

PUBLIC DISCLOSURE

January 20, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Elmwood
RSSD# 264941

2704 Lathrop Avenue
Racine, Wisconsin 53408

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, IL 60604-1413

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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INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution's performance is rated **outstanding**.

Bank of Elmwood provides credit in a manner consistent with its size, location, and current economic condition of its assessment area. The bank's efforts are accomplished through the origination of real estate, consumer, and commercial loans. The loan-to-deposit ratio is generally strong and is enhanced by a substantial volume of off-balance sheet mortgage lending. A substantial majority of loans originated in the last three years was in its assessment area. Its record of lending to consumers of different income levels and to small businesses is excellent as is its performance in providing loans in census tracts of all income levels, especially for low- and moderate-income. Bank of Elmwood's overall CRA performance rating is supplemented by a strong level of community development investment and service activities. Several community representatives contacted during the examination provided favorable comments about the bank's leadership in CRA activities. There were no CRA-related complaints received by the institution or this Reserve Bank since the previous evaluation. The evaluation revealed no patterns or practices intended to discriminate against or to discourage applications from any member of a protected class.

The institution was rated **outstanding** under the CRA at its previous evaluation conducted on January 11, 1999.

DESCRIPTION OF INSTITUTION

Bank of Elmwood, with \$244 million in total assets at September 30, 2003, is a wholly owned subsidiary of Elmwood Financial Corporation, a one-bank holding company located in Racine, Wisconsin. Racine is located in the southeast corner of Wisconsin, approximately 25 miles south of Milwaukee and 65 miles north of Chicago. Bank of Elmwood's banking locations include the main office, two other full-service branches, and a drive-up facility all in the city of Racine, and one full-service branch in the city of Kenosha. Additional limited banking services are provided through a network of nine automated teller machines (ATMs), including five full-service and one cash-dispensing ATM in Racine, two full-service ATMs in Kenosha, and one cash-dispensing ATM in Milwaukee County. Three Racine ATMs and one Kenosha ATM have 24-hour accessibility.

Bank of Elmwood is a community institution focusing primarily on retail banking, with a strong emphasis on mortgage lending. It offers a substantial range of consumer deposit and loan products, including checking, savings, NOW, and money market accounts, certificates of deposit, IRAs, secured and unsecured consumer loans and lines of credit, student loans, and numerous residential real estate mortgage loan products, including construction loans. Credit cards for consumers and businesses are offered through Elan Financial Services. Commercial deposits, loans and lines of credit are also available.

As of September 30, 2003, loans secured by real estate represent almost 84% of the loan portfolio based on dollar amount outstanding. The composition of the real estate loan portfolio, as a percentage of all loans outstanding at September 30, 2003, includes: loans secured by 1-4 family dwellings (54%); loans secured by nonfarm nonresidential properties (27%); and construction loans and loans secured by multifamily housing (3%). Excluded from these figures is a substantial volume of residential real estate mortgage loan originations sold in the secondary market to the Federal Home Loan Mortgage Corporation (Freddie Mac). The balance of the loan portfolio is divided almost equally between consumer and commercial loans. Credit products offered are consistent with credit needs in the combined assessment area. There are no factors relative to the bank's financial condition, size, or local economic condition that would prevent it from meeting the community's credit needs.

Credit and other financial needs in the assessment area are met through a number of banks, thrift institutions, and credit unions. These entities include local, statewide, and regional institutions of various sizes. Those that primarily serve the Racine and/or Kenosha markets include: Bank of Kenosha (Kenosha), Southport Bank (Kenosha), Community State Bank (Union Grove), and AM Community Credit Union (Kenosha). Institutions serving a broader regional area, mostly encompassing southeast and south central Wisconsin include: First Banking Center (Burlington), Johnson Bank (Racine), and Educator's Credit Union (Racine). Competitors with a market area that includes a large portion of Wisconsin, and specifically Racine and Kenosha, include: Bank One, N.A. (Chicago), U.S. Bank N.A. (Cincinnati), M&I Marshall & Ilsley Bank (Milwaukee), TCF National Bank (Minneapolis), Wells Fargo Bank Wisconsin, N.A. (Milwaukee), Guaranty Bank (Milwaukee), and North Shore Bank F.S.B. (Brookfield).

As of June 30, 2003, Bank of Elmwood has a 7.6% market share of FDIC-insured deposits in Racine County, ranking it third out of 17 financial institutions with at least one branch in the county. Similar data for Kenosha County shows a market share of just under 1%, ranking Bank of Elmwood 13th out of 14 financial institutions operating there.

DESCRIPTION OF ASSESSMENT AREA

An institution's assessment area(s) will include the towns, counties, or other political subdivisions where its branches are located and a substantial portion of its loans are made. Assessment area(s) must consist of one or more geographies defined by block numbering areas (BNAs) or census tracts, which are statistical subdivisions of a county. Census tracts are primarily used in metropolitan areas, while BNAs are used in non-metropolitan areas. 1990 U.S. Bureau of Census data is used in this evaluation, unless stated otherwise.

Bank of Elmwood’s assessment area, shown in Appendix A, consists of 54 contiguous census tracts in Racine and Kenosha counties that lie east of Interstate 94. Racine County is also known as the Racine Primary Metropolitan Statistical Area (PMSA), which is part of the larger Milwaukee-Racine Consolidated Metropolitan Statistical Area (CMSA). Kenosha County is also known as the Kenosha PMSA, which is part of the larger Chicago-Gary-Kenosha CMSA. The 28 Racine County census tracts include those numbered from 1.00 through 17.04 and the 26 Kenosha County census tracts include those numbered from 1.00 through 26.00. The composition of these 54 census tracts by income classification and county is shown in Exhibit #1.

Exhibit #1	Bank of Elmwood Assessment Area		
	Number of Census Tracts		
	Racine County	Kenosha County	Combined
Income Classification			
Low-income	4	2	6
Moderate-income	2	5	7
Middle-income	18	14	32
Upper-income	4	5	9
Totals	28	26	54

For purposes of the performance analyses described in this document, the 54 census tracts have been evaluated as one assessment area instead of considering each county as a separate assessment area because the two areas share many similar economic and demographic characteristics and the census tracts are contiguous. The Kenosha census tracts were added to the assessment area following the previous evaluation as a result of the opening of a Kenosha office in 1999.

Bank of Elmwood’s Kenosha branch is located in a moderate-income census tract. Its main office and one Racine branch are located in middle-income census tracts, and the Racine drive-up facility is located in an upper-income census tract. The latter three locations are, however, within close proximity to several low- and moderate-income census tracts. The fourth Racine banking office is located in an upper-income census tract on the northwest side of the city. The Kenosha branch initially opened in 1999 in rental space vacated by another financial institution in the downtown area, but was subsequently relocated to its current location in the western part of the city upon completion of construction of a new bank-owned facility in April 2002.

Selected demographic information concerning the assessment area is provided in Exhibit #2.

Exhibit #2		Bank of Elmwood Assessment Area Demographics							
Income Categories	Tract Distribution		Number of Families in Tract		Families Below Poverty Level as % of Families by Tract		Number of Families Based on Family Income		
	#	%	#	%	#	%	#	%	
Low-income	6	11.1	4,589	7.4	1,596	34.8	12,300	19.8	
Moderate-income	7	13.0	7,155	11.5	1,462	20.4	11,675	18.8	
Middle-income	32	59.2	39,132	63.0	2,097	5.4	15,752	25.3	
Upper-income	9	16.7	11,278	18.1	411	3.6	22,427	36.1	
TOTALS	54	100.0	62,154	100.0	5,566	9.0	62,154	100.0	
	Housing Units by Tract	Housing Types by Tract							
		Owner-occupied			Rental		Vacant		
		#	%	%	#	%	#	%	
Low-income	7,837	2,209	3.9	28.2	4,867	62.1	761	9.7	
Moderate-income	11,288	5,177	9.1	45.9	5,450	48.3	661	5.8	
Middle-income	55,890	38,480	67.9	68.9	15,770	28.2	1,640	2.9	
Upper-income	14,517	10,806	19.1	74.4	3,241	22.3	470	3.3	
TOTALS	89,532	56,672	100.0	63.3	29,328	32.8	3,532	3.9	
	Total Businesses by Tract		Businesses by Tract & Revenue Size						
			Under \$1 million		Over \$1 million		Revenue Not Reported		
			#	%	#	%	#	%	
Low-income	695	15.8	582	15.6	101	16.4	12	16.9	
Moderate-income	522	11.8	454	12.2	62	10.0	6	8.4	
Middle-income	2,468	56.0	2,065	55.5	361	58.4	42	59.2	
Upper-income	725	16.4	620	16.7	94	15.2	11	15.5	
TOTALS	4,410	100.0	3,721	100.0	618	100.0	71	100.0	
	Percentage of Total Businesses		84.4			14.0		1.6	

Note: Information about businesses is from 2003 Dun & Bradstreet demographic data; all other information is based on 1990 census data.

Population Changes

Preliminary data from the 2000 census indicates that the population in the assessment area grew by almost 20,000, or 8.5%, since 1990. The majority of this growth occurred in Kenosha County. Additionally, the city of Kenosha grew at a much faster rate than the city of Racine. Kenosha has moved past Racine and is now the fourth largest city in Wisconsin. Kenosha's growth is primarily the result of annexation of land and new housing construction as workers from Chicago and northern Illinois have migrated to the area due to its more affordable housing. An efficient commuter rail service operates between Kenosha and downtown Chicago, providing easy access between the two communities.

Income Characteristics

Exhibit #3 compares the income levels for the assessment area to Racine and Kenosha counties and to all metropolitan areas in the state of Wisconsin collectively.

Exhibit #3 Bank of Elmwood Distribution of Families by Income Level							
Location	Median Family Income ⁽¹⁾		Percent of Families (Based on 1990 Census Data) ⁽²⁾				
	2000 Census	1990 Census	Low	Moderate	Middle	Upper	Below Poverty Level
Assessment Area	N/A	\$36,190	19.8	18.8	25.3	36.1	9.0
Racine County	\$56,331	\$37,991	18.6	17.5	27.3	36.6	7.9
Kenosha County	\$56,525	\$35,657	17.0	19.9	25.2	37.9	7.6
All metropolitan areas in Wisconsin	\$56,585	\$35,082	17.9	18.7	26.5	36.9	7.6

(1) The Department of Housing and Urban Development (HUD) has estimated that median family income has increased between 2000 and 2003 by 5.8% in Racine County, 11.1% in Kenosha County, and 9.7% for all metropolitan areas in the state.

(2) Low-income is defined as less than 50% of median family income; moderate-income as 50% to less than 80% of median family income; middle-income as 80% to less than 120% of median family income; and upper-income as 120% or more of median family income.

N/A – Not available

The information in Exhibit #3 demonstrates the relative similarity of the assessment area with other demographic areas of the state. The most notable difference in the data shown is that the assessment area has a slightly higher percentage of low- and moderate-income families than the two counties and the state, including those with income below the poverty level. This is due to the fact that all of the Racine and Kenosha county low- and moderate-income census tracts are included in the assessment area. In addition, median family income increased by 48% and 59% in Racine and Kenosha counties, respectively, between 1990 and 2000, which compares with 61% growth for the state overall during this time period.

Housing Characteristics and Affordability

Preliminary 2000 census data indicates that there were 95,574 occupied housing units in the assessment area, which represents an increase of over 6,000 units, or 6.7%, since 1990. As indicated in Exhibit #2, 63% of the 1990 housing units are owner-occupied. The median housing value for the assessment area was \$60,415 in 1990; a comparable figure for 2000 is not known, but similar information is available for Racine and Kenosha counties. Specifically, median housing values increased from \$63,500 to \$111,000, or 74.8%, in Racine County between 1990 and 2000, while median housing values increased from \$64,600 to \$120,900, or 87.2%, in Kenosha County during the same period. Data available from the Wisconsin Realtors Association indicates that home sales have remained strong in both counties since 2000, with a median sales price of \$118,700 on 2,400 units sold in 2002 in Racine County and \$133,000 on 2,200 units sold in Kenosha County. For comparison purposes median housing values for the entire state of Wisconsin increased by 80.6%, from \$62,141 in 1990 to \$112,200 in 2000.

The housing affordability index compares the median family income of an area to the median housing value; a lower ratio indicates decreased affordability. This index for the assessment area in 1990 was 0.60; the 2000 index could not be calculated based on data available at this time. The affordability index for Racine County, however, was 0.60 in 1990 and 0.51 in 2000; for Kenosha County, the indices were 0.55 and 0.47, respectively, indicating that housing was less affordable in both areas in 2000 compared to 1990 because housing values rose at a faster rate than median family income during this time period. For Wisconsin overall, the housing affordability index decreased from 0.56 in 1990 to 0.47 in 2000, reflecting a rate of change similar to Racine and Kenosha counties

Labor and Employment

The economy of the assessment area, the state, and the nation has been much weaker since 2000 compared to the late 1990's. Unemployment has increased, which is evident in unemployment data obtained from the U.S. Department of Labor and the State of Wisconsin Department of Workforce Development, and shown in Exhibit #4.

Exhibit #4 Bank of Elmwood Comparative Unemployment Statistics				
Area	Average Unemployment Percentages (Not Seasonally Adjusted)			
	2000	2001	2002	2003 ⁽¹⁾
Racine County	4.8	6.7	7.6	7.9
Kenosha County	3.8	4.9	5.8	5.9
Racine (City)	7.6	10.8	11.8	12.3
Kenosha (City)	4.8	6.1	7.0	6.9
State of Wisconsin	3.6	4.5	5.5	5.5
Nation	4.0	4.7	5.8	6.0

(1) 11-month average through November for all areas except the nation, which is a 12-month average.

Exhibit #4 illustrates that unemployment percentages remain high in 2003 and, in fact, are higher than in 2002 for most areas shown. Unemployment is generally higher in Racine and Kenosha counties compared to the rest of the state and the nation because the cities of Racine and Kenosha have very high unemployment figures and constitute a major portion of the assessment area's population. Specifically, the city of Racine throughout 2003, and for at least the last two or three years, has had the highest unemployment rates of the 27 largest cities in Wisconsin. Kenosha has also been among the top seven or eight cities with high unemployment rates during this period.

Major employers with at least 1,000 employees in the assessment area include S.C. Johnson & Son, Inc., St. Mary's Medical Center, Inc., Racine County and City of Racine governments, Racine Unified School District, CNH (formerly J.I. Case Company), Emerson Electric Co., Kenosha Unified School District, DaimlerChrysler, and Kenosha Hospital and Medical Center. As previously noted, many residents of the assessment area commute to Chicago, northern Illinois, and the Milwaukee area for employment.

Community representatives contacted during the examination indicated that local financial institutions, and especially Bank of Elmwood, are actively involved in the community and are adequately meeting its credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

A review of Bank of Elmwood's quarterly loan-to-deposit (LTD) ratios, the composition of its loan portfolio, and transactions reported in its 2001 and 2002 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LARs) was performed to analyze and evaluate its overall CRA performance. In addition, consumer and commercial loans made in 2002 and 2003, as well as certain loans, investments, and services that address CRA-related needs and objectives, were also reviewed and considered in the overall performance evaluation.

Loan-to-Deposit (LTD) Ratio

The bank's average LTD ratio, calculated from data contained in the Consolidated Reports of Condition, was evaluated giving consideration to the bank's capacity to lend, competitor and peer LTD ratios, as well as demographic factors, economic conditions and lending opportunities present in the assessment area.

Bank of Elmwood's LTD ratio as of September 30, 2003 was 75.4%, and averaged 77.6% for the last eight quarters. Exhibit #5 compares this data with similar data for its peer group and for other competitors in the assessment area.

Exhibit #5 Bank of Elmwood Comparative Loan-to-Deposit Ratios			
Institution	Total Assets at September 30, 2003 (000)	Loan-to-Deposit Ratio (%)	
		At September 30, 2003	Eight-Quarter Average
TCF National Bank	\$11,360,812	108.6	110.4
M&I Marshall & Ilsley Bank	\$29,458,603	105.1	109.3
U.S. Bank NA	\$186,464,489	96.8	98.5
First Banking Center	\$511,770	99.0	97.8
Community State Bank	\$215,848	99.1	95.9
Johnson Bank	\$2,192,831	90.0	92.4
Southport Bank	\$256,469	97.9	89.4
North Shore Bank, F.S.B.	\$1,594,881	87.4	84.1
Bank of Kenosha	\$99,795	93.3	82.6
Bank One, NA	\$216,452,000	73.2	80.2
Bank of Elmwood	\$243,651	75.4	77.6
Nationwide peer group	N/A	78.0	77.4
Wells Fargo Bank, Wisconsin, NA	\$2,579,567	61.9	69.4
<i>N/A – Not applicable</i>			

Bank of Elmwood's average LTD ratio is consistent with that of its nationwide peer group, but noticeably less than the ratios of its three closest competitors (Community State Bank, Southport Bank, and Bank of Kenosha) based on asset size and markets served. It is also less than the LTD ratio for all but one of eight other larger institutions with greater assets and much larger assessment areas.

Management attributed the comparatively lower ratio to two factors. First, over the last two years, Bank of Elmwood has been very successful in attracting new deposits through the use of special certificate of deposit promotions, especially as consumers have redirected funds from the stock market due to declining stock values. In fact, total deposits increased by \$17 million during the two-year period ended December 31, 2003. Second, there has been a runoff of residential mortgages in the loan portfolio as loans have been refinanced with the bank and other lenders due to a favorable interest rate climate, and new loans are usually sold into the secondary market. The permanent mortgage loan portfolio decreased by \$14.5 million during the two-year period ended December 31, 2003. This, however, does not mean that Bank of Elmwood has decreased its lending activities in the assessment area as evidenced by the fact that other loan categories increased by over \$18 million during this time period, and the bank has provided a large and increasing volume of mortgage loans that are sold to Freddie Mac. These secondary market loans, which are not included in the loan-to-deposit figures above, included 422 loans totaling \$44.2 million in 2002 and 726 loans totaling \$76.5 million in 2003.

The bank's quarterly LTD ratios reflect a good effort in reinvesting deposits into the community through loan originations while balancing liquidity and other risks. This performance is enhanced by the significant volume of secondary market loans. Based on this analysis, Bank of Elmwood meets the standards for satisfactory performance under this criterion.

Lending in the Assessment Area

To assess the extent of lending in the assessment area, an analysis of 1,582 mortgage loans reported in the 2001 and 2002 HMDA loan application registers (LARs) was performed. Performance context information, such as economic conditions present within the assessment area, loan demand, bank size, financial condition, and branching network, was considered when evaluating the bank's performance.

Exhibit #6, which summarizes Bank of Elmwood's 2001 and 2002 HMDA data, reflects a consistently high percentage of mortgage loans made in the assessment area.

Exhibit #6 Bank of Elmwood Percentage of Loans Made in the Assessment Area			
Loan Type	Total Number of Loans	Loans Made in the Assessment Area	
		Number	Percent
2001 HMDA loans	738	643	87.1
2002 HMDA loans	844	728	86.3
Totals	1,582	1,371	86.7

Bank management, as part of its own monthly internal reporting and analyses, routinely compiles information regarding consumer and commercial lending, including the location of borrowers in or out of the assessment area. These reports show that 87.6% of 1,094 consumer loans originated in 2002 and 88.0% of 1,129 consumer loans in 2003 were made in the assessment area, which is consistent with the HMDA distribution noted in Exhibit 6. The distribution of loans made in the assessment area is even higher for commercial loans, where the percentages were 92.4% of 211 loans in 2002 and 93.7% of 426 loans in 2003.

Overall, a significant majority of loan originations have consistently occurred in the defined assessment area, which exceeds the standards for satisfactory performance under this criterion.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

The analysis of lending based on borrower income included a review of the 1,371 HMDA-reportable loans originated in the assessment area in 2001 and 2002. In addition, small business loan information reported by Bank of Elmwood at June 30, 2002 and 2003 was used to evaluate lending to businesses of different sizes. The bank did not originate any farm loans. Finally, consumer loans made in 2002 and 2003, as reported in management’s internal reports, were also considered in this evaluation.

A summary of HMDA lending by borrower income level is provided in Exhibit #7. Comparable lending data for all other HMDA reporters in the assessment area is also provided, along with demographic information about families in the assessment area.

Exhibit #7 Bank of Elmwood Lending in the Assessment Area by Borrower Income Classification										
Borrower Income Classification ⁽¹⁾	Families by Income Classification		Bank of Elmwood's HMDA Loans				Aggregate's HMDA Loans			
			2001		2002		2001		2002	
	#	%	#	%	#	%	#	%	#	%
Low-income	4,589	7.4	93	15.3	91	13.1	1,292	8.4	1,786	9.8
Moderate-income	7,155	11.5	144	23.7	200	28.7	3,686	23.9	4,451	24.4
Middle-income	39,132	63.0	190	31.2	215	30.9	4,732	30.7	5,907	32.3
Upper-income	11,278	18.1	181	29.8	190	27.3	5,695	37.0	6,123	33.5
N/A ⁽²⁾	-	-	35	-	32	-	2,738	-	2,870	-
Totals	62,154	100.0	643	100.0	728	100.0	18,143	100.0	21,137	100.0

(1) Income classifications are calculated as percentages of the median family income for a geographic region. The appropriate percentages are: low-income – less than 50%; moderate-income – 50% but less than 80%; middle-income – 80% but less than 120%; and upper-income – 120% and above.

(2) Income information is not provided for some HMDA loans. Loans with "N/A" for income were excluded in determining the percentage distribution among borrower income classifications.

N/A – Not available

The percentage of HMDA-reportable loans made to low- and moderate-income borrowers in 2001 and 2002 was 39.0% to 41.8%, respectively, which is considerably higher than the demographic composition of low- and moderate-income families in the assessment area (18.9%), and higher than the performance by all other HMDA reporters in the aggregate (32.3% to 34.2%).

Management's internal reports analyzing consumer loan activity by borrower income level for 2002 and 2003 indicate that 48.3% and 50.0%, respectively, were made to low- and moderate-income borrowers.

Information concerning commercial and industrial loans by original loan amount at June 30, 2002 and 2003 is summarized in Exhibit #8.

Exhibit #8 Bank of Elmwood Small Business Loans as Reported in the June 30, 2002 and June 30, 2003 Consolidated Reports of Condition By Original Loan Amount									
Original Loan Amount ⁽¹⁾	Commercial and Industrial Loans at				Commercial Real Estate Loans at				
	6/30/02		6/30/03		6/30/02		6/30/03		
	#	%	#	%	#	%	#	%	
\$100,000 or less	257	86.5	568	89.5	118	50.6	199	51.0	
>\$100,000-\$250,000	23	7.8	46	7.2	77	33.1	119	30.5	
>\$250,000-\$1,000,000	17	5.7	21	3.3	38	16.3	72	18.5	
Total-small business loans	297	100.0	635	100.0	233	100.0	390	100.0	

(1) Loans with an original amount of \$1,000,000 or less are considered to be small business loans.

Commercial loans in an original amount of \$1 million or less are considered to be small business loans. Furthermore, small businesses (i.e., those with annual revenues of \$1 million or less) as a rule typically seek loans in smaller amounts than large businesses due to their more limited capacity to repay and smaller credit needs. The resulting correlation is that a higher volume of loans in smaller loan sizes is indicative of a stronger performance in meeting the credit needs of small businesses. Information in Exhibit #8 illustrates that the vast majority (87%-90%) of commercial and industrial loans not secured by real estate are made in amounts of \$100,000 or less and that approximately 50% of loans secured by commercial real estate are of this size. Considering that Bank of Elmwood has a primary focus on consumer and residential real estate lending, this performance in lending to small businesses is very strong.

Several community representatives who were contacted as part of this examination were very complimentary of efforts taken by Bank of Elmwood in providing loans to low- and moderate-income persons to acquire affordable housing. In fact, the bank was identified as a leader in the community despite its relatively small asset base compared to other institutions serving this market.

The preceding analysis of HMDA-reportable, consumer, and small business loans clearly illustrates that Bank of Elmwood's efforts in providing loans to low- and moderate-income persons and families and to small businesses are very strong and exceed the standards for satisfactory performance.

Geographic Distribution of Loans

Analysis of this criterion included a review of HMDA-reportable loans from 2001 and 2002, as well as consumer and commercial loans from 2002 and 2003 as documented in management's internal reports.

The geographic distribution of loans exceeds the standards for satisfactory performance under this criterion.

Exhibit #9 compares the distribution of 2001 and 2002 HMDA-reportable loans by income classification of the census tracts in the assessment area with similar data for all other lenders in the area. For comparison purposes, owner-occupied housing data in these census tracts is provided as this is an approximation of the universe of housing available for purchase or home improvement.

Census Tract Income Classification ⁽¹⁾		Owner-Occupied Housing Units		Bank of Elmwood's HMDA Loans				Aggregate's HMDA Loans			
				2001		2002		2001		2002	
				#	%	#	%	#	%	#	%
Low-income	2,209	3.9	40	6.2	41	5.6	581	3.2	664	3.1	
Moderate-income	5,177	9.1	48	7.5	64	8.8	1,681	9.3	1,873	8.9	
Middle-income	38,480	67.9	442	68.7	485	66.6	11,619	64.0	13,368	63.2	
Upper-income	10,806	19.1	113	17.6	138	19.0	4,262	23.5	5,232	24.8	
Totals	56,672	100.0	643	100.0	728	100.0	18,143	100.0	21,137	100.0	

(1) Income classifications are calculated as percentages of the median family income for a geographic region. The appropriate percentages are: low-income – less than 50%; moderate-income – 50% but less than 80%; middle-income – 80% but less than 120%; and upper-income – 120% and above.

The preceding exhibit demonstrates excellent performance in meeting the mortgage loan needs of people residing in low- and moderate-income census tracts as evidenced by the fact that 13.7% and 14.5% of Bank of Elmwood's loans in 2001 and 2002, respectively, were originated in these areas. These percentages exceed the aggregate's comparable figures of 12.5% and 12.0%, respectively, as well as exceeding the percentage of owner-occupied housing (13.0%) located there. The bank's performance was especially strong in low-income census tracts. In addition, a detailed review of the HMDA-LARs for both years indicates that Bank of Elmwood has originated mortgage loans in every low- and moderate-income geography in the assessment area except for census tract 1.00 in Racine County, which had limited opportunities due to the presence of only 83 owner-occupied housing units as of the 1990 census.

Management's internal reports of consumer loan activity show that 11.9% of 958 loans in 2002 and 11.3% of 994 loans in 2003 were made in low- and moderate-income census tracts in the assessment area. By comparison, 18.9% of all families in the assessment area live in these low- and moderate-income census tracts, although 26.0% of these families have an annual income below the poverty level. Thus, the universe of borrowers living there who are likely to obtain consumer loans is significantly lower. Bank of Elmwood's consumer lending percentages in low- and moderate-income areas are reasonable when compared with this demographic data. Furthermore, a more thorough review of this two-year lending activity indicates that the bank made at least one consumer loan in every low- and moderate-income census tract in the assessment area except for one low-income census tract in Kenosha County, showing strong loan dispersion. This data indicates a strong performance in providing consumer loans in low- and moderate-income census tracts.

Management's internal reports also indicate that 27.7% of commercial loan originations in 2002 occurred in low- and moderate-income geographies. The comparable figure for 2003 was 29.1%. For comparison purposes, 27.6% of all businesses in the assessment area were located in these low- and moderate-income census tracts according to 2003 Dun & Bradstreet information. Further review of this two-year lending activity indicates strong loan dispersion, as evidenced by the fact that the bank made at least one commercial loan in every low- and moderate-income census tract in the assessment area except for one moderate-income census tract in Kenosha County. This information indicates an excellent record of providing commercial loans in low- and moderate-income census tracts in the assessment area.

Other Lending Related Activities

Bank of Elmwood has been, and continues to be, significantly involved in lending activities that support affordable housing for low- and moderate-income people and in providing loans to small businesses and to businesses located in low- and moderate-income geographies. Examples of these activities include:

- Wisconsin Housing and Economic Development Authority (WHEDA) – Among the many government assistance programs operated by this state agency is the HOME loan program, which is targeted to low- and moderate-income first-time homebuyers. Bank of Elmwood originated 32 mortgage loans totaling over \$3.0 million in 2003 and 18 loans totaling almost \$1.6 million in 2002 under this program. These figures generally exceed each year's statewide average for all institutions involved in this program.
- Neighborhood Housing Services of Southeast Wisconsin (NHS) – Out of 62 Affordable Homeownership Loans targeted for low- and moderate-income home buyers and originated by NHS in cooperation with local lenders in the assessment area, 35 were supplied by Bank of Elmwood, making it the largest single lender under this program.
- Bank of Elmwood was the lead lender in a \$1 million recapitalization (bank's share was \$183,000) of the Revolving Loan Fund of the Racine County Economic Development Corporation (RCEDC).
- Bank of Elmwood provided:
 - Over \$600,000 in loans to four small businesses, which also utilized RCEDC revolving loan fund resources, that created or retained 31 jobs in Racine County;
 - \$47,500 in a \$285,000 loan through the Racine Development Group for a grocery store in Racine's inner city;
 - \$63,333 of a \$570,000 loan to finance RCEDC's portion of costs to construct the Center for Advanced Technology and Innovation (CATI), a small business incubator in Racine County;

- A \$5,000 line of credit to the Community Economic Development Corporation (CEDCO) to fund micro loans to assist in preparing business plans for disadvantaged and minority individuals.

- Bank of Elmwood has recently been selected by Freddie Mac as the only local financial institution to participate in a new program with NHS that promotes and enhances community revitalization. This program is in the early stages of development, but Bank of Elmwood was selected because of its past performance with NHS and its leadership in this area of affordable housing.

These specific loans and loan-related activities provide substantial evidence of Bank of Elmwood's commitment to serving the affordable housing needs of low- and moderate-income people and the credit needs of small businesses within the spirit of the Community Reinvestment Act.

Complaints

Neither the bank nor this Reserve Bank has received any CRA-related complaints since the previous evaluation.

Investments

Bank of Elmwood has certain investments that were also considered in determining its overall CRA performance rating because these items provide further evidence of its commitment to serving its assessment area in ways that are consistent with the CRA:

- Racine Development Group (RDG) is a local community development corporation (CDC) that was initially founded in 1992 by several local financial institutions, including Bank of Elmwood, for the purpose of promoting business development and real estate projects that primarily benefit low- and moderate-income neighborhoods within the City of Racine. This is accomplished by offering participation loans to eligible businesses at below market interest rates. The bank's initial capital contribution of \$50,000 increased to \$73,600 over the years as additional funds were needed to further RDG's goals, and additional financial institutions were added as owner-investors. While this investment is no longer carried as an asset on Bank of Elmwood's books, the bank continues to support RDG and its community development activities through the granting of loans to projects undertaken by RDG, as noted above, and through involvement of bank personnel in service to RDG as officers/directors. RDG remains an active force in the community.

- Bank of Elmwood also supports organizations with CRA-related purposes through regular cash donations, as well as one significant non-cash donation. This latter item, a house valued at \$13,000 and located in Racine's inner city, was donated to the Opportunities Industrialization Center of Racine County, Inc. (OIC) for its Youthbuild Program, which provides local young adults with the opportunity to develop hands-on construction skills by rehabilitating the property. Cash donations have also been significant over the years, including almost \$24,000 in 2003 to the United Way of Racine County, of which at least 51% went to organizations and programs that benefit low- and moderate-income persons. Other significant recent donations include \$5,000 to the local YMCA's capital campaign (the YMCA is located in a low- and moderate-income area), approximately \$2,400 to the United Way of Kenosha, and various other amounts to such organizations as the Kenosha Literacy Council, Safe Haven, Family Services of Racine County, OIC, Habitat for Humanity, and Harbor House, among others.

Services

Bank of Elmwood's overall CRA performance rating is favorably impacted by certain service activities, as follows:

- Its five banking locations are easily accessible by all areas of Racine and Kenosha. In fact, as previously noted, the Kenosha branch was opened subsequent to the previous examination in 1999 and is located in a moderate-income census tract. Furthermore, the main banking office and nearby drive-up facility are within close proximity to multiple low- and moderate-income census tracts. Bilingual (English and Spanish) employees serve in a number of capacities (mortgage lending, tellers, call center, and collections department) and there are currently three Spanish language billboards in Kenosha County. The institution is actively involved in distributing funds to qualified individuals under the City of Racine's Down Payment Assistance Program and similar programs offered by the Federal Home Loan Bank of Chicago, the City of Kenosha, NHS, and WHEDA. There were 32 such recipients in 2002 and 2003.
- Bank of Elmwood regularly participates in first time homebuyers seminars offered by NHS and is a sponsor for the Racine Housing and Neighborhood Partnership in its Sixth Street Neighborhood commercial redevelopment activities. Bank officers and employees are also active participants in local organizations that promote small business development and assist low- and moderate-income people. President Levin is the most active individual, whose past and present service to these organizations includes: past president of RDG; Director of Racine Community Foundation, which solicits funds from local benefactors and distributes them to meet the community's varying needs; past treasurer of Racine Community Outpost, which helps stabilize local neighborhoods through the establishment of community policing stations in Racine; Director of NHS of Southeast Wisconsin; member of the City of Racine Economic Development Committee; and past director of the RCEDC.

These numerous investments and services indicate a very strong performance by Bank of Elmwood in supporting the fundamental objectives of the Community Reinvestment Act.

FAIR LENDING

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. Loan policies and lending standards were reviewed to determine whether they are in compliance with the fair lending laws and regulations, and a sample of loans was reviewed to ensure that these are being consistently applied to all applicants. No evidence of prohibited discriminatory credit practices was detected.

Appendix A BANK OF ELMWOOD – Racine, WI 2003 Assessment Area

