

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

LAPEER COUNTY BANK & TRUST CO.

RSSD Number: 184142

83 W. Nepessing Street
Lapeer, Michigan 48446-0250

FEDERAL RESERVE BANK
OF CHICAGO

230 South LaSalle
Chicago, Illinois 60604

Note: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income families, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **F&M Bank-Brodhead, Brodhead, Wisconsin** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of September 22, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated Satisfactory.

F&M Bank-Brodhead reasonably serves the assessment area in which it operates, in a manner consistent with its asset size, financial capacity and current assessment area economic conditions. The bank meets community credit needs primarily through its origination of real estate, small business, small farm and consumer loans.

The bank's loan-to-deposit ratio is representative of the bank's willingness to meet community credit needs. In addition, a substantial majority of all loans in the CRA loan sample are extended within the bank's assessment area. The bank's loan penetration to businesses and farms with gross annual revenues of \$1 million or less is strong. The bank's extension of real estate loans to low- and moderate-income borrowers is reasonable considering the demographics of the bank's assessment area. There was no evidence of discriminatory lending practices, or policies intended to discourage individuals from applying for loans offered by the bank.

DESCRIPTION OF INSTITUTION

F&M Bank-Brodhead, with total assets of \$ 30.3 million as of June 30, 1998, is a wholly-owned subsidiary of F&M Bancorporation Inc., a multi-bank holding company located in Kaukauna, Wisconsin, with total assets of \$1.8 billion as of June 30, 1998. The bank has one location and offers full loan and deposit services. Additionally, the bank has an automated teller machine in a local grocery store. There are no financial or legal impediments that might affect the institution's ability to meet the credit needs of its assessment area. The Federal Deposit Insurance Corporation most recently evaluated the bank's CRA performance on January 17, 1995; the bank's performance was satisfactory.

The bank's primary competition is from The Bank of Brodhead and a branch of the Bank of New Glarus in Brodhead, known locally as the Sugar River Bank of Brodhead. Based upon the bank's June 30, 1998 Consolidated Report of Condition, loans constituted \$23,053M or 76 percent of total assets. Table 1 reflects the composition of the bank's loan portfolio as of that date:

Loan Type	Amount (\$000)	Percent of Total
Multiple and 1-4 Family Real Estate	8,700	38
Consumer loans	4,671	20
Commercial Real Estate	3,867	17
Agricultural or Farmland	3,672	16
Commercial	2,030	9
Credit Cards	108	<1
Other	5	<1
TOTAL	23,053	100

As illustrated above, the largest portion of the bank's loan portfolio is residential real estate lending. Consumer, commercial real estate and agricultural lending comprise the next largest categories of lending. Credit card lines of credit are available through Elan Financial Services of Illinois in Milwaukee, Wisconsin.

DESCRIPTION OF ASSESSMENT AREA

Brodhead is located in south central Wisconsin, approximately 30 miles west of Janesville, Wisconsin. The bank's assessment area is comprised of four geographies; two block numbering areas (BNAs) in Green County and two census tracts in Rock County. Although both counties are predominantly rural, Rock County is a part of the Janesville-Beloit Metropolitan Statistical Area (MSA). All of the geographies in the bank's assessment area are middle-income.

The population of Brodhead is 3,165, based upon 1990 census data. The bank’s assessment area population is 14,862. Both Rock and Green Counties have experienced steady population growth over the past few years. Between 1990 and 1995, Rock County grew 6.1 percent and Green County grew by 6.9 percent. A local government official indicated that the population of Brodhead has also experienced steady growth over the last 10 years.

The median family income for the assessment area is \$35,034, which is consistent with median family incomes of \$35,082 for the State of Wisconsin and \$35,605 for the Janesville MSA. The median family income for all non-metropolitan areas statewide is considerably lower at \$30,290. Table 2 details the general demographic and economic characteristics of the bank’s assessment area based upon 1990 census data:

Table 2 F&M BANK-BRODHEAD ASSESSMENT AREA CHARACTERISTICS	
Tract Summary	
Total Number of Tracts	4
Number of Middle-Income Tracts	4
Income Summary	
Median Family Income	\$35,034
Percent Low-Income Families	14.8
Percent Moderate-Income Families	18.2
Percent Middle-Income Families	26.0
Percent Upper-Income Families	40.9
Miscellaneous Information	
Total Population	14,862
Percentage of Families Below Poverty	6.2
Total Housing Units	5,510
Percentage of Owner Occupied Units	71.6
Percentage of Rental Units	23.0
Percentage of Vacant Units	5.4
Median Housing Value (Assessment Area)	\$50,866
Median Housing Value (Non-metro: WI)	\$50,092
Median Housing Value (Janesville MSA)	\$52,458
Median Housing Value (State: WI)	\$62,141

The assessment area economy is strong. Census data indicates that approximately 67 percent of the families in the assessment area are considered middle- or upper-income. The percentage of families living below the poverty level within the assessment area at 6.2 percent is low compared to the state at 7.6 percent, Janesville-Beloit MSA at 7.8 percent and all statewide non-metropolitan areas at 7.9 percent.

The area’s major employers are Woodbridge Corporation (seat cushion manufacturer) with 250

employees, Knight Manufacturing (farm equipment) with 190 employees and Stoughton Composites (semi-trailer manufacturer) with 110 employees. The business climate for these businesses is relatively strong; however, Stoughton Composites recently announced that it was slowing down its operations for the next few months due to low demand, according to one community representative. This representative was not aware of any significant job loss as a result of the slowdown. A significant number of Brodhead residents commute to Janesville, Monroe, Beloit and other surrounding communities to work.

Recent unemployment rates (October 1998) of 2.4% and 3.4% for Green and Rock Counties, respectively, are consistent with levels noted one year ago of 2.2% and 3.4%, respectively. The unemployment rates for the State of Wisconsin and the Janesville-Beloit MSA are 3.4% and 3.8%, respectively. These rates are also consistent with the levels noted one year ago of 3.6% and 3.7%, respectively. Rates within the state reflect an overall strong economy with significantly low levels of unemployment in comparison to historic levels, coupled with a rise in the total labor force.

Various types of farming operations also support the area economy; these include milk, beef cattle and hog production as well as corn and soybean crops. Decreasing commodity prices have had a significant impact on a number of local farmers. A discussion with a local civic leader revealed that one area farmer has had a 20 percent decrease in revenues compared to the previous year. Approximately 95 percent of area farms are small, independent operations. There are also a few large corporate farming operations within a six-mile radius of Brodhead.

There are 5,510 housing units in the assessment area, of which 3,945 or 71.6 percent are owner-occupied. Single family units comprise 84.4 percent of the housing in the assessment area, according to 1990 census data. By comparison, the owner-occupancy rate for all non-metropolitan areas within the state is 57.1 percent; 74.8 percent of the housing supply is single-family. The assessment area's median housing age is 45 years compared to 30 years for all non-metropolitan areas statewide. Area housing has been increasing in value over the past few years. An area representative familiar with the local residential real estate market indicated that the majority of homes for sale are priced at \$90,000 or more. The increasing number of people moving from larger cities to Brodhead has driven up property values.

The housing affordability ratio¹ for the assessment area is 61 percent compared to 47 percent for the State of Wisconsin, 58 percent for the Janesville MSA and 51 percent for all non-metropolitan areas statewide, based upon 1990 census data. These ratios imply that housing is more affordable within the bank's assessment area compared to the statewide and the MSA levels. However, there is a shortage of homes in the range of \$60,000 to \$80,000 that would be more affordable for young families, according to a community representative familiar with the local residential real estate market.

¹ The affordability ratio is calculated by dividing the area's median household income by the area's median housing value.

Community representatives indicated that there is a shortage of homes available for rent, particularly duplexes. In addition, there are a significant number of apartments for rent; however, the apartments are not large enough for a family of four or more. As a result, rents are relatively high with newer units having rents of up to \$650 a month. Families may be forced to rent in other generally larger communities, due to the shortage of rental housing. Some workers commute to Brodhead from as far away as Rockton, Illinois and Janesville, Wisconsin.

A significant number of new housing developments are underway within the community. The average price of a new home in Brodhead is between \$130,000 and \$160,000. Developers seek to attract people from other areas including Madison, Wisconsin. Brodhead has many features that make it an attractive community. The community has a good school system for grades Kindergarten through 12. In addition, the fire and police departments facilities, and a \$6 million wastewater facility are new within the last five years. Finally, a new city hall will be constructed within the next year.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Reviews of the bank's loan portfolio and a sample of recent loan originations were conducted to analyze the bank's loan performance with respect to volume, geographic distribution, and borrower income characteristics.

LOAN-TO-DEPOSIT RATIO

Lending levels reflect an excellent responsiveness to credit needs within the bank's assessment area. The bank's average net loan-to-deposit ratio for the previous eight reporting quarters is 78.57 percent. This ratio compares favorably to that of the bank's national peer group and a local competitor (\$76.7 million dollars in total assets) which were 63.15 percent and 64.33 percent, respectively.

Discussions with community representatives conducted during the examination revealed that the volume and distribution of the bank's loan portfolio is consistent with current community credit needs, such as residential real estate mortgage, consumer and agricultural loans. The bank's loan volume as evidenced by its average loan-to-deposit ratio exceeds the standards for satisfactory performance.

LENDING IN ASSESSMENT AREA

A substantial dollar amount and percentage of the bank's total lending occurs within its assessment area. The analysis was based upon three loan samples: residential real estate, small business and small farm loans. This performance criterion measures the number and amount of

the bank’s home mortgage, small business and small farm loans originated within its assessment area. Small business loans are defined as those originations in amounts of \$1 million or less and small farm loans are defined as those originations in amounts of \$500,000 or less. Small farm and small business originations are further analyzed to emphasize lending to those businesses and farming operations with gross annual revenues of \$1 million or less. The sample of loan originations included those originated between February 1, 1998 and July 31, 1998. Table 3 details by product type, the percentage and dollar amount of loans that were originated within the bank’s assessment area:

Table 3 Loans Within the F&M Bank–Brodhead’s Assessment Area (AA)										
Loan Product	Total Originations		Within AA (By Loan Amt)				Within AA (By Rev Size)			
	#	\$(000s)	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential RE	28	1,639	23	82	1,365	83	23	82	1,365	83
Small Business	35	1,056	31	89	974	92	31	89	974	92
Small Farm	25	819	18	72	540	66	18	72	540	66
TOTALS	88	3,514	88	82	2,879	82	72	82	2,879	82

The bank’s performance with respect to lending within its assessment area meets the standard for satisfactory performance. The bank’s assessment area is primarily home to businesses and farms with gross annual revenues of \$1 million or less. Accordingly, it is reasonable to expect that the credit requirements of these businesses and farms would not exceed \$1 million.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The CRA loan sample was also reviewed to determine the bank’s distribution of loans among borrowers of different income levels and to businesses and farms of different revenue sizes. Median family income figures were based upon 1990 census data. Families with income levels of less than \$17,517 are classified as low-income, \$17,517 to less than \$28,027 are moderate-income, \$28,027 to less than \$42,041 are middle-income, and incomes of \$42,041 or above are classified as upper-income.

A review of the bank’s residential real estate loans revealed that of the 23 loans originated within the bank’s assessment area, 7 (30 percent) went to moderate-income borrowers, 3 (13 percent) went to middle-income borrowers and 13 (57 percent) went to upper-income borrowers. This distribution is reasonable considering the high prices of homes in the area. A community representative employed in residential real estate sales indicated that the majority of homes for sale within Brodhead and surrounding communities in the last year have been priced at \$90,000 or more. There is a shortage of affordable homes, particularly in the range of \$60,000 to \$80,000. It is unlikely that a low-income family could afford to purchase a significant number of available homes within this community based upon current market prices. The distribution of loans to borrowers of different income levels is reasonable.

A sample of 35 small business loan originations and renewals was reviewed to evaluate the bank's distribution of lending to businesses of different sizes within its assessment area, particularly to those with revenues of less than \$1 million. Of the 31 small business loans originated within the bank's assessment area, 31 (100 percent) were for amounts of \$1 million or less and 27 (87 percent) went to businesses with gross annual revenues of \$1 million or less. In addition, 30 of the 31 loans to small businesses, or 97 percent, were for amounts of \$100,000 or less. The majority of businesses located in the bank's assessment area are considered to be small. The distribution of loans to small businesses is strong given the local demand. In addition, the significant number of smaller loan amounts indicates the bank's willingness to meet the credit needs of its commercial borrowers.

A sample of 25 new and renewed agricultural loans was reviewed to evaluate the bank's distribution of lending to farms of different sizes within its assessment area, particularly to small farms. The farmers within the bank's assessment area are primarily small, independent operations. Of the 18 agricultural loans originated within the bank's assessment area, 18 (100 percent) were for amounts of \$500,000 or less and 18 (100 percent) went to farms with gross annual revenues of \$1 million or less. In addition, 17 of the 18 loans to small farms, or 94 percent, were for amounts of \$100,000 or less. The analysis indicates the bank's willingness to meet the credit needs of the agricultural borrowers within its assessment area.

The bank's loan penetration to borrowers of different income levels and businesses and farms of different sizes is consistent with the demographics of the assessment area and local demand. The bank's performance meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

There are no designated low- or moderate-income geographies located within the assessment area in which lending activity could be analyzed; therefore, this criterion is not rated.

RESPONSE TO COMPLAINTS

The bank has received no complaints regarding its CRA performance since the previous examination.

GENERAL

The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.