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## 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 evaluating 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 evaluation, 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 Bank of Eagle River, Eagle River, Wisconsin, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of April 28, 1997. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination. 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 CRA evaluation revealed several factors that support rating the bank’s CRA performance as satisfactory.

First, the bank’s performance under the lending test is rated high satisfactory for the following reasons:

- (1) The bank’s quarterly net loan-to-deposit ratio is high and compares favorably with other banks located in or near the assessment area;
- (2) A substantial majority of the bank’s 1996 loan originations were to people and businesses in the assessment area;
- (3) The distribution of the bank’s 1996 loan originations shows good penetration throughout the assessment area; and
- (4) The bank has a good distribution of loans to borrowers of different incomes, including low-income individuals, and to businesses of various sizes.

Although the bank did not report any qualified community development loans, it does offer innovative and flexible loan products that benefit the assessment area’s low- and moderate-income people and small businesses.

Second, the bank's performance under the investment test is rated low satisfactory. Due to the bank's location, there are limited opportunities to invest in qualified securities. However, the bank has one qualified investment and has donated funds to several organizations that provide community development services.

Finally, the bank's performance under the service test is rated high satisfactory. Although the bank operates in an area where qualified community development service opportunities are limited, its officers and staff participate in the available activities. Also, the bank operates two branches and provides access to its services through a variety of alternative delivery systems.

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

<b>PERFORMANCE LEVELS</b>	<b>M&amp;I BANK OF EAGLE RIVER EAGLE RIVER, WISCONSIN PERFORMANCE TESTS</b>		
	<b>LENDING TEST*</b>	<b>INVESTMENT TEST</b>	<b>SERVICE TEST</b>
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

The bank is able to fulfill area credit needs effectively. The previous CRA evaluation, conducted as of October 17, 1994, by the Federal Deposit Insurance Corporation, revealed that the bank's performance in meeting community credit needs was outstanding. The bank joined the Federal Reserve System on July 26, 1995 ("membership date").<sup>1</sup> The bank is subject to CRA's large bank examination procedures because its holding company, Marshall & Ilsley Corporation, Milwaukee, Wisconsin ("Corporation"), has more than \$1 billion in assets. Specifically, Corporation has \$14.76 billion in assets as of December 31, 1996. The bank operates full-service offices in Eagle River, Three Lakes, and St. Germain, Wisconsin. The main office is in block numbering area ("BNA") 9515, a middle-income area. The bank's St. Germain and Three Lakes branch offices are in BNAs 9513 and 9701, respectively. Both branch offices are in middle-income areas. The bank does not operate any automated teller machines ("ATM"). Its offices are in the southeastern corner of the assessment area.

The bank's size does not restrict its ability to meet the credit needs of residents, businesses, and farms within its assessment area. According to the March 31, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$140 million. The bank's loan portfolio has grown steadily during each quarter since September 30, 1995. The bank's quarterly loan and deposit growth rates are set forth in the following table.

<b>QUARTERLY GROWTH RATES</b>		
<b>Period</b>	<b>Loans</b>	<b>Deposits</b>
October 1, 1995 to December 31, 1995	2.48%	(3.78%)
January 1, 1996 to March 31, 1996	3.85%	.46%
April 1, 1996 to June 30, 1996	4.69%	(.07%)
July 1, 1996 to September 30, 1996	3.48%	6.96%
October 1, 1996 to December 31, 1996	1.89%	(.58%)
January 1, 1997 to March 31, 1997	4.43%	(1.10%)

The March 31, 1997, ROC indicates that the bank is primarily a consumer real estate lender; approximately 54% of its portfolio is residential real estate loans. The bank is also an active commercial lender with 40% of its loan portfolio in commercial and commercial real estate loans. The balance of the bank's loan portfolio is composed of mostly consumer loans. Due to the bank's location, it originates few agricultural loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by residents, businesses, and farms in the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of residents, businesses, and farms within its assessment area. It extends conventional consumer, residential real estate, mobile home, commercial, and agricultural loans for a variety of purposes. The bank's residential real estate loan products include adjustable rate mortgages, construction loans, fixed-rate loans with 15- to 30-year maturities, and balloon loans with one- to seven-year maturities. In 1996, the bank offered a no-closing-cost, fixed-rate residential real estate loan program, which has been discontinued. The bank also offers consumer closed-end loans for a variety of purposes. Its open-end products include personal reserve, credit

<sup>1</sup> Unless otherwise noted, this evaluation reflects the bank's CRA performance since membership date.

card, and home equity lines of credit. It also extends loans to municipalities and issues letters of credit for local businesses.

In addition to conventional loan products, the bank participates in numerous government-sponsored loan programs. For residential real estate loan borrowers, it offers Department of Veterans Affairs ("VA"), State of Wisconsin Department of Veterans Affairs ("State VA"), and Wisconsin Housing and Economic Development Authority ("WHEDA") loans. For commercial borrowers, the bank offers Small Business Administration ("SBA"), WHEDA, and Wisconsin Business Development Finance Corporation ("WBDFC") loans. It participates in the following WHEDA commercial loan programs: Linked Deposit Loan ("LiDL"), Tourism Fund ("TFP"), and Targeted Area ("TAP"). Pursuant to the Petroleum Environmental Cleanup Fund Act ("PECFA"), the bank offers loans to municipalities and businesses for environmental cleanup projects. Finally, it actively extends government-subsidized student loans.

## **DESCRIPTION OF M&I BANK OF EAGLE RIVER'S ASSESSMENT AREA**

The bank has defined its assessment area as Vilas County and the northeastern corner of Oneida County, Wisconsin. The assessment area is in north-central Wisconsin and borders on Michigan's Upper Peninsula. The assessment area encompasses 18 BNAs, which have a total population of 22,740 people, according to the 1990 U.S. Census data.

The assessment area's population has increased since the last census. Since 1990, the population growth rate of Vilas and Oneida counties has exceeded the statewide average. Between 1990 and 1996, Vilas County's population increased from 17,707 to 18,874, representing a 6.6% change. During the same time period, Oneida County's population increased by 6.8%. The state's average population increase was 5% during the first six years of the decade. In 1990, Eagle River's population was 1,374; its 1996 estimated population is 1,438. Having an area of two square miles, Eagle River is geographically very small and is surrounded entirely by Lincoln Township, which has an estimated 1996 population of 2,366. The estimated 1996 populations of St. Germain and Three Lakes are 1,391 and 2,182, respectively. Other Vilas County towns in the assessment area include Arbor Vitae, Boulder Junction, Cloverland, Conover, Lac du Flambeau, Land o'Lakes, Manitowish Waters, Phelps, Plum Lake, Presque Isle, Washington, and Winchester. Oneida County towns in the assessment area are Three Lakes, Sugar Camp, and Starks.

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 an area's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to the CRA's definitions, low-income individuals have 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 people with incomes of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes of 120% or more than the statewide nonmetropolitan median family income are classified as upper-income persons. According to the 1996 updated data, the statewide nonmetropolitan median family income in Wisconsin is \$37,700; this figure is used to classify income levels of borrowers. BNAs are classified using similar categories based on the level of the median family income in the geography, compared with the 1990 statewide nonmetropolitan median family income of \$30,290. The 24% change in median family income between 1990 and 1996 is probably attributable to the influx of retirees to the assessment area.

According to the 1990 U.S. Census data, the assessment area's median family income is \$26,931, approximately 89% of the statewide nonmetropolitan median family income. The median household income for the assessment area is \$22,826. There are approximately 6,838 families and 9,316 households within the assessment area. Approximately 10% of the families and 13% of the households have incomes below the poverty level. The percentage of such families and households in the assessment area is slightly higher than the nonmetropolitan statewide percentages of 8% and 11%, respectively. The distribution of family and household income for the assessment area is summarized in the following table.

<b>ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL</b>				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Families Compared to Median Family Income	24%	25%	24%	27%
Households Compared to Median Household Income	28%	20%	22%	30%

As previously discussed, the bank's assessment area includes 18 BNAs in two counties. The following table describes the assessment area's population and income distribution by BNA.

<b>INCOME DESIGNATION AND POPULATION DISTRIBUTION BY BNA</b>		
County and BNA	Income Designation	Percentage of Assessment Area Population
Vilas County		
<b>9501</b>	<b>Moderate</b>	<b>4%</b>
<b>9502</b>	<b>Moderate</b>	<b>3%</b>
<b>9503</b>	<b>Moderate</b>	<b>2%</b>
<b>9504</b>	<b>Moderate</b>	<b>4%</b>
9505	Middle	6%
<b>9506</b>	<b>Moderate</b>	<b>6%</b>
9507	Middle	2%
9508	Middle	3%
<b>9509</b>	<b>Low</b>	<b>8%</b>
<b>9510</b>	<b>Moderate</b>	<b>4%</b>
9511	Middle	8%
<b>9512</b>	<b>Moderate</b>	<b>6%</b>
9513	Middle	4%
<b>9514</b>	<b>Moderate</b>	<b>11%</b>
9515	Middle	7%
Oneida County		
9701	Middle	5%
9702	Middle	11%
9707	Middle	6%

As the table illustrates, the bank's assessment area has only one low-income area, which represents 8% of the assessment area's population, and eight moderate-income areas, which represent 40% of the assessment area's population. The median family income in BNA 9509 is \$14,735, according to census data. The median family incomes are equal to or between \$21,563 and \$24,052 for the assessment area's moderate-income BNAs.

The bank's assessment area includes most of the Lac du Flambeau Indian Reservation ("Reservation"). The Reservation is located in BNAs 9509 and 9510. The tribal headquarters is in Lac du Flambeau, which is approximately 12 miles from Woodruff and Minocqua, Wisconsin. The bank's St. Germain branch is approximately 25 miles from Lac du Flambeau. According to community contacts, most Reservation residents obtain financial services in Woodruff and Minocqua.

The Lac du Flambeau Band of Lake Superior Chippewa Indians ("Band") has approximately 2,400 members, 58% of whom reside on the Reservation. The Band is the largest employer on the Reservation and in Vilas County; it owns a casino and convention center, grocery store, campground, electric monitor company, and small wood-pallet company. The Reservation's economy is heavily dependent on the gaming and tourism industries. Band officials hope to diversify the local economy by attracting small businesses. The 1996 unemployment rate on the Reservation was 26%. According to community contacts, there is a housing shortage on the Reservation.

A large percentage of the bank's assessment area population is elderly retirees. According to the census data, people earning retirement or pension income represent 23% of the assessment area's household population. People age 62 and older represent 26% of the assessment area's population. Many of the area's elderly people are part-time residents who travel south during the winter.

Real property values in the assessment area are high and increasing. According to the 1990 U.S. Census, the median value of the assessment area's housing was \$57,812. Comparing the 1990 median housing value to the assessment area's median family income shows that housing is relatively expensive in the assessment area. The following table sets forth the median value of housing in each of the BNAs in the bank's assessment area.

<b>1990 MEDIAN HOUSING VALUES</b>			
<b>BNA</b>	<b>Median Housing Value</b>	<b>Median Family Income</b>	<b>Affordability Ratio</b>
9501	\$67,300	\$22,500	33%
9502	\$74,100	\$24,048	32%
9503	\$68,400	\$21,563	32%
9504	\$50,000	\$22,917	46%
9505	\$53,000	\$24,779	47%
9506	\$57,700	\$23,529	41%
9507	\$55,200	\$29,412	53%
9508	\$74,700	\$32,321	43%
9509	\$57,900	\$14,735	25%
9510	\$70,100	\$23,250	33%
9511	\$56,000	\$27,244	49%
9512	\$56,900	\$23,095	41%
9513	\$68,100	\$27,639	41%
9514	\$53,100	\$24,052	45%
9515	\$59,400	\$25,536	43%
9701	\$68,300	\$29,125	43%
9702	\$50,700	\$26,250	52%
9707	\$57,400	\$26,165	46%



The assessment area's housing is expensive, as illustrated by the low affordability ratios, which are calculated by dividing the median family income by the median housing value. The affordability ratio for owner-occupied homes in Wisconsin's nonmetropolitan areas is 51%. According to a community contact, the equalized value of real property in Vilas and Oneida counties increased by 16.1% and 13.75%, respectively, between 1995 and 1996.

The assessment area's residential construction market is focusing on upper-end homes in response to the influx of retirees and seasonal residents. According to bank management and community contacts, Eagle River's population of wealthy residents, who are typically retirees or telecommuters with jobs in larger cities, has increased in recent years. Approximately 58% and 56% of Vilas County and Oneida County homes, respectively, belong to seasonal residents. These people demand more expensive homes, and builders are devoting resources to that sector of the housing market.

The local economy is very strong. The assessment area's primary industry is tourism. Historically, the area has been a popular summer destination because of its lakes and forest land. Fishing, boating, canoeing, and hiking are among the most popular summer sports. Recently, the area's winter tourist activity has been increasing with the development of world-class snowmobile trails and related events. Other popular winter activities include ice fishing and cross-country skiing. Most of the area's businesses are service-based to cater to the needs of tourists. Hotels, resorts, restaurants, and specialty shops are the dominant commercial entities.

According to bank management, the local economy is not diversified, and economic development leaders are seeking to expand the area's industrial base. According to 1993 County Business Patterns data, 98% of the assessment area's business establishments had between 1 and 49 employees. According to a community contact, Vilas County has between 1,200 and 1,300 business entities. Service and retail establishments, most of which service the needs of tourists and retirees, represent 64% of the assessment area's businesses. The largest local employers are the Band, school districts, hospital, and nursing home. According to bank management and community contacts, most local businesses have gross annual revenues of less than \$1 million.

Due to the dominance of the service and retail sectors, people who are employed locally earn low wages. As of the evaluation date, however, it appeared that the local employment market is becoming more competitive as a result of the low unemployment rate. The tight labor supply market has forced area employers to improve their wage and benefit packages. According to bank management, most local residents, excluding retirees, earn between \$15,000 to \$25,000 annually. The local timber industry is an important source of nonseasonal job opportunities; however, even these jobs do not pay high salaries or wages.

The assessment area comprises a very small agricultural industry. Cranberries and seed potatoes are the area's primary crops. The agricultural industry provides a few year-round and several hundred seasonal jobs in the assessment area.

The bank's assessment area is served by several financial institutions. Bank management identified the bank's primary competitors as the following financial institutions, which operate main or branch offices in the assessment area: The First National Bank of Eagle River, Eagle River; Associated Bank North, Wausau, Wisconsin; and Security Bank, S.S.B., Milwaukee, Wisconsin. In 1996, the bank extended more mortgage loans than any other Vilas or Oneida county lender. The following table sets forth 1996 mortgage filing data for the bank's competitors in Vilas and Oneida counties:

<b>1997 MORTGAGE FILING DATA</b>
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Institution	Vilas County		Oneida County	
	Percentage of Loans	Percentage of Loan Amount	Percentage of Loans	Percentage of Loan Amount
M&I Bank of Eagle River Eagle River, Wisconsin	28%	24%	7%	6%
First National Bank Eagle River, Wisconsin	9%	6%	1%	1%
Security Bank, S.S.B. Milwaukee, Wisconsin (branch in Eagle River)	4%	4%	5%	4%
Associated Bank North Wausau, Wisconsin (branch in Eagle River)	3%	4%	9%	12%
Vilas Credit Union Eagle River, Wisconsin	2%	1%	-	-

According to bank management, the bank was the leading mortgage lender of all Vilas County lenders in 1996. As the 1997 data show, the bank continues to be the most active real estate lender in Vilas County and also extends a large number of real estate loans in Oneida County. As the dominant SBA loan originator in the area, the bank processes SBA loan applications for borrowers referred to the bank by other financial institutions.

Examiners contacted a county official, a development representative, and tribal officials to discuss community credit needs and development projects. Information from these community contacts was used in evaluating the bank's CRA performance.

## 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 performance under the lending test is rated high satisfactory. Most of the analysis on the following pages is based on 240 residential real estate and 533 small business loans originated during 1996. The following criteria were analyzed to evaluate the bank's CRA lending performance: loan-to-deposit ratio, credit extended inside compared to credit extended outside the assessment area, loans to borrowers of different income levels and to businesses of different sizes, and loans to borrowers in different geographies. The lending test rating also reflects the bank's community development and flexible or innovative loan programs.

### Lending Activity

The bank's net loan-to-deposit ratio is very high. Since membership date, it has fluctuated between 81% and 98%. The bank's general lending performance compares favorably with its peer group, based on December 31, 1996, Uniform Bank Performance Report ("UBPR") data. These data indicate that the bank's December 31, 1996, net loan-to-deposit ratio was 92%, which ranked the bank in the 95th percentile as compared with its peers. The bank's quarterly average net loan-to-deposit ratio, based on the data for the seven calendar quarters since September 30, 1995, is 90%. The following chart summarizes the bank's

net loan-to-deposit ratio and its components since September 30, 1995.

<b>DATE</b>	<b>NET LOANS (In thousands)</b>	<b>DEPOSITS (In thousands)</b>	<b>NET LOAN-TO-DEPOSIT RATIO</b>
September 30, 1995	\$ 94,566	\$117,023	81%
December 31, 1995	\$ 96,913	\$112,604	86%
March 31, 1996	\$100,645	\$113,119	89%
June 30, 1996	\$105,363	\$113,047	93%
September 30, 1996	\$109,027	\$120,914	90%
December 31, 1996	\$111,083	\$120,212	92%
March 31, 1997	\$116,005	\$118,895	98%

As the data show, the bank's net loan-to-deposit ratio has increased significantly since the last evaluation. Overall, the increasing net loan-to-deposit ratio is primarily the result of the 23% growth in loans since the last evaluation. During that same period, the bank's deposits increased only 2%.

The bank's loan data do not reflect loans sold to the secondary market since the last evaluation. The bank sells residential real estate loans to the secondary market. Since membership date, the bank has also sold loan participations, which are not included in the bank's loan data. The net loan-to-deposit data also do not include unfunded loan commitments, which represent funds the bank has agreed to lend but has not yet extended. The December 31, 1996, ROC showed that the bank had approximately \$14,144M, or 13% of its net loan portfolio, in unfunded loan commitments.

As previously noted, the bank's net loan-to-deposit ratio compares favorably with other financial institutions operating main offices or branches in the assessment area.

<b>BANK</b>	<b>TOTAL ASSETS (March 31, 1997) (In thousands)</b>	<b>QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO</b>
M&I Bank of Eagle River Eagle River, Wisconsin	\$139,864	90%
The First National Bank of Eagle River Eagle River, Wisconsin	\$ 81,647	75%
F&M Bank-Lakeland Woodruff, Wisconsin	\$149,301	81%
Headwaters State Bank Land o'Lakes, Wisconsin	\$ 33,026	83%

The bank's quarterly average net loan-to-deposit ratio is high and compares very favorably with ratios of other banks operating offices in the assessment area. The data, in conjunction with the bank's secondary market transactions and unfunded loan commitments, evidence the bank's readiness to extend credit. Consequently, the bank's overall lending performance reflects excellent responsiveness to assessment area credit needs.

### Assessment Area Concentrations

The bank's lending activity is heavily concentrated in the assessment area. Since membership date, the bank has extended a substantial majority of its loans to residents and businesses in its assessment area. The table below shows the percentage of residential real estate and commercial loans by total number and dollar amount originated within the assessment area.

LOANS IN THE ASSESSMENT AREA		
LOAN TYPE	TOTAL NUMBER OF LOANS	TOTAL DOLLAR AMOUNT OF LOANS
Residential Real Estate	96%	97%
Small Business	97%	96%

As mentioned previously, the data are based on residential real estate and commercial loans originated during 1996. As the data show, the bank extends almost all of its residential real estate and commercial loans to assessment area residents and businesses. The bank's commitment to extend credit in the assessment area is very strong. Consequently, the bank's lending performance in the assessment area is excellent.

### Geographic Distribution of Loans

The distribution of the bank's loans reflects good penetration throughout the assessment area. As previously discussed, the bank's assessment area has one low-income BNA and eight moderate-income BNAs. The assessment area does not have any areas classified as upper income. The following table shows the distribution of the bank's residential real estate and commercial loans in low-, moderate-, and middle-income areas.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BNA INCOME LEVEL*						
Loan Type	Low-Income BNA		Moderate-Income BNAs		Middle-Income BNAs	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Residential Real Estate	1%	1%	45%	44%	54%	55%
Commercial	1%	-	44%	45%	56%	55%

\*The bank's assessment area does not include any upper-income BNAs.

As the data show, the bank does not actively extend loans in the assessment area's low-income BNA. The low-income BNA, 9509, is 45 miles west of Eagle River. The Reservation surrounds most of BNA 9509. Noting the distance between BNA 9509 and the bank, bank management acknowledged that the bank does not actively extend loans to people and businesses in BNA 9509. Also, an affiliated bank, M&I Merchants Bank, Rhinelander, Wisconsin, has a branch office in Lac du Flambeau, which is in BNA 9509, and several banks operate branches in Minocqua and Woodruff, which are approximately 15 miles from Lac du Flambeau. Given the distance and competitor banks operating between BNA 9509 and the bank, it is reasonable that the bank has extended few loans in the assessment area's low-income BNA.

As previously discussed, 40% of the bank's assessment area population resides in moderate-income areas, which are geographically dispersed throughout Vilas County. The data set forth in the table show that the bank actively extends loans to people residing and businesses operating in moderate-income BNAs. Further analysis of lending by BNA reveals that the bank extends credit throughout the assessment area.

The data also show that the bank has more limited lending to people residing and businesses operating in the assessment area's western BNAs. These areas are 45 miles from the bank, and several other financial institutions are more convenient to service the banking needs of those people and businesses. With respect to the moderate-income areas, the bank's lending activity is concentrated in BNAs 9506, 9512, and 9514. This concentration is expected since these BNAs are located near the bank's offices in Eagle River and St. Germain. The geographic distribution of the bank's residential real estate and commercial loans is strong; it reflects good loan penetration throughout the assessment area.

**Borrowers' Profiles**

The bank's level of lending to individuals of different incomes and to businesses and farms of different sizes is good. As previously discussed, the CRA classifies income levels into four categories: low, moderate, middle, and upper. According to the 1990 U.S. Census data, the median family income for the assessment area is \$26,931. For purposes of classifying the bank's consumer borrowers, the 1996 Wisconsin nonmetropolitan median family income of \$37,700 is compared with borrowers' incomes.

The table set forth below shows the percentage of residential real estate loans made to borrowers of different income levels.

<b>DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*</b>								
Loan Type	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Residential Real Estate	4%	2%	27%	20%	21%	17%	48%	61%
*Income level is determined based on the 1996 Wisconsin nonmetropolitan median family income of \$37,700.								

The residential real estate data show that the bank's lending to low- and moderate-income persons is 31% of the total number and 22% of the total amount of residential real estate loans originated during 1996. Low- and moderate-income families and households represent 49% and 48% of the assessment area's population, respectively. More specifically, the assessment area's population is composed of 24% low-income families and 28% low-income households. As previously noted, 10% of the families and 13% of the households residing in the assessment area had a 1989 income that was below the poverty level. Adjusted for these families and households, who are generally unable to borrow, the percentages of low-income families and households with borrowing capacity are 14% and 15%, respectively.

Based on the demographic data, it appears that the bank's residential real estate loan originations to low- and moderate-income persons are low. The evaluation, however, revealed a number of factors that influence the bank's ability to extend residential real estate loans to people with low incomes. First, real property values in the assessment area are high. According to the 1990 U.S. Census, the median value of the assessment area's housing was \$57,812. Bank management and community contacts stated that housing prices have significantly increased since 1990. As shown by the table on page 7 comparing the 1990 median housing value to the assessment area's median family income, housing is relatively unaffordable in the assessment area. Affordability is particularly limited for low-income people who have incomes below \$18,850. Second, the assessment area's residential construction market is concentrated in upper-end homes. According to bank management and community contacts, Eagle River's population of

wealthy residents, who are either retirees or telecommuters with jobs in larger cities, has increased in recent years. These people demand more expensive homes, and builders are devoting resources to that particular sector of the housing market. For these reasons, low-income families and households probably have limited capacity or demand for residential real estate loans.

To service the residential real estate credit needs of low- and moderate-income borrowers, the bank participates in the WHEDA HOME loan program. The WHEDA HOME loan program is a low-interest, fixed-rate mortgage loan program. The following table describes the program's income limitations.

<b>WHEDA HOME LOAN PROGRAM</b>		
County/Area	1-2 Member Household	3+ Member Household
Vilas County (excluding BNA 9509)	\$28,400	\$31,240
Vilas County BNA 9509	\$34,080	\$39,760
Oneida County	\$28,720	\$32,310

WHEDA HOME loans are for first-time homebuyers, except in targeted areas such as Vilas County BNA 9509, where the purchaser need not be a first-time homebuyer. Borrowers under the WHEDA HOME loan program must have a 3% to 5% down payment. Since its membership date, the bank has originated numerous WHEDA HOME loans.

The sample of commercial loans reviewed during the evaluation shows that the bank originates loans to small businesses, defined as entities that have received loans of \$1 million or less. The bank originated 95% of its small business loans to entities with gross annual revenues of \$1 million or less. The table below sets forth the information reviewed during the evaluation.

<b>DISTRIBUTION OF SMALL BUSINESS LOANS BY LOAN SIZE*</b>			
	Loan Amount \$100,000 or less	Loan Amount \$100,000.01 to \$250,000	Loan Amount \$250,000.01 to \$1,000,000
Small Business Loans	81%	14%	5%
*This table sets forth data about commercial loans to entities with gross annual revenues of \$1 million or less.			

The high level of loan originations to small businesses and farms is expected because almost all commercial entities in the bank's assessment area are classified as small businesses.

The bank participates in several government-sponsored, small business loan programs. It originates loans pursuant to SBA and WHEDA programs. The SBA's Office of Advocacy named the bank as one of the top four most "small business friendly" financial institutions in Wisconsin as of June 1996. In addition to originating SBA loans, the bank offers loans from WBDFC, which is a certified development company. As such, WBDFC uses special SBA loan programs to provide small businesses with long-term, fixed-rate financing.

WHEDA's LiDL is a reduced-interest-rate loan fund for small businesses owned and controlled by women or minority group members. Its purpose is to encourage women- and minority-owned and -controlled businesses to start or expand operations. For qualified applicants, WHEDA deposits an amount equal to the loan principal with the lender. WHEDA agrees to accept a below-market return on its deposit with the lender, who agrees to charge the borrower a below-market interest rate on the loan.

The TFP program funds the development and expansion of existing tourism-related businesses. For qualified applicants, WHEDA will guarantee up to 90% of the loan and reduce the interest obligation of the borrower by providing an annual interest subsidy to the creditor. To qualify for a TFP loan, the borrower and its affiliates (defined as parent, subsidiaries, and other affiliates) must have combined gross annual sales of \$2.5 million or less. In the bank's assessment area, there are very few businesses that are not small businesses, as previously defined; consequently, any TFP loan originated by the bank would benefit small businesses.

The TAF program assists businesses located in an economically distressed area or relocating into such an area. It provides loan guarantees of up to 90% for loans to purchase or improve real property, buildings, equipment, machinery and inventory.

The bank's lending performance to small businesses is strong, but generally reflects the concentration of such entities in the assessment area. Its performance with respect to residential real estate loans extended to moderate-income people also is strong. Although the amount and number of residential real estate loans extended to low-income people is lower than would be expected relying solely on the area's demographics, it appears that this is a result of high real estate values in the assessment area. Consequently, the bank's lending to borrowers of different income levels and businesses of various sizes is satisfactory.

### **Community Development Lending Activities**

The bank did not report any community development loans. According to community contacts and bank management, there are very few, if any, opportunities to finance community development projects. Consequently, the lack of community development loans in the bank's loan portfolio merely reflects the environment in which the bank operates.

### **Product Innovation and Flexibility**

The bank has flexible lending standards and participates in special loan programs to facilitate loan originations in the assessment area. Some of these special loan programs are discussed under the Borrower Profile section of this evaluation; other programs are detailed below.

One method that the bank employs to increase the access to home mortgage loans is by offering conventional loans secured with private mortgage insurance ("PMI"). With PMI, borrowers with limited funds for a down payment can qualify for a conventional real estate loan. This product is very important because Federal Housing Administration loans are not available in much of the assessment area nearest to the bank's offices. The bank offers another innovative conventional loan product: the MI Master Line, which is a home equity line of credit that the borrower can convert to as many as four fixed-rate, term loans. As the term loans are repaid, the borrowers can access the funds through the line of credit. Finally, in 1996, the bank offered a residential real estate loan program that required no closing cost fees.

Recently, the bank developed the Neighborhood Home Loan Program ("NHLP"). NHLP is a low down-payment, residential real estate loan program that the bank implemented in 1997. Qualified applicants can purchase a home with a minimum 3% down payment and with no private mortgage insurance. As of the evaluation date, the bank had not yet originated an NHLP loan, but had initiated marketing efforts to promote the program.

The bank participates in several government-sponsored loan programs that do not qualify as community development loans, but do satisfy special credit needs of residents in the assessment area. These include

the State VA Primary Mortgage Program, a low-interest, fixed-rate residential loan program. The State VA program funds home purchase, construction, and home improvement loans for Wisconsin veterans. Qualified applicants cannot have a combined regular annual income in excess of \$39,000. Since its membership date, the bank has originated several State VA loans, which require a 5% minimum down payment (15% for mobile homes), but do not require private mortgage insurance. According to a State VA underwriter, several financial institutions offer State VA loans in the bank's assessment area.

The bank also extends loans pursuant to the PECFA. These loans finance environmental cleanup projects throughout the assessment area. Since membership date, the bank has extended numerous PECFA loans to municipalities and businesses.

Prior to its membership date, but since the last evaluation, the bank developed a loan program with the SBA to support seasonal businesses during winters with limited snowfall. During 1995, Vilas County businesses experienced a drastic loss of business due to the lack of snow. To aid these businesses, the bank developed a special SBA loan program. Pursuant to this program, the Vilas County Finance Committee set aside \$500,000 for county businesses, which were required to show a need for working capital due to a reduction in business resulting from the lack of snow. The maximum loan amount under this program was \$10,000, and the SBA guaranteed 90% of each loan. The loans were approved according to the SBA Low Doc Program. Since the last evaluation, the bank originated several loans pursuant to this program.

Also prior to membership date, but since the last evaluation, the bank participated in Eagle River's community development block grant loan program.

In conclusion, the bank's performance, as evaluated under the lending test, is rated high satisfactory. This rating is based on the bank's very high net loan-to-deposit ratio and concentration of loans in the assessment area. Also, the loan data show that the bank is willing to extend loans throughout the assessment area, including low- and moderate-income areas, as well as to persons of different income levels and businesses of various sizes. Finally, the bank offers a variety of products with flexible underwriting criteria and has developed innovative loan programs targeted to assessment area businesses.

### **Investment Test**

The bank's level of qualified community development investments is rated low satisfactory. The rating is due to the fact that there are very few opportunities for the bank to invest in qualified investments in its assessment area.

### **Investment and Grant Activity**

As previously noted, there are few opportunities for the bank to acquire qualified investments, as defined by the CRA. Although the bank owns securities issued by government units in the assessment area, only one is a qualified investment. The bank also donates to organizations that provide community development services in the assessment area.

The bank's only qualified investment is a general obligation bond that allowed Vilas County to raise funds for an environmental hazard cleanup project. More specifically, the project involved the removal of underground storage tanks at highway department shops north of Eagle River. The bank's qualified grant activities include donations to a local food pantry and a museum, which will include a banking exhibit. The bank also donated to a charitable organization, which allocated 19% of its funds to emergency assistance and counseling services, 16% to elderly and disabled persons services, and 11% to family and individual



educational services. In addition to these donations, the bank has sponsored two scholarships for local students.

The bank's qualified investment and grant activity is low, reflecting the unavailability of such investment opportunities in the assessment area, and is rated low satisfactory.

### **Service Test**

The overall rating of the bank under the service test is high satisfactory. The main office and branch locations, hours of operation, and alternative delivery systems provide convenient customer access to the bank's services and products. The bank also participates in community development services.

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

The bank operates an extensive product delivery system to provide access to its various services and products to residents and businesses of its assessment area. The bank has a full-service main office in Eagle River and two branch offices, one located in St. Germain and the other located in Three Lakes. It has neither acquired nor closed any offices since its membership date. The main and branch offices are in the southeastern corner of the assessment area.

To accommodate the needs of local residents and businesses, the bank has established the following office hours.

#### Lobby

Monday-Thursday	8:30 a.m. to 4:00 p.m.
Friday	8:30 a.m. to 5:00 p.m.
Saturday	8:30 a.m. to noon

#### Drive-Up Tellers

Monday-Thursday	8:30 a.m. to 5:00 p.m.
Friday	8:30 a.m. to 6:00 p.m.
Saturday	8:30 a.m. to noon

Although the bank does not operate any proprietary ATMs, it does offer the M&I Bank Card, an ATM access and debit card, to its customers. The bank's debit cards are on the VISA and TYME systems, which provide customers access to their deposit accounts nationwide. Other financial institutions located in the assessment area, including two in Eagle River, operate ATMs.

The bank offers low-cost deposit products and check-cashing services. Its personal checking and savings products include M&I Basic Checking, which has a low minimum daily balance requirement of \$50; M&I Young Adult Checking, which has no minimum balance requirement; M&I Kids Savings, which has a \$25 monthly average balance requirement; and M&I Mi Connection, which has no monthly fee if the depositor's paycheck is delivered electronically. In addition to these low-cost accounts, the bank offers interest-bearing checking, money market, savings, and certificate of deposit accounts for individuals. The bank's business accounts include a no-service-charge, no-minimum-balance checking account for nonprofit organizations. The bank does not impose a fee for cashing government checks for nonbank customers.

The bank is affiliated with 29 financial institutions located in Wisconsin. The bank and its Wisconsin affiliates operate an interbank system, which permits customers to make deposits, cash checks, and make loan payments through any affiliate office located in the state.

To increase its customers' access to deposit account information, the bank offers the Mi Line. The Mi Line is an automated voice response system that allows customers to access deposit and credit account information 24 hours a day. Information accessible through the Mi Line includes deposit and loan balances, current interest rates, and checks cleared since the customer's last statement. The Mi Line also permits customers to transfer funds between M&I Checking, Checking with Interest, Savings, and Money Market accounts.

The corporation has established the M&I Direct Telephone Bill Pay, which permits bank customers to pay bills via telephone. Bank customers can access M&I Direct Telephone Bill Pay 24 hours a day, seven days a week. Through M&I Direct Telephone Bill Pay, bank customers can issue payments to any payee. Bank customers can use personal computers to access the M&I Direct PC Banking system, which can retrieve interest rate information, issue payments, transfer money between accounts, reconcile accounts, and review transaction activity. The bank collects a monthly fee for these services.

As a result of its branch locations, business hours, deposit products, and alternative delivery systems, the bank's retail banking services are readily accessible to all portions of its assessment area. Services are designed to meet the convenience and needs of all segments of the community, including low- and moderate-income individuals and geographies.

### **Community Development Services**

The bank's participation in community development services, as defined by the CRA, is limited due to the limited availability of community development service opportunities in the assessment area. According to community contacts, the bank is very supportive of activities that promote the economic and social health of the community; however, most of these activities do not qualify as community development services. Neither community contact identified any existing community development projects in Vilas County.

The bank's community development services primarily relate to supporting the economic development of the assessment area. Although these activities are not generally targeted to low- and moderate-income individuals and geographies, these people and areas will benefit from the services. A member of the bank's board of directors participates in the Eagle River Area Vision 20/20 project, which is a volunteer group that is developing a plan to guide future development in the Eagle River area. Through this project, community leaders seek to create high-paying, quality jobs through business diversification and expansion. According to community contacts, this group will be assessing the need to develop an industrial park, which will hopefully attract light industrial companies to the area. Since the last evaluation, a bank officer has served as an officer of the Eagle River Area Economic Development Corporation, which seeks to attract new businesses to the area and to locate real property for the future industrial park.

The bank also supports efforts to educate assessment area residents and business people about financial services and credit products. Toward this end, the bank participates in the youth apprenticeship-financial services program, which is a two-year program designed for high school seniors. The program requires participants to attend classroom training sessions as well as receive on-the-job training. The bank also supports a mentor program for high school students, a personal enrichment program, and banking and finance seminars for high school students and youth groups. Finally, the bank provides educational materials about checking accounts to the local high school.

The Northwoods Children's Museum is an ongoing community project in Eagle River. The museum will provide hands-on educational exhibits, including one about banks. One of the bank's officers is a member of the board of directors, which is directing the funding and planning for the museum's development.

In addition to participating in educational projects for youths, the bank supports programs to educate residents and business people about home mortgage loan programs. For instance, bank representatives attended a homebuyer seminar for the purpose of conveying information about the home mortgage application process and WHEDA loan programs. The bank also participated in a local college's small business management course.

As previously noted, there are few qualified community development service opportunities in the bank's assessment area. Based on information from community contacts and bank management, it appears that the bank participates in available community development projects as well as many other projects that support economic and social development projects in the assessment area. However, since these projects are not targeted to low- and moderate-income people and geographies, little weight is given to them in assigning a rating for the service test. Consequently, the bank's participation in community development services, as defined by the CRA, is adequate.

Overall, the bank's performance under the service test is rated high satisfactory. The rating is primarily based on the extensive alternative delivery systems and retail services available through the bank. It also reflects the bank's participation in the limited types of community development service opportunities in the assessment area.

## **GENERAL**

The bank has not received any CRA-related complaints since the last evaluation. Also, the evaluation did not reveal any violations of the anti-discrimination laws and regulations.

**APPENDIX A**

<b>Scope of Examination</b>			
The bank has defined one assessment area for purposes of CRA. The assessment area is all of Vilas County and the northeastern section of Oneida County, Wisconsin. We conducted on-site evaluations at the bank's offices in Eagle River and Three Lakes.			
<b>Time Period Reviewed</b>	We reviewed the bank's CRA performance based on its activities since the bank's membership date, July 26, 1995. The loan data reflected in the report is based on 1996 loan originations.		
<b>Financial Institution</b>			<b>Products Reviewed</b>
M&I Bank of Eagle River, Eagle River, Wisconsin			Residential real estate loans Commercial loans
<b>Affiliate(s)</b>			
Not applicable			
<b>List of Assessment Areas and Type of Examination</b>			
<b>Assessment Area</b>	<b>Type of Examination</b>	<b>Branches Visited</b>	<b>Other Information</b>
Assessment Area Eagle River, Wisconsin	On-site	Eagle River Three Lakes	

## **PUBLIC DISCLOSURE**

April 28, 1997  
Date of Evaluation

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## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

M&I Bank of Eagle River  
Name of Depository Institution

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095513480000  
Identification Number of Institution

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Eagle River, Wisconsin  
Address of Institution

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Federal Reserve Bank of Minneapolis  
250 Marquette Avenue  
Minneapolis, Minnesota 55401-2171

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.