans represent.

Bank records indicated that the lending focus and product mix remained generally consistent throughout the evaluation period; however, increased lending activity and portfolio concentrations occurred in commercial and home mortgage areas compared to the prior evaluation. As such, examiners reviewed a selection of small business and small farm loans originated between January 1, 2016, and December 31, 2016. In addition, regulatory personnel reviewed home mortgage loan activity reported pursuant to Home Mortgage Disclosure Act (HMDA) data collection requirements. All home mortgage loans originated or purchased from January 1, 2015, through December 31, 2016, and recorded on the bank's Loan Application Registers (LAR) were reviewed. This evaluation presents information for 2015, the most recent year for which aggregate data is available. However, any trends identified between 2015 and 2016, which materially impact conclusions are discussed in the respective sections, as applicable.

The table below provides loan universe and loan review information.

Loan Products Reviewed				
Loan Category	Universe		Reviewed	
	#	\$(000s)	#	\$(000s)
Small Farm				
North AA	567	59,297	42	4,884
South AA	124	17,691	32	4,562
Home Mortgage				
2015	1,297	238,938	1,297	238,938
2016	1,847	408,562	1,847	408,562
Small Business				
North AA	178	8,600	36	1,539
South AA	68	12,315	27	5,286

Source: Bank Records from 1/1/16 through 12/31/16. HMDA reported data for 2015 and 2016. Small Business and Small Farm reviewed dollar volumes reflect the total of actual amounts at the time of origination or renewal, as applicable. Small Business and Small Farm universe dollar volumes reflect the total of origination amounts listed on the loan trial as of 2/17/17.

Management states its primary lending focus, for the bank as a whole, is in agricultural and home mortgage lending. When considering loan portfolio percentages, lending activity during the evaluation period, and management's stated business focuses, examiners placed more weight on small farm and home mortgage lending when arriving at overall conclusions and the rating under the Lending Test. With respect to the specific AAs, greater weight was provided to small farm and home mortgage analyses in the North AA and to home mortgage conclusions in the South AA. The South AA produces significantly more home mortgage loans for the institution and has seen an increase in activity since the prior evaluation. As commercial lending activity is not as great for the bank as a whole and is not considered a primary lending focus, conclusions related to small business loans have less impact on both AA conclusions and the overall rating.

For CRA evaluation purposes, small farm loans and small business loans are defined using definitions in the Report of Condition. These definitions, as well as that for home mortgage loans, are detailed in the Glossary at the end of this document. Examiners obtained the data necessary for this evaluation from an automated loan download, individual customer loan files, HMDA LARs, and bank management.

For the Lending Test, examiners reviewed the number and dollar volume of small farm, small business, and home mortgage loans. While the number and dollar volume of loans are presented, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of businesses and individuals served. Examiners utilized 2010 U.S. Census Bureau data and

2016 D&B business demographic data for comparison purposes. In addition, examiners used 2015 aggregate HMDA data for comparison purposes, which is presented in the applicable sections under the Lending Test. When arriving at conclusions related to home mortgage loans, examiners primarily focused on the bank's performance in comparison to aggregate data.

For the Community Development Test, management provided data pertaining to community development loans, qualified investments, and community development services since the prior CRA evaluation. One similarly-situated intermediate small bank was referenced for this institution's performance context in the Community Development Test. An evaluation of this comparable bank was performed during LSB's evaluation period.

DESCRIPTION OF INSTITUTION

Background

LSB is a commercial institution wholly-owned by one-bank holding company, Luana Bancorporation, Luana, Iowa. There are no other affiliates or subsidiaries. LSB received a "Satisfactory" rating at its April 30, 2014 FDIC Performance Evaluation based on Intermediate Small Institution Examination Procedures.

Operations

LSB's main office is located in Luana. The institution has a total of five full-service offices located in Clive, Luana, New Hampton, Ossian, and Polk City, Iowa. There have been no changes in offices since the prior evaluation, and no merger or acquisition activities occurred since the previous evaluation.

Various loan products including commercial, agricultural, home mortgage, and consumer loans are offered. LSB has assisted with and utilized special financing alternatives and grant programs offered through the following entities: Small Business Administration (SBA), Iowa Finance Authority, Federal Home Loan Bank (FHLB), United States Department of Agriculture Farm Service Agency, and Iowa Agriculture Development Authority. These programs are generally designed to assist small businesses, small farms, and individuals who may not qualify for loans through conventional financing methods. Secondary market financing options are also available for qualifying home mortgage loans. As mentioned previously, bank management states that agricultural and home mortgage lending remains the primary focus. Commercial lending is a secondary lending focus for the institution.

In conjunction with a wide array of credit offerings, the institution provides a variety of deposit services including checking, savings, and money market; and certificates of deposit. LSB also offers insurance products. Alternative banking services include internet and mobile banking, telephone banking, electronic bill pay and statements, and Automated Teller Machines (ATMs.)

Ability and Capacity

Assets totaled approximately \$871 million as of December 31, 2016, representing an increase of 40.4 percent since the December 31, 2013, Report of Condition. Total deposits equaled nearly \$759 million, demonstrating a 46.8 percent increase, and total loans were approximately \$685 million, representing an increase of 42.5 percent during the same time period. Securities totaled nearly \$135 million. Analysis of LSB's loan portfolio since the previous CRA evaluation reveals that the most significant changes occurred in Construction and Land Development lending (increased by 376.3 percent), Commercial (increased by 97.8 percent) and Residential (increased by 77.2 percent) lending. Management attributes the above stated loan growth to the following: increase of market demand for Construction and Land Development lending in the South AA, a strategy to bring in more commercial real estate, and a strong

housing market with a focused effort on multi-family unit loans (mainly in the South AA). Deposit growth is attributed to management’s strategy for seeking alternative funding sources.

LSB’s loan portfolio percentages by type, as of December 31, 2016, are detailed in the table below.

Loan Portfolio Distribution as of 12/31/16		
Loan Category	\$(000s)	%
Construction and Land Development	38,995	5.7
Secured by Farmland	203,325	29.7
1-4 Family Residential	211,412	30.9
Multi-family (5 or more) Residential	86,586	12.6
Commercial Real Estate	65,579	9.6
Total Real Estate Loans	605,897	88.5
Commercial and Industrial	9,637	1.4
Agricultural	50,652	7.4
Consumer	18,450	2.7
Other	0	0.0
Less: Unearned Income	0	0.0
Total Loans	684,636	100.0
<i>Source: Reports of Income and Condition</i>		

Examining personnel did not identify any legal, financial, or other impediments that affect the bank’s ability to meet the credit, retail, or community development needs of its AAs.

DESCRIPTION OF ASSESSMENT AREAS

The CRA requires each financial institution to define one or more AAs within which its CRA performance will be evaluated. LSB designated two AAs, the North AA and the South AA, both in the State of Iowa. The North AA includes portions of Allamakee, Chickasaw, Clayton, Fayette, and Winneshiek counties. The South AA includes portions of Dallas and Polk counties. The following sections discuss demographic and economic information for each AA.

Each census tract (CT) in an AA is designated as low-, moderate-, middle-, or upper-income by comparing the 2010 U.S. Census Bureau median family income (MFI) of the geography to the appropriate MFI for the area. Refer to the Glossary for a definition of the various income definitions used in this evaluation. The applicable figures used to determine the income categories for the geographies that comprise the institution’s AAs are detailed in the table below.

Median Family Income by Metropolitan Statistical Area (MSA) Area or Non-Metropolitan Area	
Description	2010 Census
State of Iowa Non-Metropolitan MFI	\$56,190
Des Moines-West Des Moines MSA MFI	\$71,705
<i>Source: 2010 U.S. Census</i>	

The combined AAs include 59 CTs: 1 low-, 3 moderate-, 31 middle-, and 24 upper-income CTs. All LMI CTs are located in the South AA. Clayton County CTs 701, 702, and 703 and Winneshiek County CTs 9504 and 9505 were identified as underserved middle-income non-metropolitan geographies in 2014, 2015, and 2016. There were no areas in either of the AAs that were identified as distressed

middle-income non-metropolitan geographies during the evaluation period.

The bank made no changes to its AAs since the prior evaluation. Please see the individual AA descriptions that follow for additional details.

North AA

Economic and Demographic Data

The North AA is comprised of Allamakee County CTs 9604 and 9605; Chickasaw County CTs 701-704; Clayton County CTs 701-703; Fayette County CTs 801, 806 and 807; and Winneshiek County CTs 9504 and 9505. Based on the 2010 U.S. Census, these 14 CTs are all defined as middle-income geographies, in the non-metropolitan part of Iowa. Three full-service offices are located in this AA, including the main office. The next table illustrates select demographic characteristics of the North AA.

Demographic Information of the North AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	14	0.0	0.0	100.0	0.0	0.0
Population by Geography	43,974	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	20,879	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	14,898	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	3,617	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	2,364	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	3,327	0.0	0.0	100.0	0.0	0.0
Farms by Geography	1,113	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	12,720	17.2	19.0	26.9	36.9	0.0
Household Distribution by Income Level	18,515	19.9	17.1	20.5	42.6	0.0
Median Family Income Non-Metropolitan - IA		\$56,190	Median Housing Value			\$104,259
			Median Gross Rent			\$496
			Families Below Poverty Level			6.2%
<i>Source: 2010 U.S. Census and 2016 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2016 D&B data, there were 3,327 businesses and 1,113 farms in the North AA. Gross annual revenues (GARs) for these businesses and farms are below. The analysis of small business and small farm loans under the Borrower Profile criterion compares the distribution of businesses and farms by GAR level.

Businesses

- 82.7 percent have GARs of \$1 million or less.
- 4.7 percent have GARs of more than \$1 million.
- 12.6 percent have unknown revenues.

Farms

- 98.1 percent have GARs of \$1 million or less.
- 1.5 percent have GARs of more than \$1 million.
- 0.4 percent have unknown revenues.

Service industries represent the largest portion of businesses and farms at 34.2 percent; followed by Agriculture, Forestry, and Fishing (25.1 percent); Retail Trade (10.2 percent); and Construction (7.1 percent). In addition, 80.0 percent of area businesses and farms have four or fewer employees, and 90.1 percent operate from a single location.

A comparison of 2007 and 2012 Census of Agriculture reports for the North AA counties revealed that, on average, the number of farms decreased by 1.4 percent, and the average size of farms increased by 5.2 percent. The State of Iowa reported a 4.5 percent decrease in the number of farms, and a 4.2 percent increase in the average size of farms during the same time period.

The 2015 Federal Financial Institutions Examination Council (FFIEC) MFI level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on the 2015 FFIEC MFI of \$62,000.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Iowa Non-Metropolitan Median Family Income				
2015 (\$62,000)	<\$31,000	\$31,000 to <\$49,600	\$49,600 to <\$74,400	≥\$74,400
<i>Source: FFIEC</i>				

Based upon 2010 U.S. Census Bureau data, there are 20,879 housing units in this AA. Of these, 71.4 percent are owner-occupied, 17.3 percent are occupied rental units, and 11.3 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

According to unemployment rates reported by Iowa Workforce Development, as of February 2017, unemployment rates in the North AA averaged 5.1 percent. Since February 2016, with the exception of Clayton County which reported no change, the AA counties showed a decrease in unemployment rates. The State of Iowa registered an unemployment rate of 3.2 percent in February 2017, which is a decrease from the 3.8 percent rate reported 12 months prior.

Competition

The FDIC Deposit Market Share Report as of June 2016 reflects 18 FDIC-insured institutions operating from 35 locations within cities located in the North AA. These institutions mainly consist of community banks operating branch locations in the area. LSB ranks first with 33.3 percent of deposit market share within this area. Overall, the AA is considered competitive.

Community Contact

CRA evaluation procedures include contacting area leaders to discuss the needs and development of the community, as well as the involvement of local financial institutions. Individuals interviewed provide information based upon their knowledge and expertise in the housing and/or economic sectors.

Confidential community contacts are conducted by all financial institution regulatory agencies in order to better understand the credit needs and current demographic information of local neighborhoods, cities, or counties. This information helps determine whether local financial institutions are responsive to community credit needs and provides context regarding available opportunities for area financial institutions.

In conjunction with this evaluation, one contact was conducted with an economic and community education organization operating in the North AA. The contact made the following observations:

- The agriculture economy is holding its own. Established farms are doing well; however, new and transitioning farms are struggling. Farmers have to renegotiate new rental prices, and updated technology has increased the price of farm equipment drastically.
- Farm support services like Caterpillar are struggling right along with the new farmers. At the end of 2017, Caterpillar will close its facility in Elkader, resulting in a loss of 75 jobs.
- The small business economy is struggling to remain stable. New Hampton and Elkader show several empty store fronts; however, Postville has enjoyed a vibrant economy by welcoming various cultures and ethnicities to their city.
- The housing market is strong, and there is a shortage of homes in the \$125,000 to \$200,000 range. New construction is limited, and housing that is being developed is priced at \$200,000 and up.
- Although the City of Decorah has been offering five year tax abatements on new construction projects, the contact was unaware of any home rehabilitation loan programs.

The contact cited the following as primary credit needs for the area:

- Agriculture – affordable operating lines of credit for new and transitioning farmers with little equity.
- Affordable housing – additional single-family residences with lower price points near city services and rehabilitation loans.
- Small business – small dollar operating lines of credit; however, banks appear to be meeting most of the demand at this time.

Finally, the contact referenced the following, as specific community development needs:

- Education – to provide business and farm management educational classes for new and transitioning farmers. New farmers are vulnerable to co-ops who push the overuse of pesticides and fertilizers, which increases input costs.
- Transportation – residents have to look to larger cities for work. There are no affordable transportation resources available. This limits employment options and depletes already dwindling small town populations if people relocate.

Credit and Community Development Needs and Opportunities

Examiners determined that agricultural, home mortgage, and commercial lending represent the primary credit needs for the AA based on information from the community contact, bank management, and demographic and economic data; and is supported by Reports of Condition filed by area financial institutions. As noted in the paragraph above, the contact expressed concerns regarding a lack of available affordable housing and rehabilitation loans. The 2010 U.S. Census housing demographic data indicates that approximately 14.4 percent of owner-occupied housing requires payments that are greater than 30 percent of the owner's monthly income, supporting a need for affordable housing. The contact also indicated that although the agricultural and commercial sectors are not thriving, smaller operating lines of credit are still in demand. As mentioned earlier, 2016 D&B Data supports this credit need given that the vast majority of farms and businesses have a nominal employee base. Community development

needs center around affordable housing and transportation, as well as assisting small farms and businesses. Overall, the contact had a positive perception of local financial institutions and indicated that credit needs are being reasonably met.

South AA

Economic and Demographic Data

The South AA is comprised of Dallas County CTs 501, 508.03-508.12, and 509.01; and 37 CTs in Polk County including 8.03, 101.01-106 and 110.01-117.02. Dallas and Polk counties are part of the Des Moines-West Des Moines MSA. Based on the 2010 U.S. Census, the AA consists of 1 low-, 3 moderate-, 17 middle-, and 24 upper-income CTs. Two offices are located in this AA. The following table illustrates select demographic characteristics of the South AA.

Demographic Information of the South Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	45	2.2	6.7	37.8	53.3	0.0
Population by Geography	244,216	1.5	4.8	33.7	60.0	0.0
Housing Units by Geography	97,195	1.6	6.2	34.8	57.4	0.0
Owner-Occupied Units by Geography	70,494	0.8	4.1	33.3	61.8	0.0
Occupied Rental Units by Geography	21,093	4.3	13.1	38.3	44.3	0.0
Vacant Units by Geography	5,608	1.6	6.1	39.9	52.5	0.0
Businesses by Geography	21,967	2.1	8.2	35.2	54.4	0.0
Farms by Geography	824	1.5	2.3	43.8	52.4	0.0
Family Distribution by Income Level	63,039	11.6	14.0	22.1	52.3	0.0
Household Distribution by Income Level	91,587	14.5	14.3	18.4	52.9	0.0
Median Family Income MSA - 19780 Des Moines-West Des Moines, IA MSA		\$71,705	Median Housing Value			\$188,988
			Median Gross Rent			\$810
			Families Below Poverty Level			3.3%
<i>Source: 2010 U.S. Census and 2016 D&B Data Due to rounding, totals may not equal 100.0 (*) The NA category consists of geographies that have not been assigned an income classification.</i>						

According to 2016 D&B data, there were 21,967 businesses and 824 farms operating in the South AA. GARs for these businesses and farms are below. The analysis of small farm and small business loans under the Borrower Profile criterion compares the distribution of businesses by GAR level.

Businesses

- 82.8 percent have GARs of \$1 million or less.
- 6.4 percent have GARs of more than \$1 million.
- 10.8 percent have unknown revenues.

Farms

- 96.0 percent have GARs of \$1 million or less.
- 2.5 percent have GARs of more than \$1 million.
- 1.5 percent have unknown revenues.

Service industries represent the largest portion of businesses and farms at 49.0 percent; followed by Retail Trade (11.5 percent); Finance, Insurance, and Real Estate (11.3 percent); and Construction (7.7 percent). In addition, 73.1 percent of area businesses and farms have four or fewer employees, and 88.0 percent operate from a single location.

A comparison of 2007 and 2012 Census of Agriculture reports for the South AA revealed that the number of farms in Dallas and Polk counties increased 9.8 percent and 4.7 percent, respectively. The average size of farms in Dallas and Polk counties decreased 6.1 percent and 24.3 percent, respectively. The State of Iowa reported a 4.5 percent decrease in the number of farms, and a 4.2 percent increase in the average size of farms during the same time period.

The 2015 FFIEC MFI level is used to analyze home mortgage loans under the Borrower Profile criterion. The low-, moderate-, middle- and upper-income categories are presented in the following table. These categories are based on the 2015 FFIEC MFI of \$75,000.

Median Family Income Ranges				
Median Family Incomes	Low <50%	Moderate 50% to <80%	Middle 80% to <120%	Upper ≥120%
Des Moines-West Des Moines, IA MSA Median Family Income				
2015 (\$75,000)	<\$37,500	\$37,500 to <\$60,000	\$60,000 to <\$90,000	≥\$90,000
<i>Source: FFIEC</i>				

Based upon 2010 U.S. Census Bureau data, there are 97,195 housing units in this AA. Of these, 72.5 percent are owner-occupied, 21.7 percent are occupied rental units, and 5.8 percent are vacant. The Geographic Distribution criterion compares home mortgage loans to the distribution of owner-occupied housing units.

Based on the unemployment rates reported by Iowa Workforce Development, as of February 2017, the unemployment rates were 2.4 percent in Dallas County and 3.4 percent in Polk County. Both counties showed decreasing trends since February 2016. The State of Iowa registered an unemployment rate of 3.2 percent in February 2017, which is a decrease from the 3.8 percent rate reported 12 months prior.

Competition

The FDIC Deposit Market Share Report as of June 2016 indicates that there are 35 institutions operating from 96 locations within cities located in the South AA. These institutions range from small community banks to larger financial institutions operating branch locations in the area. LSB ranks 21st with 1.1 percent of deposit market share within this area. Overall, the AA is considered highly competitive.

Community Contact

In conjunction with this evaluation, examiners conducted two community contacts, both of which were economic and community education organizations servicing the South AA. The first contact focused on the agricultural sector and made the following observations:

- Overall, the agricultural economy is holding its own. Support businesses, such as John Deere, are stable, as farmers are not buying as in the past three years.
- The area has seen an increase in converting farmland to residential properties.

- Although statewide larger farms are seeing the most growth, in Dallas and Polk Counties, resident and intermediate farming operations (the contact categorized these as having less than \$350,000 in gross farm income) are growing the fastest.
- The greatest credit need is operating lines for intermediate and resident farms. These farmers usually purchase inputs on credit through cooperatives and grain elevators as bank credit and profit margins tighten.
- Smaller farmers could benefit from a better understanding of marketing futures, leveraging crop insurance, and pre-harvest marketing.

This contact also cited the following specific community development needs:

- Healthcare access outside of Des Moines.
- Quality food choices. Lower farm incomes, coupled with the facts that farmers are not growing their own food sources any more, won't or don't attend senior food programs, or go to the local food pantry, are resulting in lesser quality food choices.

The second contact provided the following remarks:

- Dallas and Polk counties are among the fastest growing counties in Iowa. This growth can be attributed to population relocation for occupational, lifestyle, and access to services.
- There is a need for more affordable housing single-family residential options, along with low interest rate rehabilitation loans to improve existing properties.
- The greatest credit need for small businesses is operating and expansion lines of credit, specifically for smaller dollar loan amounts.
- Community development need includes employment for construction tradesmen.

Examiners also referenced recent contacts made with two different economic development organizations operating in the South AA. These contacts made the following comments:

- Due to the size of the suburbs around the city, many people commute into Des Moines for work.
- The housing market in the area is strong. Houses sell very quickly and have seen rapid increases since 2009.
- The towns of Minburn and Dexter (Dallas County) contain pockets of LMI populations who have had difficulty qualifying for special programs. These towns are surrounded by non-LMI areas that are included in the formulas when assessing program eligibility.
- Economic growth and employment opportunities have attracted an influx of job seekers both nationally and internationally. This has created some wage pressure and a bit of a skill gap.
- Overall, the economy is generally strong. Individuals have more expendable income since the recession, which has resulted in increased sales for small businesses.

One contact stated that small business lending is a primary need of the community and that small business could benefit from more bank involvement in the SBA Express Program. Another contact echoed a similar comment, indicating that there are a number of underutilized small business micro-loan programs. Small business owners are utilizing credit cards or investor angels to cover small dollar amount needs.

Overall, all contacts had a positive perception of local financial institutions and indicated that credit needs are being met.

Credit and Community Development Needs and Opportunities

Examiners determined that home mortgage, small business, and small farm lending represent the primary credit needs of the AA based on information from the community contacts, bank management, and demographic and economic data; and is supported by Reports of Condition filed by area financial institutions. The 2010 U.S. Census housing demographic data indicates that approximately 14.3 percent of owner-occupied housing requires payments that are greater than 30 percent of the owner's monthly income, and the median housing value is \$188,988, supporting a need for affordable housing. As mentioned earlier, 2016 D&B Data supports farm and business credit needs given that the vast majority of farms and businesses have a nominal employee base. Based on community contact information, community development needs appear to center around small business, small farm, and affordable housing.

CONCLUSIONS ON PERFORMANCE CRITERIA INSTITUTION

LENDING TEST

LSB's performance under the Lending Test is rated "Satisfactory." This determination was made based on the bank's performance in the five criteria discussed under "Scope of Evaluation" and as described in the subsequent sections. As indicated under the Scope of Evaluation, equal weight is given to both AAs, and greater weight is provided to related conclusions derived from small farm and home mortgage lending analyses. The following is a discussion of each performance criterion and how they support the bank's overall rating.

Loan-to-Deposit Ratio

LSB's average net LTD ratio is more than reasonable given the institution's size, financial condition, and the credit needs of the AAs, demonstrating a strong willingness to extend credit. The LTD ratio is also more than reasonable when compared to similarly-situated institutions. LSB's average net LTD ratio was compared to those of five other institutions operating in the bank's AAs. These financial institutions were considered comparable due to similarities in business focus, resources, markets served, market conditions, and/or product mix. Information pertaining to this review appears in the next table; selected institutions are listed alphabetically by location of their main office.

Loan-to-Deposit Ratio Comparison		
Bank	Total Assets as of 12/31/16 \$ (000s)	Average Net LTD Ratio (%)
Luana Savings Bank, Luana, Iowa	870,820	96.7
Community State Bank, Ankeny, Iowa	600,379	84.6
Grinnell State Bank, Grinnell, Iowa	314,361	88.3
Kerndt Brothers Savings Bank, Lansing, Iowa	274,766	84.5
State Bank, New Hampton, Iowa	384,785	58.6
Bank Iowa, West Des Moines, Iowa	1,146,128	77.8

Source: Reports of Income and Condition 6/30/14 through 12/31/16

As demonstrated above, LSB's average net LTD ratio is 96.7 percent, which is higher than those of the comparable institutions. The institution's average net LTD ratio stood at 88.8 percent at the April 2014 evaluation. The highest net LTD ratio was reported in September 2015, standing at 101.3 percent.

The institution also has the ability to originate mortgage loans that are subsequently sold through secondary market relationships; these loans are not included in the table above. LSB reported originating 2,239 loans totaling nearly \$483 million that were subsequently sold on the secondary market since the last CRA evaluation. These loans are also reported on the bank's HMDA LARs.

AA Concentration

LSB originated a majority of its small farm, small business, and home mortgage loans, by number and dollar volume, within the AAs. Although still a majority, small farm loan sampling shows a substantially less penetration level of lending inside the AAs than those for small business and home mortgage. Further analysis noted that most of the small farm loans originated outside the AAs were generated from the South AA branches. Management indicated that despite D&B data exhibiting over 800 farms inside the South AA, they believe there is a lack of actual farm operations. Specifically, it is management's position that many of these farmers are land owners, passive owners, or part of a family operation located outside the South AA. Management also cited that most agricultural loans generated from the South AA offices were originated due to real estate agent relationships; however, the farming operations of these borrowers are often located outside the South AA. Overall, a majority of loans reviewed were granted to borrowers inside the AAs; this concentration illustrates management's willingness to meet the credit needs of the AAs.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2015	909	70.1	388	29.9	1,297	161,150	67.4	77,788	32.6	238,938
Small Business	48	76.2	15	23.8	63	3,792	55.6	3,033	44.4	6,825
Small Farm	42	56.8	32	43.2	74	5,014	53.1	4,432	46.9	9,446
<i>2015 HMDA Reported Data; 2016 Bank Records Due to rounding, totals may not equal 100.0</i>										

Geographic Distribution

The geographic distribution of loans reflects an overall reasonable dispersion, indicating the bank's willingness to extend loans throughout the AAs. Emphasis under this criterion is placed on the bank's record of lending in LMI geographies. Since the North AA consists of all middle-income CTs, a geographic distribution analysis would not result in meaningful conclusions. Therefore, conclusions reached for this criterion relied solely on LSB's performance in the South AA. As noted previously, greater weight was provided to the results derived from the home mortgage analysis since only the South AA was assessed.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects an overall reasonable dispersion throughout the South AA. The bank's distribution of home mortgage loans in LMI CTs is generally in line with aggregate data.

Small Farm Loans

The geographic distribution of small farm lending indicates that LSB is below demographic information, but demonstrates reasonable performance. Although LSB's lending is lower than comparable data, LMI

areas within the South AA are generally positioned inside city limits, where limited agricultural lending opportunities exist.

Small Business Loans

The geographic distribution of small business lending indicates that LSB is below demographic information, but demonstrates reasonable performance when considering additional factors. Refer to comments under the South AA's Geographic Distribution (Small Business Loans) presented later in this evaluation for details.

Borrower Profile

The distribution of borrowers reflects an overall reasonable penetration among individuals of different income levels, including LMI individuals, and farms and businesses of different revenue sizes. Examiners focused on the percentage by number of small farm and small business loans to those with GARs of \$1 million or less, and home mortgage loans to LMI borrowers. Refer to comments under each separately analyzed AA for more specific analysis.

Home Mortgage Loans

Lending penetration to borrowers of varying income levels in both AAs indicates an overall reasonable level of lending. Although examiners noted that penetration was generally lower than comparable peer and demographic information for LMI borrowers, most notably in the South AA, additional factors were considered and ultimately show reasonable overall performance by LSB.

Small Farm Loans

LSB's penetration to farm operators with GARs of \$1 million or less indicates an overall reasonable level of lending. Although penetration was less than comparable demographics for revenues of \$1 million or less in the North AA, the bank's performance is considered reasonable.

Small Business Loans

The bank's lending to business entities with GARs of \$1 million or less reflects an overall reasonable distribution. LSB's penetration to small business operators in the North AA indicates an excellent level of lending, and small business lending in the South AA indicates a reasonable level of lending. Refer to comments under each separately analyzed AA for more specific analysis.

Response to Complaints

The bank did not receive any CRA-related complaints since the previous evaluation; therefore, this criterion did not affect the Lending Test rating.

COMMUNITY DEVELOPMENT TEST

LSB has demonstrated an adequate responsiveness to the community development needs in its AAs. Examiners considered the institution's capacity and the need and availability of such opportunities for community development in the AAs. Since the previous evaluation, management maintained its role in extending community development loans and qualified investments, and continued to support local organizations offering community development services by volunteering their time to provide professional and technical assistance.

In addition to comparing the performance of the current evaluation to the previous evaluation, the institution's capacity, AA needs, and the availability of opportunities in the AAs were also considered in

arriving at the overall conclusion. Information from the Performance Evaluation of one similarly-situated institution was also used in the analysis to help determine overall performance. The comparable institution was chosen due to similarities in asset size, business focus, and types of areas served. The comparable bank's assessment was performed during LSB's evaluation period. LSB's overall Community Development performance compared reasonably to this similarly-situated institution. There were no loans, investments, or services that supported, enabled, or facilitated Neighborhood Stabilization Program (NSP) projects or activities in areas with United State Department of Housing and Urban Development (HUD)-approved NSP plans; therefore, this community development prong was not included within the bank data tables. Activities completed during 2014 were only during the time period since the prior evaluation date of April 30, 2014.

Lastly, as management did not state a specific focus was made during the evaluation period on community development loans, qualified investments, or community development services, all three components were weighted equally when arriving at the overall conclusion of the Community Development Test.

Community Development Loans

Since the prior CRA evaluation, 16 community development loans totaling over \$12.0 million were originated throughout the AAs. LSB extended loans to entities in an effort to provide for affordable housing to LMI individuals; promote economic development by supporting permanent job creation, retention, and/or improvement to LMI persons; and for activities that revitalize or stabilize underserved middle-income non-metropolitan geographies. As the bank has been responsive to AA needs and opportunities, one community development loan totaling \$980,000 was also granted consideration. This loan was extended to finance a property providing for affordable housing and benefitted the broader statewide area, which includes the bank's AA. Community development loans originated since the prior evaluation are detailed in the following tables.

Community Development Lending by AA										
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
North AA	4	1,076	0	0	3	822	3	315	10	2,213
South AA	5	8,850	0	0	0	0	0	0	5	8,850
Statewide Activities	1	980	0	0	0	0	0	0	1	980
Total	10	10,906	0	0	3	822	3	315	16	12,043
<i>Source: Bank Records</i>										

Community Development Lending by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
April-Dec 2014	2	1,240	0	0	1	15	0	0	3	1,255
2015	3	3,722	0	0	0	0	2	280	5	4,002
2016	3	1,756	0	0	1	15	1	35	5	1,806
YTD 2017	2	4,188	0	0	1	792	0	0	3	4,980
Total	10	10,906	0	0	3	822	3	315	16	12,043

Source: Bank Records

LSB’s community development loans to net loans ratio was 1.8 percent, using net loans as of December 31, 2016. The total volume of community development lending reflects an increase since the prior evaluation where 13 community development loans totaling nearly \$4.3 million were extended, reflecting a ratio of 0.9 percent of net loans. Details and specific examples of community development lending activity in the individual AAs are discussed in later sections of this evaluation. LSB’s performance in community development lending compares adequately to the recent CRA Performance Evaluation of a similarly-situated institution, which reported a community development loans to net loans ratio of 3.7 percent.

Qualified Investments

LSB’s 122 qualified investments totaled over \$4.8 million. Qualified donations and investments funded since the previous evaluation were considered under this component, as well as qualifying investments purchased prior to this evaluation that are still outstanding. LSB’s total includes qualified equity investments of \$4,769,000 and donations of \$36,000. As the bank was responsive to AA community development needs, these totals also include 20 investments totaling over \$2.3 million, which benefitted the greater statewide area, which includes the AA. These statewide activities consisted of investments in FHLB’s affordable housing program and several bond issues purchased to fund projects supporting underserved or distressed middle-income non-metropolitan geographies.

Through its investments and donations, LSB supported the local and statewide economy through affordable housing, community services to LMI individuals, economic development, and revitalization or stabilization efforts. The next two tables illustrate LSB’s qualified investment activity.

Qualified Investments by AA										
Rated Area	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
North AA	0	0	21	9	0	0	59	2,453	80	2,462
South AA	0	0	9	3	13	10	0	0	22	13
Statewide Activities	12	82	0	0	0	0	8	2,248	20	2,330
Total	12	82	30	12	13	10	67	4,701	122	4,805

Source: Bank Records

Qualified Investments by Year										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior	0	0	0	0	0	0	32	3,935	32	3,935
April-Dec 2014	3	18	0	0	0	0	1	328	4	346
2015	4	27	0	0	0	0	2	300	6	327
2016	4	28	0	0	0	0	1	124	5	152
YTD 2017	1	9	0	0	0	0	0	0	1	9
Subtotal	12	82	0	0	0	0	36	4,687	48	4,769
Qualified Donations	0	0	30	12	13	10	31	14	74	36
Total	12	82	30	12	13	10	67	4,701	122	4,805

Source: Bank Records

LSB’s qualified investments equal 0.6 percent of the bank’s total assets and 3.6 percent of the bank’s total securities as of December 31, 2016. The total volume of qualified investments and donations reflects a decrease since the prior evaluation where 63 qualified investments and donations totaling nearly \$7.0 million were extended, reflecting a ratio of 1.12 percent of total assets. This decrease was mainly the result of several prior period bond purchases that matured during the evaluation period.

The similarly-situated institution reported a qualified investment to total asset ratio of 1.5 percent, and a qualified investments to total securities ratio of 11.3 percent. LSB’s performance adequately compares to the similarly-situated institution’s total asset ratio. Details and specific examples of qualified investment activity in the individual AAs are discussed in later sections of this evaluation.

Community Development Services

LSB has provided community development services that benefitted its AAs, considering resources, business strategies, area competition, and available opportunities within the AAs. Since the previous evaluation, bank personnel provided financial services to various organizations, the overwhelming majority of which serve the North AA. All of the organizations involved perform services that meet the definition of community development under the CRA, and all of the services provided by personnel related to the provision of financial services as required by the regulation for consideration under the CRA.

In total, bank directors, officers, and employees participated in 48 community development service activities to 15 different organizations for a total of 1,153 hours. At the 2014 evaluation, participants provided 819 hours of qualifying financial and technical expertise to 12 different organizations for a total of 28 services. By dedicating their time, bank employees are assisting these organizations in providing affordable housing and community services to primarily LMI individuals; promoting economic development by supporting permanent job creation, retention, or improvement, including to persons who are LMI; or revitalizing or stabilizing underserved middle-income non-metropolitan areas. LSB’s community development services compares adequately to similarly-situated institution data, which reported providing technical services 59 times during its recent evaluation period.

The bank’s activities are shown in the following two tables. Details and specific examples of community development services in the individual AAs are discussed in later sections of this evaluation.

Community Development Services by AA					
Rated Area	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
North AA	4	4	4	23	35
South AA	0	1	12	0	13
Total	4	5	16	23	48
<i>Source: Bank Records</i>					

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
April-Dec 2014	1	1	4	4	10
2015	1	2	4	8	15
2016	1	1	4	6	12
YTD 2017	1	1	4	5	11
Total	4	5	16	23	48
<i>Source: Bank Records</i>					

A checking account is offered with no minimum balance or service fees. LSB maintains a transactional web site through which it provides product and service information. Customers can also bank online, permitting them to check account balances, transfer funds between accounts, and pay bills. Electronic access is also available through mobile banking. In addition to electronic statements, these services are generally free of charge to bank customers, which provide benefit to LMI individuals.

Further, as detailed previously, LSB is headquartered in Luana and maintains a total of five offices. Two offices with deposit-taking ATMs are located in underserved middle-income non-metropolitan geographies.

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 overall CRA rating.

CONCLUSIONS ON PERFORMANCE CRITERIA NORTH AA

LENDING TEST

For the North AA, primary weight is given to small farm and home mortgage lending and secondary weight is provided to small business lending in the Lending Test as management stated it has a greater focus for agricultural and home mortgage lending for the institution as a whole.

Geographic Distribution

The North AA consists entirely of middle-income geographies. Since a review of Geographic Distribution would not result in meaningful conclusions, no review was performed. Therefore, this criterion had no impact on LSB’s performance at the institution level.

Borrower Profile

LSB has an overall reasonable penetration of lending to businesses of different revenue sizes and to individuals of different income levels in the North AA. Examiners focused primarily on the percentage by number of small farm and small business loans to entities with GARs equal to or less than \$1 million and percentage by number of loans to LMI home mortgage borrowers.

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration of loans to farms with GARs of \$1 million or less. The following table shows that 87.9 percent of the sampled loans were originated to farms with GARs of \$1 million or less. This number lags behind the percent of farms in this revenue category. However, 2012 Census of Agriculture data reveals that 49.3 percent of the farms in the five counties that are included in the North AA are small hobby farms. These farms list their principal occupation as “other than farming.” The same data also shows that 43.5 percent of these farms had no borrowing needs, as they reported not incurring any interest expense. When also considering these factors, this number compares reasonably to the percent of farms reporting revenue in this category and reflects reasonable performance.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: North AA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	98.1	29	87.9	2,877	72.9
>1,000,000	1.5	4	12.1	1,069	27.1
Revenue Not Available	0.4	0	0.0	0	0.0
Total	100.0	33	100.0	3,946	100.0

*Source: 2016 D&B Data, 1/1/2016 - 12/31/2016 Bank Data.
Due to rounding, totals may not equal 100.0*

Home Mortgage Loans

The distribution of home mortgage loans to applicants of different income levels, including LMI borrowers, is reasonable. Examiners primarily focused on the comparison to aggregate data benchmarks, though consideration was also given to other factors as well.

As demonstrated in the next table, the bank’s 9.2 percent penetration to low-income borrowers compares reasonably to aggregate lending data of 11.9 percent. The bank’s 16.7 percent penetration to moderate-income borrowers is less than peer lending data, reporting a 21.9 percent rate for the income category. Collectively, the bank trails comparable peer benchmark data in lending to LMI borrowers by 7.9 percentage points. It should be recognized that 6.2 percent of families in the AA are below poverty level. These families would be included within the low-income category, accounting for 36.1 percent of that income classification. Based on calculations derived from the average median housing values within the AA and industry-standard underwriting criteria, these families are likely to experience difficulty qualifying for home loans due to monthly payment and down payment requirements.

Management agreed that affordability can be an obstacle for low-income borrowers. Management also stated that the bank fundamentally tries to make every loan it can in the markets they serve and that advertising dollars are used in several different mediums to market home loans.

Market share data further supports the bank’s reasonable performance under this criterion. In 2015, the bank ranked 1st in lending to LMI borrowers with a 19.8 percent market share. Additionally, competition in this AA is prevalent. As noted previously, there are 18 financial institutions operating from 35 branch locations in the AA. Aggregate data also shows 101 different lenders reporting loan originations or purchases in this AA for 2015. When considering all these variables, LSB’s home mortgage lending performance demonstrates reasonable penetration to borrowers of all income levels.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: North AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	17.2	11.9	21	9.2	733	3.3
Moderate	19.0	21.9	38	16.7	1,921	8.6
Middle	26.9	22.0	59	25.9	5,231	23.4
Upper	36.9	35.6	100	43.9	13,297	59.4
Not Available	0.0	8.5	10	4.4	1,204	5.4
Totals	100.0	100.0	228	100.0	22,386	100.0

*Source: 2010 U.S. Census; 1/1/2015 - 12/31/2015 Bank Data, 2015 HMDA Aggregate Data.
Due to rounding, totals may not equal 100.0*

Small Business Loans

The distribution of small business loans reflects excellent penetration of loans to businesses with GARs of \$1 million or less. The following table shows that 96.7 percent of the sampled loans were originated to businesses with GARs of \$1 million or less. This number surpasses the percent of businesses reporting revenue in this category and reflects excellent performance.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: North AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	82.7	29	96.7	1,099	82.1
>1,000,000	4.7	1	3.3	239	17.9
Revenue Not Available	12.6	0	0.0	0	0.0
Total	100.0	30	100.0	1,338	100.0

*Source: 2016 D&B Data, 1/1/2016 - 12/31/2016 Bank Data.
Due to rounding, totals may not equal 100.0*

COMMUNITY DEVELOPMENT TEST

LSB's community development performance demonstrates an adequate responsiveness to community development needs in the North AA, considering the institution's capacity, as well as the need and availability of such community development opportunities in the North AA.

Community Development Loans

LSB extended 10 community development loans in the North AA totaling over \$2.2 million. The loans were granted or renewed to six different entities, focused on affordable housing, economic development, and revitalizing or stabilizing the AA's underserved middle-income non-metropolitan geographies. Examples are detailed below:

- Four loans were made or renewed with the purpose of purchasing or maintaining multi-family property that provides for affordable housing.
- One loan was granted for the purchase of a business. The loan promoted economic development by supporting permanent job creation or retention for persons who are currently LMI.
- One loan was granted for the construction of a sanitary sewer lift station. This piece of essential infrastructure serves community residents, including LMI residents, and revitalizes or stabilizes the underserved middle-income non-metropolitan geography in which it was built.

Qualified Investments

Qualified investments and donations were made by LSB within the North AA in an effort to provide for community services to LMI individuals and revitalize or stabilize underserved middle-income non-metropolitan geographies by attracting and retaining businesses and residents. In total, LSB made 80 qualified investments totaling over \$2.4 million, which benefitted this AA. Qualified equity investments include the following:

- Two new bonds totaling \$300,000 used to improve essential street and sewer infrastructure in an underserved middle-income non-metropolitan CT.
- Nine continued bond issues that were used to build a fire station, which facilitated the construction of public safety infrastructure in an underserved community.

The qualified investment total also includes approximately \$23,000 of contributions made through 52 donations. Examples of organizations in this AA that were granted funds during the review period include:

- Three organizations that provide nutritious food and grocery products, as well as provide hunger education to LMI individuals.
- A non-profit entity that serves LMI families in four counties in the bank's North AA that provides early childhood education family services, regional transit, family planning, and energy assistance. Through providing monies to this organization, they have met an identified community need as the community contact indicated an identified need was affordable transportation in the North AA.
- An organization that provides ongoing education for existing and new dairy farmers as it serves as a public education facility in an underserved community. LSB's donation to this organization is responsive when considering the agricultural education need identified by the community contact.

Community Development Services

During the evaluation period, bank members provided 35 qualifying services, dedicating 884 hours in the North AA. A majority of this activity was related to revitalizing or stabilizing the AA's underserved CTs. Examples of the types of community development services provided by the bank in this AA are detailed as follows:

- Serving on a housing committee that reviews housing applications, grant programs, and eligibility requirements for individuals who are primarily LMI.
- Using banking expertise by doing the budgeting for an organization that provides essential public safety to an underserved middle-income non-metropolitan geography.
- Facilitating education through financial literacy training at a school in an underserved middle-income non-metropolitan CT.

Retail banking services provided in the AA are consistent with what has already been described in the overall bank-wide performance.

CONCLUSIONS ON PERFORMANCE CRITERIA SOUTH AA

LENDING TEST

For the South AA, primary weight is given first to home mortgage lending and secondary weight is provided to small farm and small business lending in the Lending Test. Home mortgage lending is significantly more prominent in the South AA and has seen large growth since the last evaluation.

Geographic Distribution

LSB's geographic distribution of loans reflects reasonable dispersion throughout the South AA, with particular emphasis placed on the bank's record of lending in the LMI CTs.

Home Mortgage Loans

The geographic distribution of home mortgage loans reflects reasonable dispersion throughout the AA. Examiners focused on the comparison to aggregate data. The following table shows that the bank's performance in low-income CTs of 0.3 percent is comparable to the aggregate level of 0.5 percent. However, lending in moderate-income geographies trails comparable peer data by 1.9 percentage points. Review of 2010 Census data shows limited opportunity for lending in the LMI CTs; a vast percentage of homes in these CTs are non-owner occupied. A review of 2015 HMDA aggregate data also noted that 100 different lenders reported originated or purchased loans in the AA's LMI CTs. Management agreed that competition and bank branch proximity to the LMI tracts are also a factor in the ability to service these areas (these factors are described below in greater detail under Small Business Loans.) A review of 2016 HMDA data notes improved penetration in LMI tracts, and performance is considered reasonable.

Geographic Distribution of Home Mortgage Loans Assessment Area: South AA						
Tract Income Level	% of Owner-Occupied Housing Units	Aggregate Performance % of #	#	%	\$(000s)	%
Low	0.8	0.5	2	0.3	239	0.2
Moderate	4.1	2.8	6	0.9	475	0.3
Middle	33.3	31.7	171	25.1	38,748	27.9
Upper	61.8	65.0	502	73.7	99,302	71.6
Totals	100.0	100.0	681	100.0	138,764	100.0
<i>Source: 2010 U.S. Census; 1/1/2015 - 12/31/2015 Bank Data, 2015 HMDA Aggregate Data. Due to rounding, totals may not equal 100.0</i>						

Small Farm Loans

The geographic distribution of small farm loans reflects reasonable dispersion throughout the South AA. The following reveals that LSB did not originate any sampled small farm loans in the AA's LMI CTs. However, this distribution is reasonable considering these tracts lie within the Des Moines metropolitan area, where limited agricultural opportunities exist. Comparative demographic data reveals there are a nominal number of farms residing in these tracts as well.

Geographic Distribution of Small Farm Loans Assessment Area: South AA					
Tract Income Level	% of Farms	#	%	\$(000s)	%
Low	1.5	0	0.0	0	0.0
Moderate	2.3	0	0.0	0	0.0
Middle	43.8	3	33.3	225	21.1
Upper	52.4	6	66.7	843	78.9
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	9	100.0	1,068	100.0
<i>Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data. Due to rounding, totals may not equal 100.0</i>					

Small Business Loans

The following table illustrates that the institution did not originate any sampled small business loans in the South AA's LMI CTs. Examiners did perform a review of the entire South AA small business loan universe (68 loans) and identified one loan originated in a moderate-income CT. D&B benchmark data shows that 2.1 percent and 8.2 percent of AA businesses operate in low-income and moderate-income CTs, respectively. This ultimately shows there are a limited number of lending opportunities in these tracts. However, LSB's performance is still considered reasonable given further analysis.

When previously describing this AA, it was noted that there are 35 institutions operating from 96 locations within the AA, with LSB possessing 1.1 percent in market share. According to Report of Condition data filed by financial institutions, in 2015, 7 banks operated 8 branches in the AA's LMI CTs. Both of LSB's South AA branches are located in upper-income CTs; the Clive branch is the closest location to a low- or moderate-income CT, at five miles away. Management agreed that competition and office proximity are factors, in addition to the fact that commercial lending is a

secondary business focus. Finally, management stated much of its commercial business has resulted from realtor relationships, most wanting a deposit relationship close to a branch. Management is hoping that adding more Remote Deposit Merchants will increase business lending relationships throughout the South AA, including the LMI CTs.

Community contacts had a positive perception of local financial institutions and indicated that credit needs are being met.

Geographic Distribution of Small Business Loans					
Assessment Area: South AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	2.1	0	0.0	0	0.0
Moderate	8.2	0	0.0	0	0.0
Middle	35.2	6	33.3	1,290	52.6
Upper	54.4	12	66.7	1,164	47.4
Totals	100.0	18	100.0	2,454	100.0

*Source: 2016 D&B Data; 1/1/2016 - 12/31/2016 Bank Data
Due to rounding, totals may not equal 100.0*

Borrower Profile

LSB has a reasonable penetration of lending to individuals of different income levels and to businesses and farms of different revenue sizes in the South AA. Examiners focused primarily on the percentage by number of loans to LMI home mortgage borrowers and the percentage by number of small farm and small business loans to entities with GARs equal to or less than \$1 million.

Home Mortgage Loans

The distribution of home mortgage loans to applicants of different income levels, including LMI borrowers, is reasonable. Examiners primarily focused on the comparison to aggregate data benchmarks, though consideration was also given to other factors. Given the performance context, LSB’s home mortgage lending is reasonable and demonstrates the institution’s commitment to lend to borrowers of all income levels in the South AA. Similar performance was noted at the 2014 evaluation.

As demonstrated in the following table, lending penetration to low-income home mortgage borrowers at 0.7 percent by number is less than 2015 HMDA Aggregate Lending data at 4.1 percent. However, the bank’s lending patterns are determined reasonable when considering that 3.3 percent of families in the AA are below poverty level. These families would be included within the low-income category, accounting for 28.5 percent of that income classification. Based on calculations derived from the average median housing values within the AA and industry-standard underwriting criteria, these families are likely to experience difficulty qualifying for home loans due to monthly payment and down payment requirements. Management agreed that affordability can be an obstacle for low-income borrowers.

HMDA data for 2015 also reveals that bank lending trails aggregate data in relation to moderate-income borrowers. A review of 2016 HMDA data shows a decreasing trend; however, management pointed out that although lending penetration to moderate-income borrowers decreased by 1.0 percentage point, the number of loans increased by 36.7 percent (49 loans in 2015 to 67 loans in 2016). Management stated the overall increase in volume of 2016 home mortgage lending was the result of significant refinance activity. As detailed previously in this evaluation, LSB offers various financing programs to assist

borrowers in qualifying for conventional mortgage lending, including LMI individuals. Lastly, competition in this AA is strong, with aggregate data showing 318 different lenders reporting loan originations or purchases in this AA for 2015.

Distribution of Home Mortgage Loans by Borrower Income Level						
Assessment Area: South AA						
Borrower Income Level	% of Families	Aggregate Performance % of #	#	%	\$(000s)	%
Low	11.6	4.1	5	0.7	376	0.3
Moderate	14.0	14.5	49	7.2	5,850	4.2
Middle	22.1	23.0	146	21.4	20,569	14.8
Upper	52.3	41.8	441	64.8	91,528	66.0
Not Available	0.0	16.6	40	5.9	20,441	14.7
Totals	100.0	100.0	681	100.0	138,764	100.0
<i>Source: 2010 U.S. Census; 1/1/2015 - 12/31/2015 Bank Data, 2015 HMDA Aggregate Data.</i>						
<i>Due to rounding, totals may not equal 100.0</i>						

Small Farm Loans

The distribution of small farm loans reflects reasonable penetration of loans to farms with GARs of \$1 million or less. The following table shows that all of the sampled loans were originated to farms with GARs of \$1 million or less. This number compares reasonably to the percent of farms in this revenue category. This level of lending reflects reasonable performance when considering the low volume of loans available for this analysis.

Distribution of Small Farm Loans by Gross Annual Revenue Category					
Assessment Area: South AA					
Gross Revenue Level	% of Farms	#	%	\$(000s)	%
<=\$1,000,000	96.0	9	100.0	1,068	100.0
>1,000,000	2.5	0	0.0	0	0.0
Revenue Not Available	1.5	0	0.0	0	0.0
Total	100.0	9	100.0	1,068	100.0
<i>Source: 2016 D&B Data, 1/1/2016 - 12/31/2016 Bank Data.</i>					
<i>Due to rounding, totals may not equal 100.0</i>					

Small Business Loans

Sampling results show the bank's lending performance is lower than, but still comparable and reasonable to, demographic data for businesses of \$1 million or less in GARs. D&B Corporation data indicates that 82.8 percent of AA businesses generated \$1 million or less in GARs. Of the sampled small business loans within the bank's AA, 72.2 percent by number were extended to small business operations of \$1 million or less in GARs. However, the number of loans advanced to business operations generating over \$1 million is higher than the percentage of those reporting businesses at that level.

Though lending patterns to smaller businesses do not mirror available demographics, it is important to consider that lending opportunities to smaller entities can be limited due to the size of operations and a

lack of need for financing. One must also recognize that D&B Corporation data noted 10.8 percent of the businesses located within the AA did not report any revenues. This larger percentage ultimately has a contracting effect on other percentages.

Management explained that LSB’s business strategy has not primarily focused on commercial lending, and for loans originating, the emphasis has been term loans as opposed to short term operating. With this said, management felt that many of these term loans go to entities owning real assets and likely generating a larger amount of income. Management also agreed that competition is heavy for small business lending. An AA community contact also stated that small business owners are finding alternative financing sources for small business needs. Overall, LSB’s distribution of loans to businesses of smaller revenues is reasonable, reflecting management’s commitment to the local commercial sector.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Assessment Area: South AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
<=\$1,000,000	82.8	13	72.2	1,153	47.0
>1,000,000	6.4	4	22.2	828	33.7
Revenue Not Available	10.8	1	5.6	473	19.3
Total	100.0	18	100.0	2,454	100.0
<i>Source: 2016 D&B Data, 1/1/2016 - 12/31/2016 Bank Data. Due to rounding, totals may not equal 100.0</i>					

COMMUNITY DEVELOPMENT TEST

LSB’s community development performance demonstrates an adequate responsiveness to community development needs in the South AA, considering the institution’s capacity, as well as the need and availability of such community development opportunities in the AA.

Community Development Loans

Five loans totaling approximately \$8.9 million were extended by LSB benefitting the South AA. These loans were granted to four different entities, all in an effort to provide affordable housing to LMI individuals.

Qualified Investments

Qualified investments in the South AA were limited to donations. Approximately \$13,000 of contributions was made through 22 donations. Examples of organizations in this AA that were granted funds during the review period include:

- An organization involved in actively nurturing business growth in an AA community.
- A non-profit organization that provides many services for LMI individuals. The services include an emergency food pantry, home energy assistance, and budget counseling for utilities and telephone services.

Community Development Services

LSB provided 13 services to 3 different organizations in the South AA during the review period. All technical expertise services provided were to organizations that provide community services to LMI individuals or promote economic development. Specifically, three bank members have volunteered their time to three organizations for a total of 269 hours. These individuals have served as Board members or provided financial education. Retail banking services provided in the AA are consistent with what has already been described in the overall bank-wide performance.

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 non-metropolitan 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.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms;
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved non-metropolitan middle-income geographies; or
- (5) Enable or facilitate projects or activities that address needs regarding foreclosed or abandoned residential properties in designated target areas.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Bank CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that

(1) Has as its primary purpose community development; and

(2) Except in the case of a wholesale or limited purpose bank:

- (i) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
- (ii) Benefits the bank's assessment area(s) or a broader statewide or regional area including the bank's assessment area(s).

Community Development Service: A service that

(1) Has as its primary purpose community development;

(2) Is related to the provision of financial services; and

(3) Has not been considered in the evaluation of the bank's retail banking services under § 345.24(d).

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.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

(1) an unemployment rate of at least 1.5 times the national average;

(2) a poverty rate of 20 percent or more; or,

(3) a population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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).

Family Income: Includes the income of all members of a family that are age 15 and older.

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and non-metropolitan 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 (for example, geographic distribution, borrower profile, and total number and dollar amount of investments), and qualitative factors (for example, 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 Disclosure Loan Application Register (HMDA LAR): The HMDA LARs record all applications received for residential purchase, refinance, home improvement, and temporary-to-permanent construction loans.

Home Mortgage Loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multi-family (five or more families) dwelling loans, loans to purchase manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households are only one person, median household income is usually less than median family income.

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 (for example, 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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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.

Micropolitan Statistical Area: CBSA associated with at least one urbanized area having a population of at least 10,000, but less than 50,000.

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.

Non-metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan 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 non-metropolitan 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.

Qualified Investment: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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 Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

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.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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.