

PUBLIC DISCLOSURE

November 15, 1999

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

M&I Merchants Bank

Name of Depository Institution

52755

Identification Number of Institution

Rhineland, Wisconsin

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.

TABLE OF CONTENTS

	<u>Page</u>
I. General Information	1
II. Institution's CRA Rating	1
A. Overall Rating	1
B. Lending, Investment, Service Test Table	2
C. Description of Institution	3
D. Description of M&I Bank of Rhinelander's Assessment Area	4
E. Conclusions with Respect to Performance Tests	8
F. Compliance with Antidiscrimination Laws and Regulations	19
G. General	19
III. Appendix A	20
Scope of Examination	20

GENERAL INFORMATION

The purpose of the Community Reinvestment Act of 1977 (“CRA”), 12 U.S.C. 2901, as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. 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 communities, 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 communities. The agency considers the institution’s record of performance when deciding whether to approve any applications submitted by the institution.

This document is an evaluation of the CRA performance of M&I Merchants Bank, Rhinelander, Wisconsin, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of November 15, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

Basis for the Rating

The assessment of the institution’s record takes into account its financial capacity and size; legal impediments; and local economic conditions and demographics, including the competitive environment in which the institution operates. Assessing the institution’s CRA performance is a process that does not rely on absolute standards. Institutions are neither required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its assessment areas. In that light, this evaluation is based on a review of the institution’s loans, investments, and services, as detailed in this evaluation.

INSTITUTION’S CRA RATING: This institution is rated “Satisfactory.”

The following factors support the bank’s satisfactory CRA rating. First, the bank’s performance under the Lending Test is rated high satisfactory. Several factors support this rating. The bank’s overall lending levels are good. The geographic distribution of the bank’s loans among geographies of different income levels is adequate, yet reasonable. Similarly, the bank has an adequate, yet reasonable, distribution of lending to borrowers of different income levels. The bank has a good distribution of small business and small farm loans to businesses of different sizes. In addition, the bank offers a wide variety of loan products, several of which serve the needs of low- and moderate-income borrowers. The bank also originated several community development loans that helped support economic development initiatives on the Reservation. Finally, the bank made most of its loans in the assessment area.

Second, the bank’s performance under the Investment Test is rated low satisfactory. The bank has two qualified community development investments in its loan portfolio. The bank purchased the bonds prior to the previous evaluation. The bank has made some qualified community development donations since the previous evaluation.

Finally, the bank’s performance under the Service Test is rated high satisfactory. The bank’s offices help serve the needs of the assessment area’s low- and moderate-income borrowers and block numbering areas (“BNAs”). The bank has a full-service office in a moderate-income BNA and a limited-service facility in a low-income BNA. In addition, the bank has a variety of retail banking services that are easily accessible to all assessment area residents, including its low- and moderate-income residents. In addition, bank representatives are involved in several community development services.

The following table indicates the performance level of M&I Merchants Bank, Rhinelander, Wisconsin, with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	M&I MERCHANTS BANK RHINELANDER, WISCONSIN		
	PERFORMANCE TESTS		
	LENDING TEST	INVESTMENT TEST	SERVICE TEST
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			
The lending test is weighted more heavily than the investment and service tests when deriving the overall CRA rating.			

DESCRIPTION OF INSTITUTION

General. The bank is able to meet community credit needs effectively. It operates several offices and automated teller machines (“ATM”) and offers a wide variety of credit and deposit products that help serve the community’s credit needs. The bank received a satisfactory CRA rating at its previous evaluation on December 1, 1997. The bank is subject to the large bank CRA evaluation procedures because it has more than \$250 million in total assets. In addition, the bank must report CRA data for its small business, small farm, and community development loans because its asset size exceeds \$250 million.¹ The bank is an affiliate of Marshall & Ilsley Corporation (“Corporation”), a large bank holding company based in Milwaukee, Wisconsin.

Offices. The bank operates four offices in its assessment area. It has full-service offices in Rhinelander, Antigo, and Woodruff, Wisconsin. The bank operates a limited-service facility in Lac du Flambeau, Wisconsin. Its Rhinelander and Woodruff offices are located in middle-income BNAs 9714 and 9708, respectively, in Oneida County. Its Antigo office is located in moderate-income BNA 9606 in Langlade County, and its Lac du Flambeau office is located in low-income BNA 9509 in Vilas County. The bank also operates seven ATMs in Rhinelander and one ATM in Woodruff. The only bank ATM that accepts deposits is located at the bank’s main office in Rhinelander. All of the bank’s ATMs are located in middle-income BNAs.

Loan portfolio. The evaluation did not reveal any financial constraints on the bank’s ability to lend within its assessment area. According to the bank’s September 30, 1999, Report of Condition (“ROC”), the bank’s assets totaled approximately \$281 million. The bank’s assets have increased about 16% in the two years since the bank’s previous CRA evaluation. The bank is primarily a residential real estate and commercial lender. Its loan portfolio contains approximately 45% residential real estate, 23% commercial, 20% commercial real estate, 5% consumer, 5% agricultural, and 2% other loans, based on the September 30, 1999, ROC. The bank’s level of lending in these areas has remained relatively constant since the previous evaluation. In general, the bank’s lending reflects the demand for these specific types of credit in the assessment area.

Credit products. The bank offers a variety of loan products to help meet community credit needs. These products include various types of consumer, residential real estate, commercial real estate, commercial, and agricultural loans. As part of its conventional residential real estate program, the bank offers adjustable-rate mortgages, construction loans, fixed-rate loans with 15- to 30-year maturities, and balloon-payment loans with 1- to 7-year maturities. Open-end products offered by the bank include credit cards, overdraft checking, and home equity lines of credit. Finally, the bank offers residential real estate loans under its Neighborhood Home Loan Program (“NHLP”), a home purchase loan program targeted to low- and moderate-income first-time home buyers. The Corporation developed this program for its subsidiary banks.

The bank offers a number of government-guaranteed, -insured, or -sponsored loan programs, many of which are designed to meet the needs of low- and moderate-income borrowers who do not qualify for conventional financing. The bank offers residential real estate loans guaranteed by the following agencies: Federal Housing Administration (“FHA”), Department of Veterans Affairs (“VA”), State of

¹All independent banks and thrifts with assets of \$250 million or more and banks and thrifts affiliated with a holding company with banking and thrift assets of \$1 billion or more must report CRA data. For purposes of this report, all such lenders who reported activity in the assessment area are referred to as aggregate reporters.

Wisconsin Department of Veterans Affairs (“State VA”), Wisconsin Housing and Economic Development Agency (“WHEDA”), and the Department of Housing and Urban Development (“HUD”). The bank participates in WHEDA’s home purchase loan program. The bank also participates in block grant housing programs sponsored by the cities of Antigo and Rhinelander. The bank has a consumer loan program for members of the Lac du Flambeau Band of Lake Superior Chippewa Indians (“Tribe”) under which the Tribe will guarantee loans for certain borrowers who do not qualify based on the bank’s normal underwriting guidelines.

As part of the bank’s commercial and agricultural loan offerings, the bank participates in loan programs from the Small Business Administration (“SBA”), WHEDA, Farm Service Agency, the Wisconsin Business Development Finance Corporation, and the Wisconsin Department of Development. The bank also offers commercial loans pursuant to the Petroleum Environmental Cleanup Fund Act’s program for environmental clean-up projects. The bank participates in business revolving loan funds sponsored by Oneida and Langlade counties.

DESCRIPTION OF M&I MERCHANTS BANK’S ASSESSMENT AREA

Assessment area. The bank’s assessment area is located in a primarily rural area of northeastern Wisconsin. It includes all of Oneida and Langlade counties, Wisconsin, and five BNAs in Vilas County, Wisconsin. The Vilas County BNAs are 9507, 9509, 9510, 9511, and 9512. The assessment area includes the cities of Rhinelander and Antigo and the towns of Woodruff and Minocqua. The assessment area includes a number of other small towns. The assessment area also includes the Lac du Flambeau Indian Reservation (“Reservation”), which is located about 15 miles northwest of Woodruff; the town of Lac du Flambeau is located on the Reservation.

Population characteristics. The 27 BNAs that make up the bank’s assessment area have a total population of 57,662, as of the 1990 U.S. Census. The estimated 1998 populations of Rhinelander and Oneida County are 7,792 and 34,439, respectively. Oneida County’s population has grown about 9% since 1990. Some of this growth can be attributed to an increase in the number of retirees settling in the area. According to 1995 estimates, Antigo has a population of 8,564 and Langlade County has a population of 20,238. Lac du Flambeau and Woodruff have estimated 1995 populations of 2,596 and 1,710, respectively. Woodruff is adjacent to the resort community of Minocqua, which has an estimated 1995 population of 3,779.

Income. CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank’s assessment area is not located in a metropolitan statistical area, the categorization of a borrower or BNA’s income is determined relative to the statewide nonmetropolitan median family income. The regulation defines low-income individuals as those with incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as persons with incomes of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the median family income are classified as upper-income persons. Borrower income levels are determined using recent income estimates provided by HUD. According to HUD estimates, the Wisconsin statewide nonmetropolitan median family income for 1999 is \$44,400. According to 1990 U.S. Census data, the statewide nonmetropolitan median family income for Wisconsin is \$30,290; this figure is used to classify BNA income levels.

According to 1990 U.S. Census data, the assessment area's median family income is \$26,382. This income figure is somewhat lower than the statewide nonmetropolitan median family income. The assessment area's median household income is \$22,327 based on 1990 U.S. Census data. Again, this income amount is somewhat lower than the statewide average nonmetropolitan median household income of \$25,322. The assessment area has approximately 16,462 families and 22,806 households. Approximately 9.3% of the assessment area's families and 12.1% of its households have incomes below the poverty level. The table below identifies the distribution of assessment area families and households by income level.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
	<i>Low income</i>	<i>Moderate income</i>	<i>Middle income</i>	<i>Upper income</i>
Families Compared to Median Family Income	22.7%	21.9%	24.9%	30.5%
Households Compared to Median Household Income	26.6%	18.6%	21.5%	33.4%

The bank's assessment area contains 1 low-, 7 moderate-, and 19 middle-income BNAs. The low-income BNA, 9509, has only 1,840 residents, which represents only about 3% of the assessment area's total population. This BNA is located on the Reservation; about 62% of its residents are American Indian. The seven moderate-income BNAs--9601, 9602, 9605, 9606, 9710, 9510, and 9512-- have a combined population of about 12,140, or about 21% of the assessment area's total population. BNA 9510 also includes a portion of the Reservation; only 955 residents live in this BNA. Several of the other moderate-income BNAs include sparsely populated government land. For instance, BNA 9605 has only 1,862 residents; it includes part of the Nicolet National Forest near the Antigo office. Moderate-income BNA 9710 has only 927 residents; it is located on the far west side of Oneida County. About 37% of all the assessment area residents living in moderate-income BNAs live in BNA 9606. This BNA is located in Antigo.

Most of the assessment area's residents live in middle-income BNAs; approximately 76% of the assessment area's residents live in middle-income BNAs.

General economic and business characteristics. The assessment area contains several diverse economies. In general, the economy of the assessment area is strong. The only area that continues to struggle economically is the Reservation. As will be discussed subsequently, however, the Reservation's economy has improved significantly in recent years. According to bank management, loan demand in the assessment area has been relatively strong in recent years, particularly the demand for small business loans.

Oneida County has a healthy economy based primarily on industry and tourism. Oneida County's unemployment rate in 1998 was approximately 4.3%. Rhinelander has most of the county's industry while the Minocqua-Woodruff area is a large tourism area. According to one community contact, Rhinelander serves as a regional hub for individuals who come to the area for retail and medical services. Its major manufacturing employers include Wausau-Mosinee Paper Division, a paper mill; Triumph Twist Drill Company, a drill manufacturer; and Printpack, Inc., a paper film laminating company. Three health care providers employ more than 1,500 of Rhinelander's residents. Many of Rhinelander's residents work for Oneida County; Rhinelander is the county seat. Despite its strong industrial base, Rhinelander has lost some manufacturing jobs in recent years to business cutbacks. Not unlike other small rural communities, Rhinelander continues to need more manufacturing jobs that pay decent wages.

The Minocqua-Woodruff area has several large medical employers, the Howard Young Medical Center and the Marshfield Clinic. Another major employer is Lindgren RF Enclosures. Because of the area's strong medical care and other conveniences, it has become a large retirement area.

Tourism accounts for a large part of Oneida County's economy. The Minocqua-Woodruff area is one of Wisconsin's major tourist destinations. The county's numerous lakes and forest lands attract a large number of vacationers during summer and winter months. Tourism during September and October has increased in the area in recent years. The county has a large number of second-home owners. One community contact estimated that more than 6,000 families have second homes in the area. According to one community contact, the area has attracted more affluent vacationers in recent years.

Most of Oneida County's businesses are small. According to 1994 data, only two of the county's businesses employed 500 or more individuals and only 28 of the county's businesses employed between 50 and 499 individuals. The remaining 1,211 businesses have 49 or fewer employees. The Minocqua-Woodruff area has a large number of small, family-owned businesses that support the area's tourism industry.

Langlade County also has a relatively strong economy. According to bank management, industry in the county has been strong. Businesses have had trouble expanding, however, because of the lack of available labor. Major employers in the county include the local school district, the local hospital, Langlade County, and a power transmission manufacturer. The county's estimated unemployment rate was 5.6% as of October 1998. Agriculture plays a much larger role in Langlade County's economy than in other areas of the assessment area. About 22% of the county's land is farmland and about 70% of the county is forested. Antigo is the largest community in the county as well as the county seat. Bank management describes the loan growth at the Antigo office as good.

Almost all of Langlade County's businesses are small. No businesses in the county employ 500 or more employees and only 21 businesses in the county employ between 50 and 499 employees. The overwhelming majority of county businesses--5,960--employ 49 or fewer employees.

As discussed previously, the assessment area includes five BNAs in southwestern Vilas County. Similar to Oneida County, Vilas County has a strong tourism industry. Two of these Vilas County BNAs include the Reservation. As discussed previously, the economy on the Reservation is not as strong as in other parts of the assessment area. The Reservation covers portions of Vilas and Iron counties. Although the Reservation has suffered historically from unemployment rates as high as 60%, community contacts estimate that current unemployment on the Reservation is about 20%. Community contacts attribute most of the improvement in the Reservation's economy to the Lake of the Torches Resort and Casino ("Casino"). The Casino has increased tourism on the Reservation significantly and has helped increase employment on the Reservation. In addition to operating the Casino, the Tribe owns a campground, fish hatchery, grocery store, and electric company. These operations, as well as the tribal government, employ between 900 and 1,000 workers.

Lac du Flambeau serves as the Reservation's major community and the headquarters for tribal government. The Casino is also located in Lac du Flambeau. The Reservation consists of numerous lakes and is heavily forested. According to a community contact, about 1,700 of the Tribe's approximately 3,400 members live on the Reservation.

The bank operates in a fairly competitive banking market. In addition to the bank, Rhinelander has a credit union and branches of four financial institutions. Antigo has a credit union and branches of three financial institutions in addition to the bank's branch. The Minocqua-Woodruff market has one financial

institution based in Woodruff that also has a branch in Minocqua. The financial institutions in Minocqua include branches of a credit union and three other financial institutions.

Housing characteristics. The availability of affordable housing varies across the assessment area. According to bank management and community contacts, individuals may find available housing in the city of Rhinelander that costs between \$40,000 and \$75,000. The homes at the lower end of this price range tend to be small starter homes that require some improvements. Homes outside the city limits tend to cost more because demand for such homes is high. Community contacts also stated that although the community has rental housing available, lower wage earners often have trouble meeting the average rent requirements of \$450 to \$550 per month. According to bank management, affordable homes are also available in Antigo.

The Minocqua-Woodruff area has the highest housing costs in the assessment area. According to one community contact, demand for affordable purchase and rental housing is high. This contact indicated that the cost of housing is high in comparison to the quality of the housing stock. Very small apartments may rent for \$450 to \$600 per month in the community. Often, seasonal workers have difficulty finding affordable rental housing during the summer. The area's high land costs make it very difficult to develop affordable housing. The demand for retirement and second homes continues to make housing costs relatively high.

According to one community contact, the Reservation has a serious housing shortage. The problem has increased in recent years as more tribal members have moved back to the Reservation. Not only does the Tribe have a long waiting list for tribal housing, but much of the existing housing is old and needs rehabilitation. Many tribal members live in overcrowded conditions. According to a community contact, some tribal members have received HUD Section 184 loans to purchase housing, but these loans often take a long time to finalize.

The amount of owner-occupied housing varies among the assessment area's counties. Overall, 40.3% of the assessment area's total 42,754 housing units are owner occupied. Because Oneida and Vilas counties contain many second homes, the two counties have relatively low levels of owner-occupied housing. According to 1990 U.S. Census data, only 38.9% of Oneida County's 25,173 housing units are owner occupied. The data show that 49.7% of the units are vacant; this figure represents the large number of second homes in the county. Similarly, of the 20,225 housing units in Vilas County, 28.6% are owner occupied and 63.9% are vacant. Langlade County has more owner-occupied housing units. Approximately 54.2% of the county's total 10,825 housing units are owner occupied and only 30.1% are vacant.

The following table shows the distribution of housing in the assessment area by BNA income level.

DISTRIBUTION OF HOUSING UNITS BY BNA INCOME LEVEL			
	<i>Low Income</i>	<i>Moderate Income</i>	<i>Middle income</i>
Total Housing Units	4%	26%	70%
Owner-occupied Housing Units	2%	22%	76%

As the previous table indicates, the assessment area's low-income BNA contains a very small percentage of the assessment area's total housing units. As indicated, the majority of the assessment area's total housing units, including the owner-occupied units, are located in the assessment area's middle-income BNAs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The bank's CRA performance as evaluated based on the lending, investment, and service tests is rated satisfactory.

Lending Test

The bank's lending performance as evaluated under the Lending Test is rated high satisfactory. Examiners based the majority of the Lending Test evaluation on an analysis of 587 residential real estate, 896 small business, and 115 small farm loans originated between January 1, 1998, and June 30, 1999. The evaluation of the bank's lending performance under CRA focused on several criteria: lending activity; loans in the assessment area; geographic distribution of loans; loans to borrowers of different incomes and businesses of different sizes; community development loans; and innovative and flexible loan products. Overall, the bank does a good job of meeting community credit needs.

Lending Activity

The bank is an active lender in its assessment area. As discussed, the bank originated a relatively large number of residential real estate and small business loans in 1998 and the first half of 1999. The bank is not as active in small farm lending because little agricultural loan demand exists in much of the bank's assessment area. Since the previous CRA evaluation, the bank's net loans have increased about 7%.

The bank is a major small business lender in much of its assessment area, according to CRA aggregate data. As discussed previously, only certain banks report CRA data. According to 1998 CRA aggregate data, the bank made 46% of the small business loans reported for Oneida County. The bank made 25% of such loans reported for Langlade County and 10% of such loans reported for Vilas County. Similarly, the bank made 59% of the small business loans reported in 1997 in Oneida County. Although the 1998 CRA aggregate small farm data shows that the bank made 67% of the small farm loans reported in Langlade County, only four banks reported small farm loans in this county that year. It is likely that a number of other banks originated small farm loans in the county but were not required to report data on these loans for CRA purposes.

The bank's high net loan-to-deposit ratio reflects its level of lending activity. The quarterly average of the bank's net loan-to-deposit ratio in the eight quarters since the previous evaluation is 98%. In addition, the bank's net loan-to-deposit ratio does not include loans sold on the secondary market. The bank's quarterly average net loan-to-deposit ratio is higher than that of its competitors; however, it is not possible to obtain net loan-to-deposit ratio information on several financial institutions that operate in the bank's assessment area. The bank's competitors are branches of larger institutions and loan-to-deposit ratio information is not publicly available.

The bank's net loan-to-deposit ratio significantly exceeds that of its peers. According to the bank's September 30, 1999, Uniform Bank Performance Report, the bank's net loan-to-deposit ratio of 103% exceeds the peer group average of 76%. The bank's ratio places it within the 96th percentile compared with its peers. In general, the bank's net loan-to-deposit ratio reflects a high level of lending by the bank.

Overall, the bank's strong lending activity reflected by its high lending levels, loan-to-deposit ratio, and comparison to its competitors shows its willingness to meet community credit needs.

Assessment Area Concentrations

The bank's level of lending within the assessment area is good. The bank makes most of its loans within the assessment area. Specifically, the bank made the substantial majority of the sampled residential real estate, small business, and small farm loans in the assessment area. The table below shows the percentage of total number and total dollar amount of residential real estate, small business, and small farm loans that the bank originated in the assessment area.

LOANS ORIGINATED IN THE ASSESSMENT AREA		
<i>Loan Type</i>	<i>Total Number of Loans</i>	<i>Total Dollar Amount of Loans</i>
Residential Real Estate	88.1%	87.3%
Small Business*	86.5%	85.4%
Small Farm*	80.0%	78.9%

*For purposes of CRA, small business loans are most commercial loans with original principal amounts of \$1 million or less. Small farm loans are most agricultural loans with original principal amounts of \$500,000 or less.

As shown above, the bank extends a substantial majority of its loans in its assessment area. The bank originated most of the small farm loans originated outside the assessment area in nearby counties that other M&I affiliated banks include in their assessment areas. In addition, much of the assessment area outside Langlade County has little agricultural production. As such, the overall level of small farm lending is low in comparison to the other loan products. Given these facts, the level of small farm lending outside the assessment area appears to be reasonable.

As noted, the bank lends primarily in its assessment area. Accordingly, the bank's level of lending in the assessment area shows a commitment to meeting the credit needs of assessment area residents, businesses, and farms.

Geographic Distribution of Loans

The bank's lending throughout its assessment area is reasonable. The bank's loans are distributed reasonably among BNAs of different income levels in the assessment area. In addition, the bank's loans are dispersed reasonably across different areas of the assessment area. As previously discussed, the bank's assessment area includes one low-income, seven moderate-income, and 19 middle-income BNAs. The assessment area does not have any upper-income areas.

The following table shows the distribution of the bank's residential real estate, small business, and small farm loans among the assessment area's BNA of different income levels by percentage of number and dollar amount of loans.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL						
Loan Type	Low-Income BNA		Moderate-Income BNAs		Middle-Income BNAs	
	<i>Number of Loans</i>	<i>Amount of Loans</i>	<i>Number of Loans</i>	<i>Amount of Loans</i>	<i>Number of Loans</i>	<i>Amount of Loans</i>
	Residential Real Estate	4.6%	4.6%	13.2%	11.7%	82.2%
Small Business	.6%	1.7%	10.1%	13.7%	89.3%	84.6%
Small Farm	0%	0%	16.3%	30.5%	83.7%	69.5%

As shown in the above table, the bank has limited lending activity in the assessment area's low-income BNA. Specifically, the bank made 4.6% of its residential real estate, about 1% of its small business, and none of its small farm loans in low-income BNA 9509. This BNA is located on the Reservation and has only 1,840 residents. Only 3% of the assessment area's total residents live in this BNA. It contains only 622 households; approximately 45% of the assessment area's households are classified as low income. Also, 36.5% of the assessment area's households have incomes below the poverty level. According to 1990 U.S. Census data, the median household income of this BNA is \$14,337. In addition, the BNA has only 311 owner-occupied housing units. These units account for only 2% of the assessment area's total owner-occupied housing units.

Several reasons may explain the bank's low lending levels in this BNA. First, BNA residents have very low incomes. With such low incomes, it is difficult to qualify for loans other than small loans. As a result, it seems reasonable that the bank would originate relatively few residential real estate and small business loans to these borrowers. Second, the BNA has relatively few businesses. In addition to the Casino, the Tribe operates several businesses. Dun and Bradstreet data show that this BNA contains only 47 business establishments. Also, the BNA is located near the communities of Minocqua and Woodruff, which have several other financial institutions in addition to the bank's branch. Given these factors, it does not appear unreasonable that the bank made only five small business loans in this BNA during the sample period. The BNA contains few eligible small business borrowers, and several financial institutions exist to serve these borrowers. Third, the bank's relatively low level of real estate lending in this BNA can also be explained. As discussed, the BNA contains only 311 owner-occupied housing units that account for only 2% of the assessment area's housing units. The BNA also has a serious shortage of affordable housing. Given the small number of owner-occupied housing units and lack of affordable housing in this BNA, it does not appear unreasonable that the bank made only 4.6% of its residential real estate loans in this BNA. Finally, residents of this BNA have little, if any, demand for agricultural loans. The area is heavily forested and not used for agricultural production. As such, the lack of any small farm loans in this BNA is reasonable.

The bank made more loans in the assessment area's moderate-income BNAs. Specifically, the bank made 13.2% of its residential real estate, 10.1% of its small business, and 16.3% of its small farm loans in these BNAs. These moderate-income BNAs contain about 21% of the assessment area's population. Most of these BNAs consist primarily of sparsely populated areas. One of the seven BNAs--BNA 9606 near Antigo--contains 37% of all residents living in moderate-income BNAs. Also, the moderate-income BNAs only contain 392 businesses according to Dun and Bradstreet data. In addition, the moderate-income BNAs contain about 22% of the assessment area's owner-occupied housing.

The bank's level of lending in the moderate-income BNAs appears reasonable. The bank's level of residential real estate lending compares favorably to the distribution of residents and owner-occupied

housing units in the assessment area. The two moderate-income BNAs in Vilas County are located in an area with limited available affordable housing. Another moderate-income BNA, 9710, is sparsely populated. As such, the bank's level of residential real estate lending in the moderate-income BNAs appears reasonable.

The bank's level of small business lending appears reasonable given that the moderate-income BNAs contain only 392 total businesses. In addition, two moderate-income BNAs in Vilas County are located in or near the Eagle River school district. As such, many of these residents may bank in Eagle River. The bank's level of small business lending in the moderate-income BNAs also compares favorably to the level of lending by aggregate lenders in these BNAs. According to 1998 CRA small business data, aggregate lenders made 15% of small business loans reported in the assessment area in the moderate-income BNAs.

The bank's level of small farm lending in the moderate-income BNAs also appears reasonable. Very little, if any, agricultural loan demand exists in the three moderate-income BNAs located in Vilas and Oneida counties. The remaining four moderate-income BNAs are located in Langlade County. Two of these BNAs contain mostly county and state land. Several of the BNAs are also heavily forested. As such, the bank's lending levels in these BNAs appear reasonable.

Most of the bank's lending occurs in the assessment area's middle-income BNAs. Specifically, the bank made 82% of its residential real estate, 89% of its small business, and 84% of its small farm loans in the assessment area's middle-income BNAs. These lending levels are reasonable given the assessment area's population and housing distribution. Approximately 76% of the assessment area's residents live in middle-income BNAs. In addition, middle-income BNAs contain about 76% of the assessment area's owner-occupied housing units. The bank's level of residential real estate lending compares favorably to these demographic figures.

The assessment area's middle-income BNAs contain many more business establishments than the low- and moderate-income BNAs, according to Dun and Bradstreet data. Specifically, the middle-income BNAs contain 1,795 business establishments, approximately 80% of all business establishments in the assessment area. Again, the bank's level of small business lending in the middle-income BNAs compares favorably to the distribution of businesses among BNAs of different income levels. Similarly, most of the assessment area's farms are located in middle-income BNAs. As discussed previously, many parts of the assessment area have little agricultural loan demand because the land is heavily forested. The middle-income BNAs in the southern part of the assessment area contain most of the assessment area's agricultural production. As such, the bank's level of small farm lending in the middle-income BNAs reflect these patterns.

The bank also has a reasonable dispersion of loans among the different individual BNAs in the assessment area. As expected, the bank's lending is concentrated in the areas closest to its four offices. As such, BNAs 9704, 9705, 9706, 9709, and 9712 contain a large number of the bank's loans. The areas with relatively few, if any, loans are located on the outer edges of the assessment area far from bank office locations or close to other communities that contain competitor financial institutions. In addition, many of the factors previously discussed related to individual BNAs help explain why the bank may have limited lending activity in some BNAs.

Overall, the bank's distribution of loans among BNAs of different income levels and its dispersion of loans throughout the assessment area is reasonable. Several of the locations have limited affordable housing, which limits residential real estate lending opportunities. Also, the distribution of residents, owner-occupied housing, businesses, and small farms throughout the assessment area help explain and support the bank's lending patterns.

Distribution of Loans by Borrower Income

The bank has an adequate distribution of its loans to borrowers of different income levels and businesses and farms of different sizes. The bank's loan data show a reasonable distribution of the bank's residential real estate, small business, and small farm loans among borrowers of different income levels and businesses and farms of different sizes. As previously discussed, CRA divides borrowers into the following income levels: low, moderate, middle, and upper. The determination of these categories is based on the 1999 Wisconsin statewide average median family income of \$44,400.

The following table shows the distribution of the bank's residential real estate loans by borrower income level.

DISTRIBUTION OF ASSESSMENT AREA RESIDENTIAL REAL ESTATE LOANS BY BORROWER INCOME				
	<i>Low-Income Borrowers</i>	<i>Moderate-Income Borrowers</i>	<i>Middle-Income Borrowers</i>	<i>Upper-Income Borrowers</i>
Number of Loans	3.5%	15.3%	23.6%	57.6%
Amount of Loans	1.9%	9.5%	18.6%	69.9%
*Income level determined based on the 1999 statewide nonmetropolitan median family income for Wisconsin of \$44,400.				

As the above shows, the bank made 18.8% of the total number and 11.4% of the total dollar amount of its residential real estate loans to low- and moderate-income borrowers. As previously discussed, the assessment area contains 22.7% and 26.6% low-income families and households, respectively. It also contains 21.9% and 18.6% moderate-income families and households, respectively. In comparison to demographics, the bank's level of residential real estate lending to low- and moderate-income borrowers appears low. The bank's lending to middle-income borrowers compares favorably to the fact that 24.9% of the assessment area's families are considered middle income. The bank's level of lending to upper-income borrowers exceeds the percentage of assessment area families considered upper income (30.5%). As will be discussed, housing demand trends in the assessment area help explain the high level of lending to upper-income borrowers.

Several reasons help explain the level of real estate lending to low- and moderate-income borrowers. First, portions of the assessment area have fairly serious affordable housing problems. According to community contacts, the northern portion of Oneida County has very limited affordable housing available. The area has continued to grow as a retirement community for relatively affluent retirees. As such, much of the housing demand in this area is for higher-end vacation or second homes. Development of affordable housing has been hindered because of the high cost of land in the area. Portions of Vilas County also have similar housing issues. The bank's relatively high level of lending to upper-income borrowers reflects this trend in the assessment area.

As previously discussed, the Reservation also has a serious lack of affordable housing. Little housing exists on the Reservation for purchase. Also, the Reservation contains a limited amount of owner-occupied housing. These housing-related issues contribute to the bank's relatively limited residential real estate lending to low- and moderate-income individuals.

Second, the residential real estate loan sample does not include home improvement loans originated by the bank. Often, lower-income individuals or families borrow funds for home improvement purposes rather than funds to purchase a new home. Also, as noted by bank management, many of the affordable homes in Rhinelander require some rehabilitation. As such, the sample may not provide a complete picture of the bank's residential real estate lending to low- and moderate-income borrowers. It is possible that low- and moderate-income borrowers in the assessment area may have a higher demand for home improvement rather than purchase or refinance loans.

Third, the bank operates in a fairly competitive banking environment. A number of banks and nonbank financial institutions provide residential real estate loans in the assessment area. Given these factors, in addition to the fact that community contacts did not identify any unmet real estate credit needs, the bank's level of lending to low- and moderate-income borrowers appears adequate.

As discussed subsequently, the bank participates in several real estate-related loan programs designed to help low- and moderate-income individuals purchase homes. These programs help service the real estate needs of the assessment area's low- and moderate-income borrowers.

The bank has a good distribution of loans to businesses and farms of different sizes. The bank makes the majority of its small business loans to businesses with \$1 million or less in gross annual revenues. The bank makes almost all of its small farm loans to farms with \$1 million or less in gross annual revenues.

During the sample period, the bank originated 775 small business and 92 small farm loans in the assessment area. A review of the bank's reported small business loans shows that the bank made 84.4% of its loans to businesses with \$1 million or less in gross annual revenues. The bank made an even higher percentage of its small farm loans (95.7%) to farms with \$1 million or less in gross annual revenues. Although the bank made 98.1% of the total amount of small farm loans to farms with less than \$1 million in gross annual revenues, the bank made a lesser percentage of the total amount of small business loans (70.6%) to businesses of similar size.

The following table shows the distribution of the bank's reported small business and small farm loans by loan size.

DISTRIBUTION OF SMALL BUSINESS AND SMALL FARM LOANS BY LOAN SIZE			
	<i>Loan amount \$100,000 or less</i>	<i>Loan amount \$100,001.01 to \$250,000</i>	<i>Loan amount \$250,000.01 to \$1,000,000</i>
Small business loans	70%	17%	13%
Small farm loans	70%	12%	18%

As shown above, the majority of the bank's small business and small farm loans have amounts of \$100,000 or less. The bank's level of lending to small businesses compares favorably to the lending of aggregate CRA data reporters. Aggregate lenders originated approximately 82% of all reported small business loans to businesses with \$1 million or less in gross annual revenues. Of the total small business loans reported by aggregate lenders in 1998, approximately 76% had amounts of \$100,000 or less, 16% had amounts between \$100,000.01 and \$250,000, and 8% had amounts between \$250,000.01 and \$1,000,000.

The bank's level of small business and small farm lending is consistent with the types of businesses and farms in the assessment area. Most of the business establishments and farms in the assessment area have business revenues of \$1 million or less.

Overall, the bank's lending to small businesses and small farms is strong; this lending generally reflects the types of businesses and farms located in the assessment area. The bank's residential real estate lending among borrowers of different income levels is reasonable. Although the bank made fewer loans to low- and moderate-income borrowers, several explanations exist that explain this pattern of lending. The bank's higher level of real estate lending to middle- and upper-income borrowers reflects the housing demand in the market as well as the limited availability of affordable housing in portions of the assessment area. Because of these reasons, the bank's lending to borrowers of different income levels and businesses of different sizes is adequate.

Community Development Lending Activities

Although the bank did not report any community development loans, examiners noted several loans that the bank originated since the previous evaluation that qualify as community development loans. The bank's level of community development lending is relatively low; however, the assessment area has limited community development loan opportunities.

The bank made the first community development loan to fund a major addition and renovation for a tribally owned business on the Reservation. Bank management estimated that the addition would help provide additional jobs on the Reservation. Also, the loan helped the operation increase efficiency and production. Given the demographics on the Reservation, it is very likely that the recipients of these jobs would be considered low or moderate income. In addition, the loan also helped revitalize a low-income area.

The bank originated two loans related to operations at the Casino. The first loan, a line of credit, provides funds to update and purchase new gaming equipment. The second loan serves as a refinance of the original loan to construct and provide equipment for the Casino. Both these loans help support the largest employer on the Reservation. Several community contacts noted that the Casino has helped decrease unemployment on the Reservation from about 60% to 20%. Given these estimates, it is evident that the Casino has helped employ a significant number of low- and moderate-income individuals, many of whom are Reservation residents. Also, the Casino has helped improve the overall economy of the Reservation, an area considered low-income as of the 1990 U.S. Census.

In addition to these loans, the bank made many loans since the previous evaluation that benefit its community; however, most of these loans do not qualify as community development loans. As discussed, the assessment area offers few community development lending opportunities for the bank. Given that limited opportunities exist, the bank's community development lending is commendable. The bank made several loans that should help the Reservation's economy continue to improve.

Product Innovation and Flexibility

The bank offers a variety of loan products that have innovative and flexible loan terms. The bank offers many of the same products offered by its M&I affiliated banks located throughout Wisconsin. Its products include Corporation-designed programs as well as several government-guaranteed loan programs.

The bank offers a home equity line of credit called the MI Master Line. Under the terms of this loan agreement, borrowers may convert the line of credit into as many as four closed-end installment loans. As the borrower pays down the installment loan, the amount of accessible open-end credit increases. This product offers flexibility to borrowers who wish to amortize loan payments over a fixed period of time.

The bank also offers the NHLP although it has originated only two of these loans since the previous evaluation. The program offers flexible terms and underwriting standards for first-time homebuyers. Under the terms of the program, the minimum down payment required is 3%, and the standard private mortgage insurance requirement is waived. As part of the underwriting process, the bank considers timely rent, utility, and other monthly payments to help qualify certain borrowers. The bank originated two NHLP loans totaling \$100,000 since the previous evaluation.

In March 1999, the bank began a loan program for members of the Tribe. The purpose of the program is to help tribal members obtain loans who would not otherwise qualify under the bank's normal underwriting criteria. As part of the program, the Tribe agrees to guarantee the loans with funds maintained in a certificate of deposit at the bank. Since its inception, the bank has originated 19 loans totaling \$50,358 under the program. Most of the loans are small dollar amount loans. Conceivably, the program should help some tribal members establish credit who may not otherwise qualify for loans under standard underwriting criteria.

The bank participates in several other government-guaranteed or -sponsored loan programs that help meet the special credit needs of assessment area residents. Several of these programs help low- and moderate-income individuals qualify for loans. In the residential real estate area, the bank participates in the following loan programs: FHA, VA, State VA, WHEDA HOME, and HUD Section 184. The State VA program provides low-interest loans for home purchase, construction, and home improvement purposes to low- and moderate-income Wisconsin veterans. The program has limited down payment requirements. The WHEDA HOME program provides low down payment (5%) loans to individuals who meet certain income and purchase limit requirements. The income and purchase limit requirements vary by county. The program is open only to first-time homebuyers who meet these requirements. The HUD Section 184 program provides residential real estate loans to tribal members living on tribal trust land.

The bank also participates in block grant programs sponsored by the cities of Rhinelander and Antigo. The City of Rhinelander's Homestead Opportunity Program helps families currently renting in Rhinelander become homeowners. The program has income limitations based on household size. The block grant funds are used to help the borrower with down payment costs and closing costs. The bank agreed to finance up to \$250,000 in these loans for 1998 and 1999.

The following table shows the bank's activity in these residential real estate programs since the previous evaluation:

GOVERNMENT-SPONSORED RESIDENTIAL REAL ESTATE LENDING		
	<i>Number of loans</i>	<i>Amount of loans</i>
State VA	4	\$247,380
Federal VA	7	\$542,481
WHEDA HOME	1	\$99,000
NHLP	2	\$100,000

As noted above, the bank has not made any FHA or HUD Section 184 loans since the previous evaluation. According to bank management, the bank and the Corporation continue to find ways to originate HUD Section 184 loans on the Reservation. The bank has referred several applicants to a mortgage company for HUD Section 184 loans.

The bank is also active in government-sponsored business and agricultural lending. The bank participates in SBA, WHEDA, FSA, Wisconsin Business Development Finance Corporation, and Wisconsin Department of Development loan programs. The bank provides both WHEDA business and agricultural loans. The WHEDA CROP program helps provide farmers with capital during times when they may not qualify for conventional financing. Since the previous evaluation, the bank has originated seven SBA loans totaling \$1,062,000. The bank originated 7 WHEDA CROP loans in 1998 that totaled \$107,081. The bank also has \$63,776 outstanding for the four WHEDA CROP loans originated in 1999. The bank has three outstanding FSA loans originated in 1999 that have a total outstanding balance of \$822,029. Overall, the bank actively participates in a variety of loan programs that provide flexible and sometimes innovative lending programs and criteria for residents of the assessment area.

Conclusion

Several factors support the bank's high satisfactory rating for the Lending Test. The bank has generally high levels of lending activity and makes most of its loans in the assessment area. In addition, the bank's lending to borrowers of different income levels and businesses of different sizes is reasonable. The geographic distribution of the bank's loans is also reasonable. The bank also offers a wide variety of flexible loan products that serve the needs of assessment area residents, particularly its low- and moderate-income residents. Finally, the bank made several community development loans that should help the Reservation's economy.

Investment Test

The bank's level of qualified community development investments is adequate and is rated low satisfactory. Although limited community development opportunities exist in the assessment area, the bank has made no qualified community development investments other than community development donations since the previous evaluation.

Investment and Grant Activity

The bank has made no qualified community development investments since the previous evaluation. The bank's investment portfolio does include two qualified community development investments purchased prior to the previous evaluation. An area housing authority issued these two bonds for the purpose of remodeling a low-income, multifamily housing project in the assessment area. The bonds totaled \$400,000 when purchased.

The lack of other community development investments in the bank's portfolio is somewhat an indication of the limited community development investment opportunities in the assessment area. As discussed, the bank operates in a rural portion of northeastern Wisconsin. The assessment area does not contain any large communities in which community development investments would be more common. Although community contacts did not identify any specific community development investment opportunities, they did identify a few needs in the community. For instance, a tribal contact indicated that affordable housing is in very short supply on the Reservation. A shortage of affordable housing is also a concern in the Minocqua-Woodruff area.

The bank has made several qualified community development donations since the previous evaluation; however, none of the donations are particularly innovative or complex. Although the bank makes a sizable amount of donations each year, many of the bank's donations do not qualify as community development donations. The bank made the following amount of community development donations in 1998 and 1999, respectively: \$1,850 and \$1,000. The bank also made a \$50 qualified community development donation in December 1997. Overall, community development donations accounted for about 13% of the bank's total donations since the previous evaluation.

The bank's level of qualified community development activity is adequate given the limited community development investment opportunities in the assessment area. The bank continues to hold two qualified investments in its portfolio and the bank made some community development donations since the previous evaluation.

Service Test

The bank's rating under the Service Test is high satisfactory. The bank provides a reasonable level of service through its office and ATM locations. The bank also offers a significant number of retail banking services for its customers. In addition, bank directors, management, and personnel contribute to the community by engaging in a number of community development services.

Retail Banking Services, Changes in Branch Locations, and Business Hours

The bank has effective and relatively extensive means of providing residents and businesses in the assessment area access to its products and services. As discussed previously, the bank operates three full-service offices and one limited-service facility. Several of these offices serve low-or moderate-income areas. Specifically, one of the full-service offices is located in a moderate-income BNA. The limited service facility is located in a low-income BNA. In addition, the bank operates eight ATMs in the assessment area. All but one of the ATMs is located in Rhinelander; the other ATM is located in Woodruff. The ATM located at the bank's main office in Rhinelander accepts deposits and the remaining ATMs dispense cash only. The bank has not opened or closed any offices since the previous evaluation.

The bank's reasonable hours provide bank customers with relatively easy access to bank services. All the bank's offices, except the Lac du Flambeau office, offer longer drive-up hours, including Saturday morning hours. These three drive-up locations all open by 8:00 a.m. each weekday. The drive-up locations in Antigo and Rhinelander remain open until at least 5:00 p.m. each weekday and 6:00 p.m. on Friday.

The bank offers several low-cost checking and savings products. The M&I Basic Checking account has a \$3 monthly maintenance fee and a \$.50 per check or debit card charge for any such transactions that exceed 10 per statement cycle. This account does not have a minimum balance requirement. The bank also offers a free savings account for members of the Tribe who are under 18. The accounts are set up as trust-type accounts for the per capita payments that these young people receive for being tribal members. The accounts receive a higher interest rate than the bank's other savings accounts. The bank offers a number of other checking and savings account products.

The bank offers several additional delivery systems that help provide customers with access to the bank's services. Through the Mi Line automated voice response system, customers may access credit and deposit account information 24 hours a day. Customers may use this service to access balance information and to transfer funds between accounts. There is no charge for this service. The bank also offers the M&I Direct Telephone Bill Pay program and the M&I Direct PC Banking system. For a small

monthly fee, customers can use the telephone or PC to pay monthly bills, access account information, and transfer funds between accounts. Finally, the bank offers the M&I Bank Card, an ATM and debit card on the VISA and TYME networks. Bank customers may also transact business at all M&I affiliated banks located throughout Wisconsin.

Overall, the bank's retail banking services offer a variety of delivery options for all its customers. The availability of telephone banking options enhances the delivery services to low- and moderate-income individuals. In addition, the bank's offices in low- and moderate-income areas contribute significantly to the delivery of services to some of the assessment area's low- and moderate-income individuals.

Community Development Services

Bank representatives engage in a number of community development services throughout the assessment area. A community development service, as defined by CRA, involves providing some type of financial-related assistance to a qualified community development organization. As with community development investments, the assessment area has limited community development service opportunities given the rural nature of the assessment area.

The following represents the bank's community development service activities since the previous evaluation.

- The Woodruff branch manager served as director for the local Habitat for Humanity chapter in 1998. In this position, he helped start the chapter as well as provide financial expertise for running the program.
- The bank's president serves as a director for the St. Mary's Hospital Foundation. In this capacity, he has provided financial expertise for the free clinic operated by the foundation.
- The bank's president also served as the 1998 president of the Oneida County Economic Development Corporation ("EDC"). He currently serves as an EDC director. The EDC helps promote economic development in the community, including attempting to attract new businesses to the area.
- The bank's president served as chairman of the local YMCA's financial development committee. As part of his duties, he helped coordinate the organization's annual promotion to raise funds for scholarships for low- and moderate-income youngsters.
- A bank director serves on the Antigo Area Industrial Corporation, an organization that promotes business development in the Antigo area.
- In June 1999, the bank president and the Woodruff branch manager provided assistance to the Tribe on a housing debt issue.

The bank's level of community development services is reasonable given the limited availability for community development services in the assessment area. The bank has engaged in several different types of community development activities since the previous evaluation. In general, community contacts indicated that the bank is an active community member.

Conclusion

The bank's branch and ATM locations are accessible to all areas of the assessment area. Two of the branches are located in low- and moderate-income areas. The bank also provides a number of alternative delivery systems that help provide access to the bank's services for all residents of the assessment area, including the low- and moderate-income residents. Finally, the bank participates in a reasonable amount of community development services given its location in a rural area. Because the bank's branch locations, hours, and other product delivery systems provide access for low- and moderate-income residents to the bank's services, the bank is rated high satisfactory. In addition, the bank's reasonable level of community development services helps support this rating.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

During the evaluation, examiners did not note any violations of the substantive provisions of the fair lending laws and regulations. Examiners noted a violation of the technical provisions of Regulation B-- Equal Credit Opportunity Act.

GENERAL

The bank has not received any CRA-related complaints since its last evaluation as of December 1, 1997.

APPENDIX A

Scope of Examination			
As of the evaluation date, the bank operated three full-service offices, a limited-service facility, and eight ATMs in the assessment area. It has defined only one assessment area for purposes of CRA. This evaluation is based on a review of all the bank's activities in the assessment area since the last evaluation, dated December 1, 1997.			
Time Period Reviewed	We reviewed the bank's CRA performance based on its activities since the last evaluation, dated December 1, 1997. The loan data reflected in the Report is based on loans originated in 1998 and the first half of 1999.		
<u>Financial Institution</u> M&I Merchants Bank Rhineland, Wisconsin			<u>Products Reviewed</u> As part of the CRA evaluation, the examiners reviewed three loan categories: small business, small farm, and residential real estate loans (home purchase and refinance).
Affiliate(s) Not applicable			
List of Assessment Areas and Type of Examination			
<i>Assessment Area</i>	<i>Type of Examination</i>	<i>Branches Visited</i>	<i>Other Information</i>
Non-MSA Assessment Area Branches visited: Main office, Woodruff office, and Lac du Flambeau office	Full Scope	Branches visited: Main office, Woodruff office, and Lac du Flambeau office	For CRA purposes, it was not necessary for the examiners to visit the bank's other office.