PUBLIC DISCLOSURE

July 26, 1999
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M Bank-Cannon Valley
Name of Depository Institution

126955
Identification Number of Institution

Dundas, Minnesota
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

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 neighborhoods, consistent with the safe and sound operation 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-Cannon Valley, Dundas, Minnesota, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of July 26, 1999. 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 CRA RATING: "Satisfactory."

The CRA evaluation revealed several factors that support rating the bank's CRA performance as satisfactory. First, the bank's net loan-to-deposit ratio is very high. Second, the bank's lending to low- and moderate-income borrowers, small businesses, and small farms is good. Third, the geographic distribution of the bank's lending is reasonable. Finally, the bank originates a significant majority of its loans to assessment area residents, businesses, and farms.

DESCRIPTION OF INSTITUTION

The bank is able to meet community credit needs effectively based on its size and product offerings. The bank received an outstanding CRA rating at its last evaluation as of August 28, 1997, which was conducted by the Federal Deposit Insurance Corporation. The bank became a member of the Federal Reserve System and subject to supervision by the Federal Reserve Bank of Minneapolis ("Reserve Bank") on July 1, 1998 ("membership date").

Offices

The bank operates its main office and an automated teller machine ("ATM") in Dundas, Minnesota. The main office is a full-service office, which is located in upper-income block numbering area ("BNA") 9705 in Rice County. The bank's ATM, located at the drive-up facility, is a cash-dispensing machine. The bank has neither closed nor opened any offices since the last evaluation.

The bank has expanded office hours to serve the banking needs of the residents, businesses, and farms of the assessment area. Its lobby hours are 8:00 a.m. to 4:00 p.m. on Monday, Tuesday, Wednesday, and Friday; 8:00 a.m. to 6:00 p.m. on Thursday; and 8:00 a.m. to noon on Saturday. The bank's drive-up facility hours are 7:30 a.m. to 5:00 p.m. on Monday, Tuesday, Wednesday, and Friday; 7:30 a.m. to 6:00 p.m. on Thursday; and 8:00 a.m. to noon on Saturday.

The bank provides access to its services through three alternative delivery methods. First, it operates one ATM, as previously mentioned. Second, it provides services through the 24-Hour Telebank, which is a telephone banking service. Through this service, customers have can obtain credit and deposit account information, transfer funds between accounts, and obtain rate and product information. Finally, the bank also offers debit cards to its customers.

Loan Portfolio

The bank's size does not restrict its ability to fulfill the credit needs of residents, businesses, and farms in the assessment area. Since July 1, 1998, the bank's assets and deposits have fluctuated and declined slightly while net loans have increased. According to the March 31, 1999, Report of Condition ("ROC"), the bank's assets totaled approximately $28.6 million. Since membership date, the bank's assets have decreased slightly from $28.7 million. The bank's net loan portfolio increased 4.3% and deposits decreased 1.8 % since membership date.

The structure of the bank's loan portfolio has not significantly changed since membership date. The bank's loan portfolio is primarily apportioned among consumer real estate, commercial, and agricultural loans. According to its March 31, 1999, ROC, the distribution of the bank's loans is 27% consumer real estate, 25% commercial, 36% agricultural, and 12% consumer and other loans.

Credit Products

The bank offers a variety of loan products designed to serve the credit needs of residents, businesses, and farms in its assessment area. Its products include conventional agricultural, commercial, consumer, and consumer real estate loans. The bank originates closed-end consumer loans for a variety of purposes. It also extends consumer home equity and overdraft checking lines of credit. The bank offers a variety of conventional real estate loan products, including home purchase, improvement, and refinance loans. It sells some of its real estate loans to the secondary market. Finally, the bank extends both closed-end and open-end conventional agricultural and commercial loans.

Although the bank offers a variety of conventional loan products, it also offers loans through government loan programs. It offers loans guaranteed or insured by the Small Business Administration, Federal Home Administration, Department of Veterans Affairs, and Farm Service Agency. It also offers agricultural loans through the Dakota Mac program. Through its conventional and government loan programs, the bank offers loan products designed to meet the assessment area's credit needs.

Community Development Services and Investments

The bank supports local community development efforts through providing services and donations. Since the last evaluation, the bank continued to conduct homeownership classes directed towards low- and moderate-income residents of the assessment area. The bank has also supported the efforts of a local nonprofit organization that assists developmentally disabled persons in finding employment. Since the last evaluation, the bank has also made several donations to organizations engaged in community development efforts.

Evaluation Procedures

Given the bank's asset size, this Reserve Bank evaluated the bank's CRA performance using the small bank evaluation procedures. The small bank evaluation procedures apply to banks that, as of December 31 of either of the prior two calendar years, had total assets of less than $250 million and were independent or an affiliate of a holding company that, as of December 31 of either of the prior two calendar years, had total banking and thrift assets of less than $1 billion. The bank became a subsidiary of F&M Bancorporation, Inc., Kaukauna, Wisconsin, on January 28, 1998. Thus, it neither had assets of $250 million or more nor was an affiliate of a holding company that had banking and thrift assets of $1 billion or more as of December 31, 1997, and 1998.

DESCRIPTION OF F&M BANK'S ASSESSMENT AREA

The bank has defined its assessment area as parts of Rice and Dakota counties in Minnesota. The assessment area is in east central Minnesota and includes a southern section of the Minneapolis-St. Paul, Minnesota, metropolitan statistical area ("MSA"). The geographies in the assessment area are Rice County BNAs 9701, 9702, 9704, 9705, 9706, and Dakota County census tract ("CT") 615. The cities and towns in the assessment area are Dundas, Northfield, Nerstrand, Moland, Webster, and Waterford, Minnesota. Northfield is the largest city in the Rice County section of the assessment area. The bank has modified its assessment area to include BNA 9704 since the last evaluation.

CRA divides income levels into four categories: low, moderate, middle, and upper. For that part of the assessment area that is located in the MSA, the categorization of a borrower or CT's income is determined relative to the MSA median family income. For that part of the assessment area that is located outside the MSA, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income for Minnesota. The regulation defines low-income borrowers as those with incomes of less than 50% of the relevant median family income, while moderate-income borrowers have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income borrowers as persons with incomes of at least 80% but less than 120% of the MSA or statewide nonmetropolitan median family income. Borrowers with incomes of 120% or more of the MSA or statewide nonmetropolitan median family income are classified as upper-income persons. CT and BNA income classifications are based on the same standards.

For purposes of classifying borrowers' incomes, this evaluation uses the Department of Housing and Urban Development's estimated 1999 median family income for the relevant area. The 1999 MSA median family income is $63,600 and the statewide nonmetropolitan area median family income for Minnesota is $41,600. For purposes of classifying CT and BNA income levels, this evaluation uses the MSA and statewide nonmetropolitan area's median family income from the 1990 U.S. Census. For the MSA and statewide nonmetropolitan area of Minnesota, respectively, the 1990 median family incomes are $43,063 and $28,933.

The following table shows the income ranges for borrowers and geographies for the assessment area.

INCOME RANGES FOR BORROWERS AND GEOGRAPHIES				
	Borrower Income		***Geography Income***	
Income Classification	*Rice County Residents (Based on 1999 statewide nonmetropolitan median family income)*	*Dakota County Residents (Based on 1999 MSA median family income)*	*BNAs (Based on 1990 statewide nonmetropolitan median family income)*	*CT (Based on 1990 statewide MSA median family income)*
Low	less than $20,800	less than $31,800	less than $14,467	less than $21,532
Moderate	$20,800 up to $33,280	$31,800 up to $50,880	$14,467 up to $23,146	$21,532 up to $34,450
Middle	$33,280 up to $49,920	$50,880 up to $76,320	$23,146 up to $34,720	$34,450 up to $51,676
Upper	$49,920 and higher	$76,320 and higher	$34,720 and higher	$51,676 and higher

The table reveals the significant differences between Rice and Dakota counties for purposes of income classification. A borrower with an income of $30,000 would be classified as moderate income in Rice County but would be classified as low income in Dakota County. The assessment area's CT, located in the MSA, is not unlike the BNAs, which are rural in nature, but the income levels for classification purposes varies significantly. The 1990 median family income in the assessment area's CT is $41,838, which is not significantly higher than the median family income of BNA 9702.

The 1990 median household and family incomes for the assessment area are $34,002 and $39,157, respectively. The following table shows the income distribution of households and families in the overall assessment area.

INCOME DISTRIBUTION OF HOUSEHOLDS AND FAMILIES IN THE ASSESSMENT AREA									
	Low Income		**Moderate Income**		**Middle Income**		**Upper Income**		**Below Poverty Level Income**
	Number	***%***	***Number***	***%***	***Number***	***%***	***Number***	***%***	***%***
Assessment Area Households	1,518	16.0	1,073	11.3	1,613	17.0	5,275	55.7	8.7
Statewide Households		22.4		16.5		21.3		39.8	10.5
Assessment Area Families	827	11.6	999	13.9	1,529	21.3	3,816	53.2	5.6
Statewide Families		17.5		18.6		26.4		37.5	7.3

The table shows that the assessment area has significantly fewer low- and moderate-income households and families than Minnesota.

The assessment area is composed of five BNAs and one CT. It does not have any geographies classified as low- or moderate-income areas. Also, the assessment area does not have any middle-income areas that have median family incomes close to the level for classification as a moderate-income area. The following table sets forth data about the BNAs and CT in the assessment area.

INCOME DISTRIBUTION FOR THE ASSESSMENT AREA BY GEOGRAPHY					
Geography Income Classification	**Geography Income to Relevant Median Family Income**	**Population**		**Number of Families**	
		Number	***%***	***Number***	***%***
Middle-Income CT 615	97.2%	4,017	13	1,117	16
Middle-Income BNA 9704	119.0%	3,963	13	1,121	16
Upper-Income BNAs					
9701	128.3%	3,901	12	1,035	14
9702	144.1%	3,368	11	964	13
9705	141.2%	8,265	27	1,783	25
9706	137.2%	7,366	24	1,151	16
Total		30,800	100	7,171	100

The assessment area has a diverse economy. According to bank management, it has a healthy mix of industrial, retail, educational, and agricultural businesses. Dundas is a small, rural community, whose 1990 population was 473. Dundas is south of and adjacent to Northfield. Within a five-mile radius of downtown Northfield, an area that includes Dundas, an independent study showed that population growth will be strong during the 1990s, the average income of residents is somewhat above the national average, the unemployment rate is low, and the professional services sector is the most significant employment sector.

Northfield, the largest city in the assessment area, is a thriving community. It is home to two liberal arts colleges. Northfield's downtown is influenced by the city's proximity to the MSA, which is approximately 20 miles north of Northfield; many local residents travel to the MSA to work, shop and recreate. Another community attribute that influences the local business climate is the student population. The college students want coffee shops, bagel shops, and pizza delivery restaurants, but do not need high-end restaurants or stores locally. Apparently, if an occasion warrants dining at a fine restaurant or shopping for clothes, the college students travel to the MSA. As a result of these two influences, Northfield's proximity to the MSA and the student population, Northfield's downtown is composed of novelty shops, small restaurants, and coffeehouses.

Northfield has several large employers. Two of the most significant employers are the previously mentioned colleges. The colleges offer many high paying jobs and are important political players in the community. Other important local employers are Sheldahl, Inc., a manufacturing firm that employs many engineers, and Malt-O-Meal Company, a cereal manufacturing company.

The agricultural economy in Rice County is changing. Although primarily rural, the county is experiencing urban pressures. Apparently, more and more people from the MSA are purchasing land in Rice County. These people are willing to pay between $50,000 and $100,000 for an unimproved, three-acre lot. The increased demand for real property has resulted in higher farmland values. The value of land has increased to the point that there are few new entrants in the local agricultural market. Many current farm owners are maintaining their real estate holding in anticipation of a substantial windfall.

In Dakota and Rice counties, the agricultural producers primarily grow cash crops. These crops include feed corn, soybeans, seed corn, seed beans, sweet corn, and snap beans. Some Dakota County farmers also raise dairy cattle. In addition to the crops listed above, Rice County producers grow alfalfa, and some raise dairy cattle, beef cattle, and hogs. Agricultural prices are at historical lows. The government loan rates, which are essentially price floors, for many crops were triggered last year. The breakeven price for corn producers is between $2.20 and $2.40 per bushel and for beans is between $6.00 and $6.50 per bushel. The government loan rates for these crops are $1.75 and $5.12, respectively. Farmers with equity in their businesses can probably survive two more years of low prices. Dakota County farmers generally have strong equity positions. Rice County farmers also have strong equity positions, but are weaker than their Dakota County counterparts. The low prices are a disincentive for young people who want to enter the market.

Farm sizes are increasing in Rice and Dakota counties. This trend reflects the economies of scale that larger farms can achieve. The trend also reflects the high labor costs that Dakota and Rice county farmers must pay employees. Because the local farmers compete with MSA businesses for employees, the wage level is very high at $10.00 to $20.00 per hour not including benefits. In order to recoup labor costs, farmers must increase the size of their operations.

Dun & Bradstreet compiles business establishment data. Within the assessment area, 90% of the business establishments are commercial entities and 10% are agricultural entities. The July 1998 data show that 95% of the commercial business establishments and 97% of the agricultural business establishments have gross annual revenues of $999,999 or less.

As part of the evaluation, examiners interviewed a government official and agricultural specialist in the assessment area. These community contacts are familiar with the economic and demographic characteristics of the assessment area. The examiners used information from the community contacts and bank management to identify any potential unmet credit needs in the assessment area. The evaluation did not reveal any unmet community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. This evaluation is based on a review of the bank's lending performance in the assessment area. The overall analysis on the following pages is based on a sample of 75 consumer, 56 small business, and 52 small farm loans. The sample period for consumer and small farm loans was the six-month period preceding the evaluation. For small business loans, the sample period was the 12-month period preceding the evaluation. The following table shows the bank's loan activity since the last evaluation.

LOAN ORIGINATIONS SINCE LAST EVALUATION				
Loan Type	***Number***	***Percentage***	***Dollar Amount (In thousands)***	***Percentage***
Consumer	566	56	$4,506	11
Real Estate	119	12	$6,252	16
Commercial	149	15	$7,339	18
Agricultural	176	17	$22,445	55

The bank's CRA performance is based on three loan categories: consumer, commercial, and agricultural loans. Consumer loans were selected for review given the high number of such loans originated since the last evaluation. Small farm loans were selected for review because this loan category represents a relatively large proportion of the dollar amount of loans originated since the last evaluation. Small business loans rather than residential real estate loans were selected for review due to the number and dollar amount of loans originated since the last evaluation.

The evaluation of the bank's overall lending performance focused on several criteria: net loan-to-deposit ratio, lending inside the assessment area, the distribution of loans to borrowers of different income levels and businesses of different sizes, and the geographic distribution of loans. In assessing the bank's overall lending performance, the most weight was given to the bank's performance in the net loan-to-deposit ratio and distribution of loans to borrowers of different income levels and businesses of different sizes categories. The least weight was given to the lending inside the assessment area and the geographic distribution of loans categories.

<u>LOAN-TO-DEPOSIT RATIO ANALYSIS</u>

The bank's net loan-to-deposit ratio is very good. For the four calendar quarters since the last evaluation, the bank's net loan-to-deposit ratio is 95%. At the last evaluation, that bank's quarterly average net loan-to-deposit ratio was 78.7%. The following table, based on quarterly ROC data, shows the bank's net loans, deposits, and quarterly net loan-to-deposit ratio since the last evaluation.

DATE	**NET LOANS (In thousands)**	**DEPOSITS (In thousands)**	**NET LOAN-TO-DEPOSIT RATIO**
June 30, 1999	$23,536	$23,535	100%
March 31, 1999	$22,765	$22,973	99%
December 31, 1998	$22,476	$25,126	89%
September 30, 1998	$21,877	$24,025	91%

The bank sells residential real estate on the secondary market. In most cases, these loans are not reflected in the net loan data set forth in the above table.

The most recent Uniform Bank Performance Report shows that the bank's March 31, 1999, net loan-to-deposit ratio compares favorably with the bank's national peer group's ratio. The March 31, 1999, net loan-to-deposit ratio for the national peer group is 62.6%. The bank's 99% net loan-to-deposit ratio ranks the bank in the 99th percentile of its national peer group. Also, as of March 31, 1999, the bank's net loans-to-total assets ratio of 79.6% is higher than the 53.6% ratio for the bank's national peer group and the 60.9% average ratio for Minnesota financial institutions with assets between $25 million and $100 million.

The bank's average quarterly net loan-to-deposit ratio is higher than the ratios of its local competitors.

The following table lists the bank's and competitor's total assets and the quarterly average net loan-to-deposit ratios. The quarterly net loan-to-deposit ratios are for the periods between September 30, 1998, and March 31, 1999.

BANK AND COMPETITOR DATA		
BANK AND LOCATION	**TOTAL ASSETS March 31, 1999 (In thousands)**	**QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO**
F&M Bank-Cannon Valley Dundas, Minnesota	$28,609	93%
First State Bank of Castle Rock Castle Rock, Minnesota	$59,734	61%
Rural America Bank Lonsdale, Minnesota	$63,404	66%
First National Bank of Northfield Northfield, Minnesota	$68,304	68%
Community Bank Northfield, Minnesota	$71,949	69%

Financial information is not available for comparison with branches of regional banks operating in the assessment area.

The bank does not compete against any comparable financial institutions in the assessment area. Each of the competitor institutions listed in the table is significantly larger than the bank. Further, the composition of the competitor banks' loan portfolios differ from that of the bank. As of March 31, 1999, the bank's loan portfolio was 36% agricultural loans. Agricultural loans only represented between 10% and 25% of the competitors' loan portfolios.

Based on the bank's quarterly average net loan-to-deposit ratio, the bank's overall level of lending reflects very good responsiveness to the credit needs in the assessment area. The bank's quarterly average net loan-to-deposit ratio is very high and has increased slightly since the last evaluation. It remains higher than the ratios of the local competitors. Further, the bank's March 31, 1999, net loan-to-deposit ratio compares favorably with the bank's national peer group. The community contacts did not identify any unmet credit needs in the bank's assessment area. Consequently, the bank's overall lending activity, as evidenced by the quarterly average net loan-to-deposit ratio, exceeds the standards for satisfactory performance in this category.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity in the assessment area meets the standards for satisfactory performance. Loan data show that the bank originates a majority of loans inside its assessment area. The following table shows the percentages of loans that the bank extended inside and outside the assessment area for each sampled loan category by total number and dollar amount.

DISTRIBUTION OF LOANS INSIDE AND OUTSIDE THE ASSESSMENT AREA						
Loan Category	***Number of Loans***			***Dollar of Loans (000s)***		
	Inside Percentage	**Outside Percentage**	**Total**	**Inside Percentage**	**Outside Percentage**	**Total**
Consumer	73.3	26.7	100%	72.7	27.3	100%
Small Business	71.4	28.6	100%	51.5	48.5	100%
Small Farm	86.5	13.5	100%	79.8	20.2	100%
Total	76.5	23.5	100%			

The concentration of the bank's lending in the assessment area has changed since the last evaluation. At that time, the bank extended 94% of its small farm loans in the assessment area. The current evaluation, which is based on a different assessment area than the last evaluation, revealed that the bank is extending relatively fewer small farm loans in the assessment area; the bank has several large agricultural borrowers outside the assessment area. Nonetheless, at 76.5%, the overall concentration of lending in the assessment area is good.

Based on the concentration of lending in the bank's assessment area, the bank's performance in this category meets the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to borrowers of different income levels and to businesses of different sizes meets the standards for satisfactory performance.

Consumer Loan Data

The following table shows the percentages of consumer loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS* IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS**				
Loan Type	***Low-Income Borrowers***	***Moderate-Income Borrowers***	***Middle-Income Borrowers***	***Upper-Income Borrowers***
Consumer				
Total Number of Loans	14.5%	27.3%	21.8%	21.8%
Total Amount of Loans	8.7%	29.8%	25.3%	30.2%
*Income was not available for all loans in the CRA sample. Consumer borrowers for whom income was not available accounted for 14.6% of the sample. **Income level is based on the 1999 median family income of $41,600 for Minnesota's nonmetropolitan areas and $63,600 for the MSA.				

Consumer Loan Analysis

The bank's consumer lending to low- and moderate-income borrowers is very good when compared with the assessment area's demographics. As previously stated, low-income families and households represent 11.6% and 16.0% of the assessment area, respectively. Moderate-income families represent 13.9% and households represent 11.3% of the assessment area. A comparison of the assessment area's demographic data with the consumer loan data shows that the bank is serving a relatively high number of low- and moderate-income borrowers. Further, the bank's lending by dollar amount to moderate-income borrowers is very good. With respect to the dollar amount of consumer loans, the bank extends relatively smaller loans to borrowers with low incomes than to borrowers in other income categories. This appears to reflect the fact that low-income borrowers typically qualify for smaller loan amounts than borrowers in the other income categories.

As the data show, the bank actively extends consumer loans to low- and moderate-income borrowers. The bank services the credit needs of these borrowers by offering small dollar amount loans. Given that consumer loans represent more than a majority of the bank's loan originations since the last evaluation, the bank's performance in this lending category is given significant weight in determining the rating for this part of the evaluation.

Small Business and Small Farm Loan Data

The bank has a good distribution of small business and small farm loans to entities of different sizes. The bank makes the majority of its small business and small farm loans to entities with gross annual revenues of $1 million or less. For the purposes of this evaluation, small business loans are most commercial loans with original principal amounts of $1 million or less and small farm loans are most agricultural loans with original principal amounts of $500,000 or less. The loan sample reveals that the bank originated 87.5% of its small business loans and 100% of its small farm loans to entities with gross annual revenues of $1 million or less. The following table shows the distribution of the bank's small business and small farm loans by loan amount.

DISTRIBUTION OF SMALL BUSINESS AND SMALL FARM ORIGINATIONS BY LOAN AMOUNT

Loan and Borrower Type	***Loan Amount***			
	$100,000 or less	**$250,000 or less, but more than $100,000**	**$1 million or less, but more than $250,000**	**Total**
Small Business Loans	95.0%	5.0%	-	100%
-To borrowers with gross annual revenues of $1 million or less	97.1%	2.9%	-	100%
Small Farm Loans	77.8%	11.1%	11.1%	100%
-To borrowers with gross annual revenues of $1 million or less	77.8%	11.1%	11.1%	100%

Small Business and Small Farm Loan Analysis

The bank's small business and small farm lending is good. The bank's small business and small farm lending activity compares favorably with the lending performance of financial institutions reporting data for purposes of CRA. Pursuant to the CRA, independent banks with assets of $250 million or more and banks affiliated with a holding company with total bank and thrift assets of $1 billion or more must report small business and small farm loan data. Within the assessment area, 1998 reporting entities extended 69% of the small business loans and 92% of the small farm loans to entities with gross annual revenues of $1 million and less. Of the reported small business loans for 1998, 85% had original principal amounts of $100,000 or less and 8% had original principal amounts of more than $100,000, but less than or equal to $250,000. The comparable respective numbers for small farm loans are 81% and 13%.

Compared with the reporting institutions' aggregate data, the bank's lending to entities with gross annual revenues of $1 million or less is very good. In general, the bank's overall small business and small farm lending activity to small entities appears to reflect the bank's size and the assessment area's commercial and agricultural markets. Within the assessment area, most of the business and farm entities have gross annual revenues of $1 million or less. The bank extends relatively more small business loans but relatively fewer small farm loans in amounts of $100,000 or less than the reporting institutions.

Overall, the bank's lending to individuals of different income levels and to businesses and farms of different sizes is good. The bank extends a significant number of consumer loans to low- and moderate-income borrowers. Further, the bank's small business and small farm lending to entities with gross annual revenues of $1 million or less appears good considering the aggregate data for such loans; on the other hand, it merely reflects the characteristics of the bank's size and assessment area's commercial and agricultural markets. Consequently, the bank meets the standards for satisfactory performance in this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's level of lending to geographies of different income levels meets the standards for satisfactory performance. As previously discussed, the bank's assessment area is composed only of middle- and upper-income BNAs and CTs. The table shows the distribution of the bank's loans in geographies of different income levels

GEOGRAPHICAL DISTRIBUTION OF LOANS				
	Middle-Income Areas		***Upper-Income Areas***	
Loan Type	**Number of Loans**	**Dollar Amount of Loans**	**Number of Loans**	**Dollar Amount of Loans**
Consumer	20.0%	28.6%	80.0%	71.4%
Small Business	17.5%	22.6%	82.5%	77.4%
Small Farm	37.8%	26.4%	62.2%	73.6%

As the data show, the bank concentrates its lending activities in the assessment area's upper-income areas. This is not unreasonable given the location of the bank in upper-income BNA 9705 relative to the locations of the middle-income areas.

The bank extends loans throughout the assessment area. Most of the bank's lending activity is concentrated in BNAs 9702 and 9705; the loan sample revealed that the bank extended approximately 66% of its loans in these BNAs. The geographical distribution of the balance of the bank's loan portfolio is as follows: 11% in BNA 9704, 10% in CT 615, 7% in BNA 9701, and 5% in BNA 9706.

The concentration of lending activity in BNAs 9702 and 9705 is reasonable for two reasons. First, these are the geographies nearest the bank. Second, these BNAs represent 38% of the assessment area's population; BNA 9705 is the most populated geography in the assessment area. The bank's overall lending in BNAs 9701 and 9706 is low, but this is also reasonable. BNA 9701 is northwest of Dundas. BNA 9706 is the northwestern part of Northfield. In both cases, the bank's lending activity is influenced by the location of the bank's competitors. The bank is not in a convenient location for residents, businesses, and farms in BNAs 9701 and 9706.

Overall, the geographic distribution of the bank's loans is reasonable. The bank extends loans throughout the assessment area. Consequently, the geographic distribution of the bank's loans meets this category's standards for satisfactory performance.

<u>GENERAL</u>

The evaluation did not reveal any violations of the substantive or technical provisions of the fair lending and housing laws and regulations. In addition, the bank has not received any CRA-related complaints since the previous evaluation.