

PUBLIC DISCLOSURE

July 14, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M Bank - Iowa
RSSD# 689740

11 N. 1st Avenue
Marshalltown, Iowa 50158

Federal Reserve Bank of Chicago
230 S. LaSalle Street
Chicago, Illinois
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.

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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 **F&M Bank-Algoma, Algoma, Wisconsin**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **July 14, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S RATING: This institution is rated Satisfactory.

F&M Bank-Algoma promotes economic revitalization and growth, in a manner consistent with its asset size, financial capacity and current economic conditions. The bank meets community credit needs primarily through its real estate, small business and farm lending, in addition to its consumer lending in amounts under \$2,000.

A substantial majority of all loans sampled were extended within the bank's assessment area, and the bank's loan penetration to businesses and farms with gross annual revenues of \$1 million dollars or less was strong. The bank's extension of real estate loans to low- and moderate-income individuals also evidenced its efforts to meet local community credit needs. There is no evidence of discriminatory lending practices, or policies intended to discourage individuals from applying for loans offered by the bank.

DESCRIPTION OF INSTITUTION

F&M Bank-Algoma, with total assets of \$64.9 million as of March 31, 1998 is a wholly-owned subsidiary of F&M Bancorporation, Inc., a multi-bank holding company. Commercial real estate and commercial/industrial lending combined, comprised approximately 37% of the loan portfolio, followed by 1-4 family residential real estate lending, based upon the bank's March 31, 1998 Consolidated Report of Condition. Full loan and deposit services are available at the bank's main office in Algoma and branch office in Forestville. Additionally, the bank has three automated teller machines in Algoma. The bank derives competition for loans and deposits from the following financial institutions: Baylake Bank of Sturgeon Bay with branches in Algoma, Kewaunee and Sturgeon Bay; Harbor Credit Union of Green Bay with a branch in Algoma; and two branches of North Shore Bank, FSB of Brookfield in Sturgeon Bay.

DESCRIPTION OF ASSESSMENT AREA

Algoma is located in northeastern Wisconsin, along Lake Michigan approximately 30 miles east of Green Bay. The community's location on the Lake Michigan shoreline contributes to its popularity as a resort area. The bank's assessment area includes a total of 18 block numbering areas (BNAs) in Door and Kewaunee Counties; none of the BNAs in the assessment area are low- or moderate-income. The following chart details characteristics of each BNA within the assessment area:

| BNA | Median Family Income | County | Owner-Occupied Housing Units |
|---------|----------------------|--------|------------------------------|
| 9801 | 30,972 | Door | 480 |
| 9802 | 24,375 | Door | 220 |
| 9803 | 30,664 | Door | 636 |
| 9804.98 | 29,857 | Door | 642 |
| 9805.98 | 33,246 | Door | 952 |
| 9806 | 30,712 | Door | 971 |
| 9807 | 29,562 | Door | 1,306 |
| 9808 | 32,058 | Door | 1,422 |
| 9809 | 29,342 | Door | 448 |
| 9810 | 30,192 | Door | 496 |

| BNA | Median Family Income | County | Owner-Occupied Housing Units |
|---------|----------------------|----------|------------------------------|
| 9807.99 | 7 | Door | 0 |
| 9808.99 | 0 | Door | 0 |
| 9601 | 30,625 | Kewaunee | 1,017 |
| 9602 | 30,755 | Kewaunee | 754 |
| 9603 | 34,425 | Kewaunee | 1,105 |
| 9604 | 35,550 | Kewaunee | 842 |
| 9605 | 29,962 | Kewaunee | 843 |
| 9606 | 35,084 | Kewaunee | 899 |

The population of the assessment area is 44,083, based upon 1990 census data. Income levels in the assessment area are above the statewide non-metropolitan median family income of \$30,290, but lower than the State of Wisconsin median family income of \$35,082. Sixteen percent of the families in the assessment area had incomes below 50% of the state non-metropolitan median family income; and 18.2% had incomes between 50% and 80% of the state non-metropolitan median family income.

The majority of housing in the community is owner-occupied and single-family. Approximately 51.8% of the housing in the assessment area is owner-occupied, while single-family units comprised 75.0% of the housing supply. By comparison, the statewide non-metropolitan owner-occupancy rate was 57.1%, and 74.8% of the housing supply was single-family. The following chart details median housing values and the percentages of housing built prior to 1950 for the counties in the assessment area and the assessment area as a whole in comparison to statewide levels:

| County/Area | Median Housing Value | Percentage of Housing Units Built Pre-1950 |
|--|----------------------|--|
| Door | \$67,038 | 36.7 |
| Kewaunee | \$49,777 | 48.8 |
| State of Wisconsin | \$62,141 | 36.8 |
| All non-metropolitan areas within the State of Wisconsin | \$50,092 | 38.6 |
| Assessment Area | \$59,422 | 40.3 |

The assessment area median housing value is well above the median housing value of all non-

metropolitan areas within the State of Wisconsin (\$50,092). The Door County economy thrives on tourism and recreational activities and has one of the highest median housing values in Wisconsin. The assessment area percentage of pre-1950's housing (40.3%) is comparable to the 38.6% of the pre-1950's housing supply of all state non-metropolitan areas.

Approximately 88% of the owner-occupied housing in the assessment area is valued below \$100,000. A comparison by county revealed 82% of Door County and 96% of Kewaunee County owner-occupied housing, had a value of less than \$100,000.

Tourism, agriculture, light industry and service-related businesses play a major role in the local economies, with corn, soybean, and livestock production as the primary activities. Local community representatives indicated that a substantial majority of Kewaunee County industry is located in Algoma. The following table depicts the assessment area's large employers:

| Business | City | Number of Employees | Product/Service |
|-------------------------|-------------|----------------------------|------------------------|
| Wisconsin Label Group | Jefferson | 400 | Printing/Labels |
| Algoma Hardwoods | Algoma | 380 | Doors/Panneling |
| Olsonite Corp | Algoma | 275 | Toilet Seats |
| Algoma Schools | Algoma | 100 | Education |
| Algoma Manufacturing Co | Algoma | 80 | Mops |
| City of Algoma | Algoma | 70 | Government |
| Monarch Ware Inc., | Algoma | 60 | Fabrication/Enamel |

The June, 1998 unemployment rates for Door (3.7%) and Kewaunee Counties (3.2%), are comparable with the State of Wisconsin unemployment rate of 3.0%, based upon Wisconsin Department of Workforce Development statistics. These rates, up slightly from the May, 1998 levels; nevertheless, reflect a historically strong level of employment within the state.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

Loan To Deposit Ratio Analysis

The bank's average quarterly loan-to-deposit ratio for the six previous reporting quarters was 62.26%. By comparison, the bank's nearest competitor, Baylake Bank, with assets of \$451 million as of December 31, 1997, had a six-quarter loan-to-deposit ratio of 83.25%. Union State Bank of Kewaunee, with \$46,380,000 in assets as of March 31, 1998, had an 82.93% six-quarter, loan-to-deposit ratio. A review of the bank's March 31, 1998, Consolidated Report of Condition, revealed the following:

- One-to-four family loans outstanding totaled \$9,362,000, comprising 25.6% of the loan portfolio;
- Multifamily real estate loans outstanding totaled \$2,583,000, comprising 7.0% of the loan portfolio;
- Commercial real estate loans outstanding totaled \$8,346,000, representing 22.8% of the loan portfolio;
- Commercial and industrial loans outstanding totaled \$5,103,000, representing approximately 14% of the loan portfolio;
- Loans to finance agricultural production totaled \$2,312,000, representing 6.3% of the loan portfolio; and
- Loans secured by farmland totaled \$2,404,000, representing 6.6% of the loan portfolio.

Discussions with community representatives conducted in conjunction with the examination, indicated that the volume and distribution of the bank's loan portfolio is consistent with current community credit needs. The bank's loan volume as evidenced by its loan-to-deposit ratio meets the standard for satisfactory performance.

Lending in Assessment Area

The bank's analysis of real estate, consumer, small businesses and small farm loans extended between January 1, 1998 and June 30, 1998 was utilized to assess the bank's lending within the assessment area. A total of 658 loans were extended or renewed over the six-month period. Approximately ninety-six percent (634 loans) of the total loans sampled were originated within the assessment area.

The bank's performance with respect to lending within the assessment area exceeds the standard for satisfactory performance.

Lending Analysis Based Upon Borrower Income and Size of Business

The loan sample was also reviewed to determine the bank's distribution of loans among borrowers of different income levels and to businesses and farms with gross annual revenues of less than \$1 million. The bank's new loan report codes applicant income levels based upon

1996 median family income of the Green Bay MSA. Families with income levels of \$22,899 or less were classified as low-income, \$22,900 to \$36,639 as moderate-income, \$36,640 to \$54,959 as middle-income; and incomes of \$54,960 or above as upper-income.

A review of the bank's report of real estate loans revealed that there were 448 new or renewed real estate loans in the assessment area for the period of January 1, 1998 through June 30, 1998. The income for approximately 88 loan applicants was coded as low-income; 289 applicants were coded as moderate-income, 60 applicants were coded as middle-income, 11 applicants were coded as upper-income. At least 67% of loan originations were to low- and moderate-income borrowers, after examination adjustments were made to bank lending levels for those files with either coded applicant income that did not match file information or where coded information was not recorded.

A review of originations and renewals to businesses and farms with gross annual revenues of one million dollars or less revealed that the bank renewed or extended approximately 51 small business loans totaling over \$5.8 million dollars and approximately 50 farm loans totaling over \$3.6 million dollars from January 1, 1998 through June 30, 1998. A review of the bank's June 30, 1998 and June 30, 1997 Consolidated Reports of Condition indicated that all of the bank's 1998, and a majority of the bank's 1997 commercial and agricultural loans outstanding were extended for amounts under \$100,000.

A proxy of the original loan amount for consumer loans was utilized, since the bank does not generally collect income information on consumer loans. A proxy amount of \$2,000 was chosen as the maximum amount for consumer loans that would serve low- or moderate-income individuals who may not have access to credit cards for smaller borrowing needs, based upon assessment area income levels. Approximately 71 of the 658 loans in the CRA loan sample were extended with original amounts of \$2,000 or less; 18% of the total loan portfolio (275 of 1,547 total loans outstanding as of July 1, 1998) had been extended in original amounts of \$2,000 or less. The bank's level of lending to consumers in amounts of \$2,000 or less and its mortgage lending to low- and moderate-income borrowers reflect its strong level of commitment to consumers.

The bank's loan penetration to borrowers of different income levels and businesses and farms of different sizes, is consistent with the demographics of the assessment area and local demand. The bank's level of lending to businesses and farms with revenues of \$1 million or less and its levels of lending in amounts of \$100,000 or less reflect its strong level of commitment to small businesses and farming operations. The bank's lending performance exceeds the standards for satisfactory performance.

Geographic Distribution of Loans

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

Response to Substantiated Complaints

No complaints were received by the bank regarding its CRA performance since the previous examination.

GENERAL

Management has developed and implemented policies and procedures supporting nondiscrimination in lending. The bank is in compliance with the substantive provisions of anti-discriminatory laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. The bank has developed standards, policies and practices in compliance with the regulations and has applied them in a consistent manner.