

PUBLIC DISCLOSURE

June 10, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Fortress Bank of Westby
RSSD# 297042

100 North Main Street
Westby, WI 54667

Federal Reserve Bank of Chicago

230 S. LaSalle Street
Chicago, IL 60604

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

Institution’s CRA Rating 1

Description of Institution 1

Description of Assessment Area 2

Conclusions 5

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 CRA performance of **Fortress Bank of Westby, Westby, WI** prepared by the **Federal Reserve Bank of Chicago** as of **June 10, 2002**. 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: This institution is rated Satisfactory.

Fortress Bank of Westby promotes economic growth within the assessment area in a manner consistent with its asset size, location, and current economic conditions. The bank's efforts are accomplished primarily through the origination of consumer, real estate, commercial and agricultural loans. The bank's loan-to-deposit ratio continues to exceed its competitors and its national peer, and a substantial majority of the bank's lending during the sample period is within the assessment area. Its distribution of loans to individuals of different income levels and to businesses and farms of different revenue sizes is considered strong. A geographic distribution analysis was performed and the originated loans appear to be reasonably dispersed throughout the assessment area. There were no CRA-related complaints and no patterns or practices of discrimination or any attempt to discourage applications from any member of a protected class.

The bank's CRA performance was most recently evaluated as of June 23, 1997 when a rating of outstanding was assigned.

DESCRIPTION OF INSTITUTION

Fortress Bank of Westby, with total assets of \$99.9 million as of March 31, 2002, is a subsidiary of Fortress Bancshares, Inc., a three-bank holding company located in Westby, Wisconsin. The bank's main office is located in Westby and there are three branch offices in Coon Valley, Chaseburg and West Salem. A drive-up facility is located a few blocks from the main bank location and one cash dispensing automatic teller machine (ATM) is located at the Coon Valley branch office.

All four banking locations are full-service facilities offering a variety of deposit and loan products. Deposit products include savings, checking, and money market accounts as well as certificates of deposits (CDs). Loan products include single payment, installment,

and residential real estate, in addition to overdraft protection and home equity lines of credit.

Bank management identified the following local financial institutions as its primary competitors: State Bank of Viroqua, Viroqua, WI, Bank of Cashton, Cashton, WI, First National Bank in Viroqua, Viroqua, WI, Union State Bank, West Salem, WI, and First Federal Savings Bank La Crosse-Madison, La Crosse, WI. Fortress Bank of Westby holds 17.8% of Vernon County Federal Deposit Insurance Corporation (FDIC) insured deposits as of June 30, 2001. There are ten FDIC-insured institutions in Vernon County and Fortress Bank of Westby is the largest institution measured by deposits. The bank's presence in La Crosse County is minimal as a result of its one branch location.

DESCRIPTION OF ASSESSMENT AREA

The bank has defined its assessment area as all of Vernon County including moderate-income block numbering areas (BNAs) 9602 and 9605 and middle-income BNAs 9601, 9603, 9604, 9606, and 9607, as well as middle-income census tract (CT) 101.02 in La Crosse County, which is part of the La Crosse Metropolitan Statistical Area (MSA).

The assessment area's population is 29,353 based upon 1990 census data. Preliminary 2000 census data indicates that Vernon County has a population of 28,056 and La Crosse County has a population of 107,120. These figures represent increases of 9.5% and 9.4%, respectively, over 1990 county population. The State of Wisconsin (State) population grew by 9.6%, consistent with the growth rate of the counties in the bank's assessment area. The largest municipalities in the bank's assessment area include the Village of West Salem (4,436), City of Viroqua (4,112), City of Westby (1,968), and Town of Viroqua (1,505) based upon preliminary 2000 census data.

Table 1 depicts the distribution of the assessment area population by median family income in comparison to the MSA and the State.

Location	Median Family Income		Percentage of Families				
	2002 Estimate ⁽¹⁾	1990 Census	Low	Moderate	Middle	Upper	Below Poverty Level
Assessment Area	N/A ⁽²⁾	\$27,348	21.9	21.8	25.5	30.8	10.6
Non-metro WI	\$50,800	\$30,290	17.5	19.5	25.5	37.5	7.9
MSA	\$54,000	\$33,226	17.4	19.3	26.3	37.0	6.8
State	\$59,200	\$35,082	17.9	18.7	26.5	36.9	7.6

(1) Department of Housing and Urban Development (HUD) estimate
(2) N/A – Information Not Available

These figures represent growth rates of approximately 66% in median family income since the 1990 census, so it is reasonable to conclude that the growth rate in the assessment area median family income would be similar. The information in Table 1 indicates that the

assessment area has a higher percentage of low- and moderate-income families, in addition to a larger percentage of families with incomes below the poverty level, when compared to all non-metropolitan areas of the state, the MSA, and the State as a whole

There are approximately 12,000 housing units in the bank's assessment area based upon 1990 census data and the median housing value is \$43,009. In comparison to the median housing values of all non-metropolitan areas of the state (\$50,092), the MSA (\$57,257), and the State as a whole (\$62,141), the bank's assessment area has the lowest median housing value, in addition to the oldest homes.

Housing affordability ratios are helpful in determining the relative affordability of housing in comparison to income levels in any given area. The ratios are calculated by dividing the median family income by the median housing value for an area. A higher ratio indicates greater housing affordability. The affordability ratio for the bank's assessment area is 0.52 compared to 0.51 in all non-metropolitan areas of the State, 0.47 in the MSA, and 0.47 in the State as a whole, based on 1990 census data. These ratios indicate that housing affordability in the assessment area is comparable with that of all non-metropolitan areas, the MSA, and the State as a whole.

A contact within the community noted that home prices and the cost of rental housing are both escalating at a faster rate of growth than income levels, thus resulting in a shortage of affordable housing. Bank management indicated that housing values increased about three years ago and have now stabilized between \$55-63,000. This trend can be attributed to the increased value of property in the area. As a result, many lower income individuals and families cannot afford traditional housing and have sought housing in mobile home parks. There are currently three such parks in Westby constituting 175 mobile homes.

The Wisconsin Department of Workforce Development (DWD) reported seasonally unadjusted unemployment levels for April 2002 of 4.4% for La Crosse County, 6.7% for Vernon County, and 5.7% for the State. These figures reflect increases since April 2001 when unemployment rates were 3.7%, 5.6%, and 4.8%, respectively. Bank management, however, indicated that the unemployment rate has remained relatively consistent hovering between 4.5%-5.5% in the bank's assessment area.

The ten largest employers in La Crosse and Vernon Counties are illustrated in Table 2 based upon information obtained from the Wisconsin DWD.

LA CROSSE COUNTY			VERNON COUNTY		
COMPANY	PRODUCT/SERVICE	SIZE	COMPANY	PRODUCT/SERVICE	SIZE
Trane	Refrigeration/ Heating Equipment	1000 +	Nelson Industries	Automotive Mufflers	250- 499
Gunderson Clinic	Health Care	1000 +	Vernon Memorial Hospital	General Hospital	250- 499

Lutheran Hospital Crosse	General Hospital	1000 +	Bethel Home and Services	Social Services/ Residential Care	250-499
Franciscan Skemp Medical Center	Health Care and Hospital	1000 +	Walmart Associates	Retailer	100-249
Northern Automotive Systems	Industrial Laminated Plastics	500-999	Vernon Area Rehabilitation Center	Training/Vocational Rehabilitation	100-249
First Federal Savings Bank	Financial Institution	500-999	St. Joseph's Community Health	Health Care and Hospital	100-249
Kwik Trip	Convenience Stores	500-999	Coulee Region Organic Produce	Growers Association	100-249
Reinhart Foodservice	Grocery Warehousing/ Distribution	500-999	Dairyland Power	Electric Services	100-249
Fleming Companies	Grocery Warehousing/ Distribution	250-499	NCR Corp	Electric Services	100-249
Company Store	Catalog Retailer	250-499	Nelson Mill & Agricenter	Farm Supplies/ Animal Feed	50-99

A large portion of the workforce in La Crosse and Vernon Counties is in the service industry, specifically health care. In La Crosse County alone, there are two major hospitals/health care organizations and three institutes of higher learning. Bank management indicated that these positions are held by residents of both counties and employees generally earn above average wages.

The manufacturing industry, which provides employment for less skilled workers has experienced downsizing, elimination of profit sharing, and a reduction in overtime. Two such employers affected by changes in the economy include S&S Cycle and Nelson Industries based upon information obtained from bank management. Retail businesses in the area seem to struggle unless they are nationwide or statewide chains or have a unique niche not met by the larger players in the market. Examples include bed and breakfasts, golf courses, and specialty gift stores. The farming community primarily consists of large dairy farms at a time in which the dairy economy is strong and farmland values are high. There have been no farms in foreclosure, as well as no farmers experiencing financial difficulty, over the past few years according to bank management. A representative of the community noted that due to the current economic conditions, liquidity is necessary for all farmers and banks need to continue making loans to ease local farmers' financial burden.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The performance standards for small banks consist of the following, as applicable: the bank's loan-to-deposit ratio, the percentage of loans originated within its assessment area, its lending to borrowers of different income levels and to businesses and farms of different revenue sizes, the geographic distribution of loans, and its record of responding to written complaints. A sample of consumer, commercial, and agricultural loans originated from May 1, 2001 through April 30, 2002, the bank's 2000 and 2001 Home Mortgage

Disclosure Act (HMDA) data submissions, and the bank's 2000 and 2001 Consolidated Reports of Condition, were reviewed in conjunction with this performance evaluation.

Loan-To-Deposit Ratio

The bank's Uniform Bank Performance Reports (UBPRs) for the eight quarters ending March 31, 2002 were reviewed to assess the bank's performance in comparison to its national peer group and local competitors. The results are illustrated in Table 3.

Bank Name and Location	Total Assets (\$000) as of 3/31/02	Loan-To-Deposit Ratio	
		03/31/02	Eight-Quarter Average
Fortress Bank of Westby, Westby, WI	\$99,929	91.26	93.07
State Bank of Viroqua, Viroqua, WI	\$67,438	89.38	88.55
Bank of Cashton, Cashton, WI	\$42,887	88.41	82.56
First National Bank in Viroqua, Viroqua, WI	\$84,060	87.13	79.73
Peer Group	N/A	75.68	76.44
Union State Bank, West Salem, WI	\$41,385	60.53	67.14

The bank's eight-quarter average loan-to-deposit ratio exceeds that of each its competitors as well as that of its national peer group. Although the bank's loan-to-deposit ratio remains high, over the past four quarters the ratio has been on a slight decline. Bank management indicated that this decline has been intentional and is partially a result of the bank's newly formed subsidiary, Heartland Financial. Heartland Financial is an entity jointly owned by Fortress Bank of Westby, Bank of Monticello, and Citizens State Bank of Loyal to which each bank sells a portion of its agricultural loans originated in loan amounts greater than \$100,000. Each bank is required to keep at least 10% of each loan in its portfolio, while the remainder of the funding is obtained through Farm Credit Services and Agribank. The majority of the loans are, therefore, no longer reflected in the loan-to-deposit ratio thus contributing to its decline.

The bank also aggressively participates in the Freddie Mac fixed rate home loan program, thereby reducing the number of mortgage loans retained in the bank's loan portfolio. Bank management estimates that nearly 95% of the bank's residential mortgage loans are originated through this program exhibiting a loan volume increase of \$7 million in the past twelve months.

Lending in the Assessment Area

Fortress Bank of Westby's performance relative to this criterion was evaluated based upon a review of the bank's 2000 and 2001 HMDA-reportable loans and unsecured consumer, commercial, and agricultural loans originated during the twelve month period ending April 30, 2002. The results are illustrated in the following table.

Loan Type	Total Number of Loans	Loans Made within the Assessment Area	
		Number	Percent
2001 HMDA	329	151	45.90
2000 HMDA	104	60	57.69
Unsecured	264	185	70.08
Commercial	928	823	88.69
Agricultural	283	225	79.51
Total	1908	1444	75.68

Fortress Bank of Westby originates all of the mortgage loans for each of the three banks under the holding company, and as a result, includes all reportable loans on its HMDA-Loan Application Register (LAR). The percentage of HMDA-reportable loans made within the bank's assessment area for 2000 is 75.31 and for 2001 is 73.58 when excluding the other banks loans. These percentages more accurately represent the bank's impact on its market area than those illustrated in Table 4.

A review of the bank's unsecured, agricultural, and commercial loans revealed that a substantial majority (76%) of the sampled loans during the past twelve months were within its defined assessment area. Excluding the loans originated by the other Fortress Banks, 82% of the loans originated by the bank were to individuals, businesses, and farms within its assessment area. The bank's overall lending within its assessment area meets the standards for satisfactory performance.

Lending to Borrowers of Different Incomes and Businesses and Farms of Different Sizes

The bank's lending to borrowers of different incomes and businesses of different sizes reflects an adequate level of penetration within the assessment area. The distribution of these loans is detailed in Tables 5, 6, and 7.

Borrower Income Designation	Families in the Assessment Area		Bank's HMDA-Reportable Loans				Aggregate Lending Data ⁽¹⁾	
			2000		2001		2000 ⁽²⁾	
	#	%	#	%	#	%	#	%
Low	1735	21.9	6	10.0	13	8.6	41	7.8
Moderate	1733	21.8	9	15.0	21	13.9	102	19.5
Middle	2025	25.5	27	45.0	60	39.7	156	29.8

Upper	2447	30.8	18	30.0	57	37.8	186	35.6
N/A ⁽³⁾	0	0.0	0	0.0	0	0.0	38	7.3
Total	7940	100.0	60	100.0	151	100.0	485	100.0
(1) Includes loan originations by all HMDA-reportable lenders in the assessment area excluding Fortress Bank of Westby's loan originations (2) Aggregate data for 2001 is not yet available (3) Borrower income data was not available								

As illustrated in the previous table, 25% of the bank's HMDA-reportable loans were extended to borrowers of low- and moderate-income levels which is relatively consistent with the aggregate of all market lenders of 27.3%. Both the bank and the aggregate data are slightly lower when compared to the assessment area demographics that indicate 43.7% of the families are considered low- or moderate-income. A portion of the families, 10.6%, have incomes below the poverty level and would be less likely to afford or obtain residential mortgage loans.

Unsecured consumer installment loans originated during the twelve months ending April 30, 2002 were reviewed to assess the bank's loan distribution among borrowers of different income levels, specifically those considered low- or moderate-income. The bank does not routinely collect income information for consumer loans and as a result, the analysis was conducted using the original loan amount as a proxy for income. The 2002 HUD-adjusted median family income for all non-metropolitan areas of \$50,800 and for the La Crosse, WI-MN MSA of \$54,000 were used to determine the annual income range. A discussion with bank management resulted in the corresponding maximum loan amounts that an individual of each income level could reasonably afford. The results of this analysis are shown in Table 6.

TABLE 6 – DISTRIBUTION OF CONSUMER LENDING BY BORROWER INCOME LEVEL					
Non-Metro Wisconsin					
Income Level	% of Median Family Income	Annual Income	Loan Amount	Number of Loans	Percentage of Loans
Low	0%-49.99%	\$0-25,399	\$0-1,000	30	17.96
Moderate	50%-79.99%	\$25,400-40,639	\$1,001-3,000	77	46.11
Middle/Upper	80% +	\$40,640 +	\$3,000 +	60	35.93
Total				167	100.00

La Crosse, WI-MN MSA					
Income Level	% of Median Family Income	Annual Income	Loan Amount	Number of Loans	Percentage of Loans
Low	0%-49.99%	\$0-26,999	\$0-1,000	5	27.78
Moderate	50%-79.99%	\$27,000-43,199	\$1,001-3,000	7	38.89
Middle/Upper	80% +	\$43,200 +	\$3,000 +	6	33.33
Total				18	100.00

Approximately 64% of the bank's unsecured installment loans in non-metropolitan Wisconsin and 67% of the bank's unsecured installment loans in the La Crosse MSA were in amounts affordable to borrowers of low- and moderate-income levels. Nearly 44% of the bank's assessment area is comprised of low- and moderate-income individuals with about 10.6% of those individuals possessing incomes below poverty level. The bank's lending in comparison to the assessment area demographics provides strong evidence of the bank's commitment to meet the credit needs of the community by making loans available in smaller dollar amounts that would be affordable to lower income individuals.

The bank's record of lending to businesses and farms of different revenue sizes was analyzed using a loan proxy of the original loan amount to approximate revenues. An original loan amount of \$100,000 or less was used to approximate lending to the smallest commercial and farming operations. Small business loans are defined as loans secured by nonfarm nonresidential properties and commercial and industrial loans while small farm loans include loans secured by farmland and loans to finance agricultural production and other loans to farmers.

TABLE 7 – DISTRIBUTION OF SMALL BUSINESS AND SMALL FARM LOANS				
Original Loan Amount	Small Business Loans		Small Farm Loans	
	Number	Percentage	Number	Percentage
\$100,000 or less	803	97.6	207	92.8
> \$100,000-\$250,000	15	1.8	12	5.4
> \$250,000-Maximum ⁽¹⁾	5	0.6	4	1.8
Total	823	100.0	223	100.0
(1) The maximum amount for small business loans is \$1,000,000 and the maximum amount for small farm loans is \$500,000.				

Nearly 98% of all commercial and 93% of all agricultural loan originations were in loan amounts of \$100,000 or less. This strong level of lending substantiates the bank's focus on meeting the needs of the small businesses and small farms in the area. A further analysis of the bank's loan portfolio for the twelve months ended April 30, 2002 indicated that zero commercial and two agricultural loans were originated in loan amounts in excess of \$1 million and \$500,000, respectively.

The bank's June 30, 2000 and June 30, 2001 Consolidated Reports of Condition were reviewed to ascertain the bank's lending to businesses and farms of different revenue sizes. These reports indicate that all or substantially all of the bank's outstanding commercial and agricultural loans were originated in dollar amounts of \$100,000 or less.

Overall, the bank's record of lending to individuals of different income levels and businesses and farms of different revenues is considered strong and meets the standards for satisfactory performance.

Geographic Distribution of Loans

The distribution of consumer, HMDA-reportable, agricultural and commercial loans within the bank's two moderate-and six middle-income geographies was reviewed. The results are shown in Tables 8 and 9 below.

Geography Income Designation	Unsecured Consumer Loans		Bank's HMDA-Reportable Loans				Aggregate Lending Data ⁽¹⁾	
	#	%	2000		2001		2000 ⁽²⁾	
			#	%	#	%	#	%
Moderate	10	5.4	7	11.7	7	4.6	52	9.9
Middle	113	61.1	53	88.3	144	95.4	471	90.1
N/A ⁽³⁾	62	33.5	0	0.0	0	0.0	0	0.0
Total	185	100.0	60	100.0	151	100.0	523	100.0

(1) Includes loan originations by all HMDA-reportable lenders in the assessment area excluding Fortress Bank of Westby's loan originations
(2) Aggregate data for 2001 is not yet available
(3) Census tract or BNA income information is not available

A review of the unsecured consumer loans originated during the twelve months ending April 30, 2002, it was noted that the bank originated 5.4% of its loans to individuals residing in moderate-income geographies. This is reasonable considering the bank's location with respect to the moderate-income geographies. The closest branch to both these geographies is the main bank location in Westby and there are other financial institutions closer in proximity that would be more likely obtain the business of this area. Fortress Bank of Westby's HMDA-reportable lending in 2000 exceeds that of the aggregate which further illustrates the bank's commitment to meet the needs of its assessment area.

Borrower Income Designation	Agricultural			Commercial		
	Number of Farms	Number of Loans	Percentage of Loans	Number of Businesses	Number of Loans	Percentage of Loans
Moderate	60	26	11.5	132	10	1.2
Middle	417	74	32.9	1121	732	89.0
N/A ⁽¹⁾	0	125	55.6	0	81	9.8
Total	477	225	100.0	1253	823	100.0

(1) Census tract income information is not available

As shown above, 11.5% of agricultural and 1.2% of commercial loans during the twelve months ended April 30, 2002 were extended to farms and businesses, respectively, within the bank's moderate-income geographies. Assessment area demographics indicate that 12.6% of the farms and 10.5% of the businesses in the bank's assessment area are in moderate-income geographies. When comparing the loan volume in these geographies to

the demographics, the bank's performance with respect to lending to farms and businesses within designated moderate-income geographies is considered adequate.

The bank's lending activity with respect to consumer, mortgage, agricultural and commercial loans meets the standards for satisfactory performance under this criterion.

Response to Complaints

There have been no CRA-related complaints received by Fortress Bank of Westby or the Reserve Bank related to the CRA performance of this institution since the previous examination.

General

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including Equal Credit Opportunity, Fair Housing and Home Mortgage Disclosure Acts. The bank's loan policies and procedures, articulated lending standards, forms, denied loan applications, and a sample of loan originations were reviewed to ensure no evidence of prohibited discriminatory treatment or other illegal credit practices on a prohibited basis. Interviews conducted with community representatives also revealed no evidence of discrimination.