

PUBLIC DISCLOSURE

June 28, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M BANK-NEW LONDON

RSSD Number: 234346

401 West North Street
New London, Wisconsin 54961

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 neighborhoods, 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 Community Reinvestment Act (CRA) performance of **F&M Bank-New London, New London, Wisconsin** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **June 28, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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-New London has a generally strong record of serving its assessment area, based upon a review of its lending, qualified investments and services activity. Management has taken an active role in meeting credit needs within its assessment area as demonstrated in its overall lending, specifically lending to small businesses and small farms. A high percentage of the bank's loans are originated within its assessment area. The bank's lending efforts reflect strong penetration among businesses and farms of different revenue sizes. The bank did not have any community development loans; however, there are limited opportunities. The bank offers a variety of loan programs to enhance the types of home purchase, small business and small farm loans available to its customers. The bank had a limited number of community development investments. The bank provides an adequate volume of community development and retail banking services.

The following table indicates the performance level of **F&M Bank-New London, New London, Wisconsin** with respect to the lending, investment and service tests. Based on the component test ratings for large banks, the assigned composite rating is Satisfactory.

PERFORMANCE LEVELS	F&M Bank-New London		
	Performance Tests		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF F&M BANK-NEW LONDON'S ASSESSMENT AREA

The City of New London is located about 20 miles northwest of Appleton, on the eastern boundary of Waupaca County and the western boundary of Outagamie County. The bank's assessment area includes four census tracts and eight block numbering areas (BNAs). Census tracts 126.00, 127.00, 128.00 and 132.00 are located in Outagamie County, within the Appleton-Oshkosh-Neenah MSA, and BNAs 9902.00, 9904.00, 9907.00, 9908.00, 9909.00, 9910.00, 9911.00 and 9912.00 are located in Waupaca County. According to 1990 census data, all four-census tracts and seven of the eight BNAs in the assessment area are middle-income; BNA 9908 is identified as upper-income. There are no low- or moderate-income census tracts or BNAs in the assessment area.

According to 1990 census data, the population of the bank's assessment area is 53,783. New London experienced a 4.1 percent increase in population between 1990 and 1995 to 6,930. According to the Wisconsin Department of Workforce Development (DWD), the population is expected to increase to 7,032 by the year 2000. The DWD indicates that Outagamie County experienced an 8.0 percent increase in population between 1990 and 1996 to 151,727. Waupaca County has experienced a 5.6 percent increase in population between 1990 and 1996 to 8,673.

The median family income for the assessment area is \$33,559. There are 14,455 families in the assessment area, according to 1990 census data. The assessment area consists primarily of upper- and middle-income families. There are 14.5 percent low-, 19.9 percent moderate-, 28.3 percent middle- and 37.3 percent upper-income families. Given that the bank's assessment area consists primarily of middle-income geographies with only one upper-income BNA, it is reasonable that 93 percent of the families within the assessment area reside within middle-income geographies.

There are 21,207 housing units in the assessment area according to 1990 census data. Owner-occupied units total 14,912 or 70.3 percent and rental units total 4,464 or 21.0 percent with a vacancy rate of 8.7 percent. The median housing value in the assessment area is \$52,646, while the median age of the housing stock is 30 years with 41.7 percent of the housing units built before 1950. Single-family housing units comprise 75.7 percent of all housing within the assessment area compared to 14.7 percent multi-family units. Community representatives indicated that additional low- and moderate-income housing is needed.

The housing affordability ratio for the assessment area is 54 percent compared to 47 percent for the State of Wisconsin, 51 percent for all non-metropolitan areas statewide and 52 percent for the Appleton-Oshkosh-Neenah MSA. The housing affordability ratio is calculated by dividing the median housing value by the median household income; lower ratios indicate less affordable housing. These ratios indicate that housing is more affordable within the bank's assessment area compared to state levels and only slightly more affordable than all non-metropolitan areas statewide and the Appleton-Oshkosh-Neenah MSA.

The major industries in Outagamie County in 1998 were eating and drinking establishments with 6,149 employees, followed by health care services with 5,721 employees and special trade contractors with 4,161. The major industries in Waupaca County in 1996 were health services with 2,324 employees, eating and drinking establishments with 1,534 employees and educational services with 1,489 employees. The following table illustrates the approximate number of employees that currently work for the major employers within New London.

Major Employers within New London, Wisconsin		
Company	Number of Employees	Product
Hillshire Farm & Kahn's	1700	Meat Processing
Curwood, Inc.	750-800	Food Packaging
Simmons Juvenile Products	600-700	Children's Furniture
New London School District	450	Education
Ort Trucking	250-300	Transportation
Saputo Cheese	150	Swiss Cheese Processing
Steel King Industries	180-200	Metal Fabrication
New London Engineering	150-200	Handling Machines
Wolf River Lumber	84	Dry-Kiln Wood Products
Titan Industries	100	Handling Machines

The local job market is strong in New London, according to a community representative involved in economic development. The contact indicated that the unemployment rate in New London is 2.6 percent. The DWD reported that in May 1999 the unemployment rate in Outagamie County was 2.5 percent, and in Waupaca County the rate was 2.9 percent. In comparison, the State of Wisconsin had a slightly higher unemployment rate of 3.1 percent. Over 23 percent of Waupaca's labor force commute outside the county and more than 50 percent of those individuals commute to New London.

In addition to the New London employers mentioned above, the largest employers in Outagamie County are Appleton Papers, Inc. (coated paper), Miller Electric Manufacturing Company (welding machines), St. Elizabeth Hospital, Anchor Food Products (frozen food), and REPAP Wisconsin, Inc. (paper). Each employs over 1,000 individuals. In Waupaca County, the largest employers are Waupaca Foundry, Inc., A. Sturm & Sons, Inc. (powdered drink mixes), Krause Publications, Inc. (publications and printing), FWD Corporation (transportation equipment), and Walker Forge, Inc. (iron and steel forgings). Each employs over 250 employees with the exception of Walker Forge, Inc. having over 100 employees.

DESCRIPTION OF INSTITUTION

F&M Bank-New London is a wholly-owned subsidiary of F&M Bancorporation, Inc., a multi-bank holding company located in Kaukauna, Wisconsin with total assets of \$2.4 billion as of March 31, 1999. The bank's total assets as of the same date were \$38,878M. The bank has no financial or legal impediments that might affect its ability to meet the credit needs of its assessment area. The bank has one office and two automated teller machines (ATMs), one on-site and another at the local grocery store. The bank's CRA performance was most recently evaluated as of October 15, 1996, at which time it was rated outstanding.

The bank's primary competition is from a considerably larger community bank in New London and a smaller savings bank in Hortonville, Wisconsin, approximately six miles away. The bank offers a variety of credit products to meet its assessment area's credit needs; these include commercial, residential real estate mortgage (including home equity lines and fixed- and adjustable-rate), residential construction, agricultural and consumer loans. Secondary market mortgage loans are offered through F&M Bancorporation's affiliated F&M Bank-Northeast. The bank also offers SBA, WHEDA and Guaranteed Rural Housing loans.

Total loans totaled \$32,050M or 82.4 percent of total assets according to the bank's March 31, 1999 Report of Condition. The bank's loan portfolio as of the same date is detailed in the following table.

F&M Bank-New London's Loan Portfolio as of March 31, 1999		
Loan Type	Amount (\$000s)	Percentage
1-4 and multi-family real estate	12,526	39.08
Commercial and industrial	7,862	24.53
Commercial real estate	7,131	22.25
Consumer and overdraft	2,887	9.00
Construction and land development	1,197	3.73
Agricultural	317	0.99
Home equity lines	125	0.39
Other	5	0.03
TOTAL	32,050	100.00

The majority of the bank's lending is secured by 1-4 family real estate, the majority of which were loans secured by first liens at \$10,906M or 34.03 percent of total loans. Commercial lending is the next largest category of lending at 24.53 percent, followed by commercial real estate lending at 22.25 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

F&M Bank-New London's performance under the lending, investment, and service tests is summarized in each section. Lending data and pertinent supporting information detailing demographic and other performance characteristics of the bank's assessment area follow in detail.

LENDING TEST

The assessment of F&M Bank-New London's performance includes the bank's overall lending activity; assessment area lending concentration; distribution of lending to small businesses and small farms; community development lending and product innovation and flexibility.

Lending Volume

The bank's overall lending levels reflect a strong responsiveness to credit needs within its assessment area. The bank's average net loan-to-deposit ratio of 95.62 percent has remained steady since the previous examination, and is higher than its local competitors' average net loan-to-deposit ratios, which were 91.57 percent and 81.56 percent. One local competitor is significantly larger than the bank with over \$200 million in total assets. Branches of Firststar Corporation and Marshall & Ilsley Corporation affiliated banks compete within the bank's assessment area although branch loan to deposit ratios were not available. In addition, the bank's average ratio is higher than that of its national peer group at 63.08 percent. The bank's average loan-to-deposit ratio does not fully capture the bank's lending activity since the bank also originates and sells home mortgage loans on the secondary market through an affiliate.

Assessment Area Concentration

The assessment area concentration analysis is based upon the small business and small farm loan originations reported for 1998. A substantial dollar amount and percentage of the bank's total lending is originated within its assessment area. Table 1 demonstrates by product type the percentage and dollar amount of loans that were originated within the bank's assessment area.

Loan Product	Total Originations		Within the Assessment Area			
	#	\$(000)	#	%	\$(000)	%
Small Business	61	4,490	49	80	2,763	62
Small Farm	10	225	8	80	216	96
TOTAL	71	4,715	57	80	2,979	63

Geographic Distribution

The bank's assessment area does not contain any low- or moderate-income geographies (census tracts or block numbering areas). Consequently, an analysis of the geographic distribution of the bank's lending would not be meaningful.

Lending Distribution to Small Businesses and Small Farms

The bank's lending to businesses and farms of different sizes reflects a generally strong level of penetration. The following tables and narrative illustrate the distribution of the bank's small business and small farm lending based upon the loan amount and revenue size of the business or

farm. The bank originates a majority of its commercial and agricultural loans in amounts of \$100,000 or less, amounts typically needed by small businesses and small farms. The following table details the distribution of the bank's reportable commercial and agricultural loans by loan size.

Loan Value Category	Commercial		Agricultural	
	Number of Loans Reviewed	Percentage of Loans Reviewed	Number of Loans Reviewed	Percentage of Loans Reviewed
Less than or equal to \$100,000	42	86	8	100
Greater than \$100,000 and less than or equal to \$250,000	4	8	0	0
Greater than \$250,000	3	6	0	0
Total	49	100	8	100

In addition, the bank originated 76 percent of all commercial loans within its assessment area to those small businesses with gross annual revenues of \$1 million or less. All agricultural loans within its assessment area were to those small farms with gross annual revenues of \$1 million or less.

Community Development Lending

Few opportunities for community development lending exist in the assessment area. Consequently, the bank did not make any qualified community development loans since the previous examination; however, the bank originated two loans that assisted in the redevelopment of downtown New London, which consists almost entirely of small businesses. The first loan was for \$22M to a local community development corporation for the renovation of a vacant building in downtown New London. The second loan is a participation in a loan to the City of New London at a reduced interest rate for \$125M to renovate a condemned movie theater in downtown New London in an effort to boost business in that area.

Innovative or Flexible Lending Practices

The bank's lending record of meeting the credit needs of small businesses and small farms is evident through its overall lending efforts. These loans promote community development within the bank's assessment area. The bank does not have a minimum loan amount and is willing to make small-dollar loans to creditworthy individuals.

The bank's lending efforts supporting community development are further evidenced by its use of government-guaranteed and flexible lending programs. The bank participates in the Wisconsin Housing and Economic Development Authority's (WHEDA) many loan programs. The bank also

offers Small Business Administration (SBA) loans, City of New London Revolving Fund loans for façade improvements, Guaranteed Rural Housing (GRH) loans and Veterans Administration (VA) home purchase loans. Since the previous compliance examination, the bank originated four SBA loans for \$509M, two VA loans for \$293M, one WHEDA home loan for \$91M and seven GRH loans for \$431M.

CONCLUSION

The bank's performance under the lending test demonstrates a high level of responsiveness to the credit needs of the community's small businesses and small farms. A high percentage of the bank's loans are originated within its assessment area. The bank's lending efforts reflect strong penetration among businesses and farms of different revenue sizes.

INVESTMENT TEST

A review was conducted of F&M Bank-New London's investment and grant activity; responsiveness to credit and community development needs and its initiatives having a community development purpose to assess its performance under the Investment Test.

Qualified Investment Activity

Discussions with bank management and community representatives revealed that investment opportunities within the assessment area are limited. The bank had very limited qualified investment or grant activity. The bank had a \$250 donation to the Community Action Program, which qualifies as a community development investment. The bank also made a \$1,500 contribution to the New London Community Development Corporation (CDC). Although the New London CDC's purpose is not strictly limited to community development efforts on behalf of small businesses, that is ultimately the target of its activities. The bank had also pledged \$350 to the United Way of New London; however, these funds were not targeted specifically to qualified community development programs. The bank also provided a reduced interest rate (4.15%) on a \$125M participation in a loan to the City of New London to renovate a downtown commercial building.

CONCLUSION

The bank's performance under the investment test is rated low satisfactory. The bank's current opportunities to respond to community development initiatives are limited. The bank has made relatively few qualified investments or grants since the previous compliance examination as a result. The reduced interest rate on the loan to the City of New London is supportive of community development initiatives in the bank's assessment area. The bank is encouraged to seek out additional qualified investment opportunities.

SERVICE TEST

The assessment of the bank's performance under the Service Test includes an evaluation of the accessibility of its delivery systems; reasonableness of business hours and services in meeting the needs of its assessment area; changes in branch locations; and the level of community development services.

Retail Banking Services

The bank's office is reasonably accessible within its assessment area. In addition, the bank has two ATMs located within its assessment area providing 24-hour banking, one that is new since the previous examination. The bank provides alternative delivery of banking services through its "Anytime Line" bank by phone product. The bank also offers a free checking account, which assists low- and moderate-income customers.

Record of Opening and Closing Offices

The bank has not opened or closed any offices since the previous compliance examination.

Community Development Services

F&M Bank-New London provides a reasonable level of community development services within its assessment area. These services include providing technical assistance related to the provision of financial services to individuals and nonprofit organizations that serve low- and moderate-income families and to small businesses to promote community revitalization and development. The following are examples of these services:

- A bank representative is a member of the New London Community Development Corporation;
- A bank representative is a member of the Waupaca County Economic Development Loan Review Board, this is a new program funded through a state grant to provide gap financing for projects that do not qualify for conventional financing;
- Two bank representatives made a presentation to an agricultural class on financing and budget management; and
- Bank personnel have provided tours of the bank to local groups, which includes a discussion of credit.

CONCLUSION

The bank's performance under the Service Test is considered generally strong. The bank's delivery systems are generally accessible to all portions of its assessment area. Services do not vary in a way that inconveniences certain portions of the bank's assessment areas. The bank has installed one ATM since the previous examination. Finally, the bank provides a reasonable level of community development services, based upon the opportunities available within its assessment

area.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, review of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applications.