

GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution’s record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of F&M Bank-Landmark, Clear Lake, Wisconsin, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of March 30, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

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

Several factors support rating the bank’s CRA performance satisfactory. First, the bank actively lends to individuals of different income levels and businesses of different sizes. Second, the bank originates loans in the majority of the census tracts and block numbering areas (“BNA”) that comprise its assessment areas. Third, the bank has maintained a high net loan-to-deposit ratio since becoming a member of the Federal Reserve System (“FRS”). Finally, the bank originated a high percentage of consumer, consumer real estate, and commercial loans within its assessment areas.

DESCRIPTION OF INSTITUTION

Given on its size and financial condition, the bank effectively meets the credit needs of its assessment areas. This is the bank's first CRA evaluation since it became an FRS member on September 22, 1997. The bank's former regulator, the Federal Deposit Insurance Corporation, rated the bank's CRA performance satisfactory based on an evaluation conducted as of March 6, 1995.

The bank operates four full-service offices and three automated teller machines ("ATM") in its assessment areas. Based on the location of its offices and its lending territories, the bank has defined two assessment areas for the purposes of CRA. The Clear Lake assessment area consists of Barron, Dunn, and Polk counties, Wisconsin. The bank operates two offices and one ATM in the Clear Lake assessment area. The bank's main office and ATM are in Clear Lake, and the other branch office is in Amery, Wisconsin. Clear Lake and Amery are in Polk County.

The bank operates two offices and two ATMs in the Hudson assessment area. The Hudson assessment area is St. Croix County, Wisconsin, which is part of the Minneapolis/St. Paul metropolitan statistical area ("MSA"). Both branches and ATMs are in Hudson, Wisconsin, which is the largest city in St. Croix County. Hudson is located near the Minnesota-Wisconsin border.

According to the September 30, 1997, Report of Condition ("ROC"), the bank's assets totaled \$37.8 million. The December 31, 1997, ROC data show assets of \$39.3 million. The bank's deposits totaled \$34.0 million as of September 30, 1997, and \$35.8 million as of December 31, 1997. In general, asset and deposit growth has been moderate and stable during the past year. The bank attributes this growth to the economic conditions in its assessment areas. Based on December 31, 1997, ROC data, the bank's net loan portfolio totaled \$27.5 million. Its composition is approximately 56% commercial, 29% consumer real estate, 10% consumer, and 5% agricultural loans. This loan mix has remained fairly constant during the past year.

The bank offers a wide variety of consumer, consumer real estate, and commercial loan products to help meet the credit needs of the residents and small businesses in its two assessment areas. Its consumer credit products include both open- and closed-end loans. As noted, the bank's loan portfolio is 10% consumer loans, which include installment, single-payment, overdraft protection, personal line of credit, and home equity line of credit loans. The bank distributes credit card applications for loans originated by a third party.

The bank's consumer real estate products include fixed- and variable-rate purchase money, refinance, construction, and home improvement loans. In addition to these products, the bank extends Wisconsin Housing and Economic Development Authority ("WHEDA"), Farm Service Agency, Federal Housing Administration, and Department of Veterans Affairs loans. The bank also offers Small Business Administration ("SBA") loans to assist small business development efforts. In addition, bank management participates with private organizations in underwriting qualified community development loans. These agencies provide guarantees and revolving loan funds to small businesses.

Since the bank has offices in an MSA, it must report data regarding its residential real estate loan activity pursuant to the Home Mortgage Disclosure Act ("HMDA").

DESCRIPTION OF F&M BANK-LANDMARK'S OVERALL ASSESSMENT AREA

As previously stated, the bank's overall assessment area consists of two areas that include the cities and surrounding regions of Hudson, Clear Lake, and Amery. According to the 1990 U.S. Census, the combined assessment area had a total population of 161,683. Community contacts indicated the next census should show sizable population increases in both assessment areas.

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower or geography's income level is determined relative to the MSA median family income for MSA areas and the statewide nonmetropolitan median family income for non-MSA areas. Low-income individuals have incomes of less than 50% of the MSA or statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of the appropriate area's median family income. The regulation defines middle-income individuals as people with incomes of at least 80% but less than 120% of the MSA or statewide nonmetropolitan median family income. Individuals with incomes of 120% or more of the MSA or statewide nonmetropolitan median family income are considered upper income. Within the combined assessment area, the 1990 median family income is \$32,279 and the median household income is \$27,047. Both figures are lower than the median family and household incomes for the state of Wisconsin.

For purposes of classifying borrowers' incomes, this evaluation uses the U.S. Department of Housing and Urban Development ("HUD") estimated 1997 median family income for the relevant area. For borrowers in the MSA assessment area, this figure is \$57,300. For borrowers in the nonmetropolitan assessment areas, this figure is \$39,600. For purposes of classifying census tract or BNA income levels, this evaluation uses the median family income for the relevant area from the 1990 census data. For the MSA, the 1990 median family income is \$43,063. For the nonmetropolitan areas of Wisconsin, the respective figure is \$30,290.

The bank's combined assessment area consists of 10 census tracts and 30 BNAs. There are no low-income census tracts or BNAs in the combined assessment area. For the combined assessment area, 12% of the census tracts and BNAs are classified as moderate income, 85% as middle income, and 3% as upper income. Also, 12% of the population in the combined assessment area resides in the moderate-income census tracts and BNAs, 85% resides in the middle-income census tracts and BNAs, and 3% resides in the upper-income census tract.

The 1990 census data show that 24% of the households are classified as low income, 17% are moderate income, 21% are middle income, and 38% are upper income. In addition, census data show that 19% of the families are classified as low income, 20% are moderate income, 26% are middle income, and 35% are upper income. Approximately 28% of the population is younger than 17, 58% is between the ages of 18 and 64, and 14% is over the age of 65. Also, approximately 12% of the households and 8% of the families have incomes below the poverty level. These figures are similar to those for the state of Wisconsin.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall performance in meeting the credit needs of its assessment areas is satisfactory. This evaluation is based on a review of the bank's CRA performance in each of its assessment areas. The analysis on the following pages is based on a combined statistical sample of 97 consumer, 59 consumer real estate, and 45 small business loans originated during the six months preceding the evaluation. The following table shows the percentages of loans sampled in each assessment area by loan category.

Assessment Area	Consumer Loans	Consumer Real Estate Loans	Small Business Loans
Hudson	41%	42%	74%
Clear Lake	59%	58%	26%

As the table shows, the majority of the bank's consumer and consumer real estate lending activity is generated in the Clear Lake assessment area. On the other hand, most of the bank's small business loan activity is in the Hudson assessment area.

Although the population of the Hudson assessment area is only half that of the Clear Lake assessment area, the Hudson area's population is more heavily concentrated near the bank's offices. Because the population in the Clear Lake area is more dispersed and many consumers would be required to travel a significant distance to reach the bank's offices, the bank would not be expected to penetrate all areas of that assessment area. Similar factors affect small business borrowers' selection of a bank. Accordingly, equal weight was placed on the bank's performance in the Hudson and Clear Lake assessment areas. In assigning weight among the different performance categories, the greatest weight was placed on the performance of the bank's lending to borrowers of different income levels and in geographies of various income levels. These categories best represent the bank's performance in meeting the credit needs of its assessment areas.

OVERALL INSTITUTION ANALYSIS

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio exceeds the standards for satisfactory performance. The bank's quarterly net loan-to-deposit ratio has fluctuated between 74% and 81% during the past four calendar quarters. Since the bank became an FRS member, the ratio has averaged 78%. The quarterly average net loan-to-deposit ratio for the last four quarters is also 78%.

DATE	NET LOANS (In thousands)	DEPOSITS (In thousands)	NET LOAN-TO-DEPOSIT RATIO
December 31, 1997	\$27,476	\$35,785	77%
September 30, 1997	\$26,679	\$34,017	78%
June 30, 1997	\$26,066	\$32,358	81%
March 31, 1997	\$24,342	\$33,006	74%

Net loans increased by 13% between March 31 and December 31, 1997. The bank attributes the loan growth trend to increased loan demand in each of the assessment areas. According to the December 31, 1997, Uniform Bank Performance Report, the bank's net loan-to-deposit ratio of 76.7% exceeded the national peer group average of 68.6% and ranked the bank in the 74th percentile. Not included in the bank's net loan-to-deposit ratio data, however, are a sizable number of consumer real estate loans sold to the secondary market.

The following table lists total assets and quarterly average net loan-to-deposit ratios for the bank and its competitor financial institutions in the two assessment areas. The quarterly average net loan-to-deposit ratio is for the four calendar quarters in 1997.

BANK AND LOCATION	TOTAL ASSETS (December 31, 1997) (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
F&M Bank-Landmark Clear Lake, Wisconsin	\$39,339	78%
Citizens State Bank of Clayton Clayton, Wisconsin	\$14,053	67%
Farmers State Bank Ridgeland, Wisconsin	\$19,742	69%
First National Bank of Barron Barron, Wisconsin	\$34,757	70%
Bank of Turtle Lake Turtle Lake, Wisconsin	\$45,753	63%
Rural American Bank-Luck Luck, Wisconsin	\$46,957	84%
The First National Bank of New Richmond New Richmond, Wisconsin	\$58,883	79%
RiverBank Osceola, Wisconsin	\$69,083	88%
First Bank and Trust Menomonie, Wisconsin	\$70,982	72%
Bank of Barron Barron, Wisconsin	\$71,084	69%
Bank of New Richmond New Richmond, Wisconsin	\$72,660	76%
First American Bank, N.A. Menomonie, Wisconsin	\$325,186	71%

The bank's quarterly average net loan-to-deposit ratio compares favorably with other banks located in the combined assessment area. The bank's quarterly average net loan-to-deposit ratio is the fourth highest of those listed in the table. Further, the bank's quarterly average net loan-to-deposit ratio is higher than the ratios of banks with total assets of \$45 million or less. Community contacts indicated St. Croix County, especially the Hudson area, is an extremely competitive banking market. Numerous banks have headquarters or branch offices in Hudson. In addition, a number of nonbank financial institutions and financial service companies serve the Hudson market. The bank indicated its main competitors in both the assessment areas are brokerage firms and credit unions.

The bank's quarterly average net loan-to-deposit ratio is high, especially in light of the competitive market in the Hudson assessment area. It is also high compared to ratios of the bank's local competitors and national peer group. Thus, the bank's net loan-to-deposit ratio exceeds this category's standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its combined assessment area meets the standards for satisfactory performance. Based on the sampled loans, the bank originates a high percentage of its consumer, consumer real estate, and small business loans within its combined assessment area. The following table

shows the percentages of loans within the combined assessment area for each loan category by total number and dollar amount.

PERCENTAGE OF LOANS ORIGINATED IN THE COMBINED ASSESSMENT AREA		
Product Line	Total Number of Loans	Total Amount of Loans
Consumer	91	90
Consumer Real Estate	90	86
Small Business	76	78

The percentages in the small business loan category indicate the bank originated slightly more than 75% of its small business loans within the combined assessment area. The fact that the bank extended relatively fewer small business loans than consumer and consumer real estate loans in the combined assessment area is explained by the bank's proximity to Minneapolis/St. Paul, Minnesota, and the surrounding Minnesota suburbs. Two of the bank's four branches are in Hudson, which is located near the Minnesota-Wisconsin border. Bank management indicated the bank originates numerous commercial loans in the nearby St. Paul suburbs; these suburbs are not in the Hudson assessment area. Community contacts confirmed that individuals and small businesses located in Woodbury and Stillwater, Minnesota, conduct banking business with financial institutions located in Hudson and River Falls, Wisconsin.

The bank's consumer and consumer real estate lending activity in the combined assessment area is very strong. The bank's small business lending in the combined assessment area is less strong but is nonetheless considered reasonable. Since commercial loans represent a substantial majority of the bank's loan portfolio, the greatest weight for assigning a rating to this category was placed on the level of small business lending in the combined assessment area. Thus, the bank's level of lending in the combined assessment area meets this category's standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

As discussed in detail for each of the bank's assessment areas, the distribution of loans to borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance. The following table reflects the percentages of loans originated to low-, moderate-, middle-, and upper-income borrowers in the combined assessment area.

DISTRIBUTION OF LOANS IN THE COMBINED ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
<u>Consumer</u>				
Total Number of Loans	24%	27%	24%	25%
Total Amount of Loans	15%	23%	32%	30%
<u>Consumer Real Estate</u>				
Total Number of Loans	10%	19%	23%	48%
Total Amount of Loans	4%	19%	18%	59%

*Income level is determined based on the 1997 median family income of \$57,300 for the Minneapolis/St. Paul MSA and \$39,600 for the nonmetropolitan areas of Wisconsin.

As previously stated, low-income households and families represent 24% and 19% of the combined assessment area, respectively. Moderate-income households and families represent 17% and 19%,

respectively, of the area's population. The percentages in the consumer loan category reflect an even distribution pattern among the four income categories. Compared to the assessment area's demographics, the bank's consumer lending performance is good. Bank management and community contacts did not identify a need for particular types of consumer loans by individuals in any income category. The bank makes a variety of consumer loans in small amounts to meet the needs of low- and moderate-income people.

The consumer real estate percentages in the low- and moderate-income categories are slightly lower than the percentages reflected in the consumer loan category. Although the bank's consumer real estate lending to low-income borrowers is substantially less than expected given the combined assessment area's demographics, its lending to moderate-income borrowers is good. As discussed on the following pages of this evaluation, the combined assessment area lacks affordable housing. Thus, low- and moderate-income borrowers attempting to purchase real estate may find it difficult to qualify for mortgage loans because of the high real estate prices in the combined assessment area.

The bank's small business loans (loans with initial amounts of \$1 million or less) were all made to businesses with revenues of \$1 million or less. Of these loans, 88% of the number and 57% of the amount were loans of \$100,000 or less. The remaining loans were for amounts of more than \$100,000 but less than \$250,000. This concentration of small business loans reflects the nature and size of businesses in the community and the bank's relatively small size relative to its competitors. Accordingly, the bank's performance is reasonable.

Additional detail about each assessment area as well as the bank's level of lending to borrowers of various income levels and small businesses is provided on the following pages of this evaluation.

GEOGRAPHIC DISTRIBUTION OF LOANS

As discussed in detail for each of the bank's assessment areas, the distribution of the bank's loans throughout its assessment areas is reasonable and meets the standards for satisfactory performance. The census tracts and BNAs that comprise the bank's assessment area are classified as moderate, middle, and upper income. The assessment areas do not have any low-income census tracts or BNAs. The following table reflects the combined geographic distribution percentages for loans in the bank's combined assessment area.

Loan Type	Moderate-Income Census Tracts or BNAs	Middle-Income Census Tracts or BNAs	Upper-Income Census Tract
<u>Consumer</u>			
Total Number of Loans	8%	81%	11%
Total Amount of Loans	11%	76%	13%
<u>Consumer Real Estate</u>			
Total Number of Loans	2%	89%	9%
Total Amount of Loans	3%	82%	15%
<u>Small Business</u>			
Total Number of Loans	0%	71%	29%
Total Amount of Loans	0%	61%	39%

The data in the table show the bank lends in geographies of different income levels. The majority of the census tracts and BNAs in the assessment area are classified as middle income; thus, the concentration of lending in these areas appears reasonable. The bank did not originate any small business loans to

borrowers in the moderate-income census tracts and BNAs. These census tracts and BNAs are sparsely populated farmland. The bank's Clear Lake, Amery, and Hudson offices are considerable distances from these census tracts and BNAs. In addition, a number of financial institutions more conveniently serve the combined assessment area's moderate-income areas.

Additional detail about the bank's performance in each assessment area, including its lending performance in geographies of various income levels, is provided on the following pages of the evaluation.

GENERAL

The bank has not received any CRA-related complaints since becoming an FRS member. The evaluation did reveal technical violations of HMDA's Regulation C data collection provisions. Bank management promised to establish procedures to correct each of the exceptions noted during the evaluation.

METROPOLITAN STATISTICAL AREA

DESCRIPTION OF F&M BANK-LANDMARK'S OPERATIONS IN THE HUDSON, WISCONSIN, ASSESSMENT AREA

The bank's Hudson assessment area includes 10 census tracts in St. Croix County, Wisconsin. As previously mentioned, St. Croix County is part of the Minneapolis/St. Paul MSA. The Hudson assessment area does not include any non-MSA census tracts.

According to 1990 U.S. Census data, the Hudson assessment area has a total population of 50,251. Community residents familiar with housing, small business, and economic development issues and activities in the assessment area were interviewed as part of the CRA evaluation. The economy in western St. Croix County is strong. St. Croix County borders Minnesota. Unemployment is approximately 3%. Since the 1990 census, the population of the county has steadily increased. Economic data prepared by St. Croix County predicts that the population in the Hudson assessment area will increase approximately 18% between 1990 and 2000. County data show that approximately 39% of St. Croix County residents commute to Minnesota for employment.

A community contact stated that western St. Croix County became a popular place to live because of its scenic beauty and proximity to the Twin Cities of Minneapolis and St. Paul, Minnesota. As a result, residential real estate prices have increased significantly during the past five years. According to 1990 census data, the median housing value in the assessment area is \$74,553. According to community contacts, residential real estate prices averaged around \$144,000 in the first part of 1998. The community contacts indicated St. Croix County has a shortage of affordable housing. The county has started to review this issue; however, it does not have an affordable housing agency or task force. A community contact stated that development fees charged by municipalities and St. Croix County as well as real estate lot prices are significant obstacles to affordable housing development. In addition, residential real estate developers are unwilling to construct affordable housing because they can earn a greater profit meeting current demand for higher-cost housing. Low-income individuals are forced to look for less expensive housing in the rural areas of St. Croix County.

According to 1990 U.S. Census data, 30% of the Hudson assessment area's population is 17 years old or younger, 60% is between the ages of 18 and 64, and 10% of the population is 65 and over. Generally, individuals 17 and younger and those over 65 have limited demand for consumer real estate loans.

According to employment data from the St. Croix Economic Development Corporation, the major industries in the Hudson assessment area are manufacturing, wholesale/retail trade, services, and government. The largest manufacturing employers are Doboy Packaging Machinery, Inc.; Ideal Door Company; McMillan Electric Company; Friday Canning Company; and GS Electric.

As previously mentioned, CRA divides income levels into four categories: low, moderate, middle, and upper. Within the Hudson assessment area, the categorization of a borrower or geography's income level is determined relative to the MSA median family income. According to the 1990 census data, the MSA median family income is \$43,063. According to the 1997 updated census data, the MSA median family income has increased to \$57,300. The updated figures are used to classify borrowers' income levels.

As mentioned, the bank's Hudson assessment area includes 10 census tracts. It includes two moderate-income census tracts, 1207 and 1208, which are located in the eastern half of St. Croix County. According to 1990 census data, the total population in the moderate-income census tracts is 9,253, which is 18% of the Hudson assessment area population. In addition, census data show that approximately 18% of the housing units, including 19% of the owner-occupied units, in the Hudson assessment area are located in the moderate-income census tracts. The data show that 73% of the housing units in the moderate-income census tracts are owner occupied, 22% are rental units, and the remaining are classified as vacant. Census tracts 1207 and 1208 are farmland used for crop or dairy production. Individuals who reside in these census tracts usually do not travel to Hudson to conduct their banking business and either commute to larger cities for work or are employed as farmers.

Seven assessment area census tracts are classified as middle income. The middle-income census tracts are 1201, 1203, 1204, 1205, 1206, 1209, and 1210 in St. Croix County. Middle-income geographies constitute the largest segment of the Hudson assessment area. According to 1990 census data, the middle-income census tracts have a total population of 35,909, which is 71% of the assessment area population. Census data for 1990 show that approximately 72% of the assessment area's housing units and 71% of the owner-occupied units are located in the middle-income census tracts. In these tracts, 71% of the housing units are owner occupied, 24% are rental units, and the remainder classified as vacant. One of the bank's offices and ATMs is located in census tract 1209.

The remaining census tract in the Hudson assessment area is 1202, and it is classified as an upper-income area. The bank has one branch and ATM in this census tract. The upper-income census tract has a total population of 5,089, or 10% of the Hudson assessment area population. Also, census data show that approximately 10% of the housing units in the assessment area are in census tract 1202. Within this tract, approximately 68% of the housing units are owner occupied, 29% are rental units, and the remaining units are classified as vacant.

The 1990 census data provide a breakdown of low-, moderate-, middle-, and upper-income households and families that reside the Hudson assessment area. Approximately 7% of the households and 5% of the families in the Hudson assessment area have incomes below the poverty level. The Hudson assessment area has relatively fewer households and families with below-poverty-level incomes than the MSA and Wisconsin. The distribution of assessment area households and families by income level is summarized in the following table.

HUDSON ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Households Compared to Median Household Income	21%	16%	23%	40%
Families Compared to Median Family Income	18%	20%	27%	35%

The median household income for the Hudson assessment area is \$36,718. The Hudson assessment area's median family income is lower than the comparable figure for the MSA, but its median household income is slightly higher than the MSA's median household income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA performance in the Hudson assessment area meets the standards for satisfactory performance. As previously mentioned in the Overall Institution Analysis section, 201 loans were reviewed for purposes of this evaluation. Of these loans, the bank extended 83, or 41% of the loans sampled, in the Hudson assessment area. The Hudson assessment area loan sample consists of 36 consumer, 22 consumer real estate, and 25 small business loans originated in the six months preceding the evaluation. In assigning the rating, the greatest weight was assigned to the bank's lending to borrowers of different income levels and businesses of different sizes and in geographies of different income levels.

LOAN-TO-DEPOSIT RATIO ANALYSIS

As discussed on pages 4 and 5, the bank's net quarterly average loan-to-deposit ratio is higher than most competitor banks. As of February 28, 1998, the bank's net loan-to-deposit ratio for the Hudson offices was 177%. This ratio is significantly higher than the overall net loan-to-deposit ratio for the bank as of the same date. The bank's Hudson assessment area ratio exceeds all of the competitor banks mentioned on page 5. The Hudson offices hold approximately 58% of the net loans and 29% of the deposits for the bank.

Based on the bank's high net loan-to-deposit ratio in the Hudson assessment area, the bank exceeds the standards for satisfactory performance in this category.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

As discussed in the Overall Institution Analysis section on pages 5 and 6 concerning the percentages of loans originated in the bank's assessment area, the bank originates a substantial majority of its loans within its two assessment areas. Analysis of the bank's HMDA data provides limited insight into the bank's lending activity in the MSA. Because of the structure of the bank's assessment areas and the HMDA data reporting requirements, an analysis of the bank's HMDA loans for purposes of comparing lending inside and outside the assessment area is not meaningful. The bank is not a leading real estate lender in the assessment area. In 1996, 146 financial institutions reported HMDA activity in the MSA. The bank reported 17 loan originations in the MSA; these originations accounted for less than 1% of the MSA's activity.

As previously stated, the bank extends a significant majority of its loans inside the assessment areas; therefore, the bank meets the standards for satisfactory performance in this category.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to borrowers of different income levels and to businesses of different sizes meets the standards for satisfactory performance. As previously discussed, CRA classifies borrower income levels into four categories: low, moderate, middle, and upper. The distribution of households by income level is 21% low income, 16% moderate income, 23% middle income, and 40% upper income. The 1990 census data show that low-income families comprise 18%, moderate-income families comprise 20%, middle-income families comprise 27%, and upper-income families comprise 35% of the assessment area's population. For purposes of classifying the bank's borrowers in the Hudson assessment area, the 1997 MSA median family income is compared with borrowers' incomes. The MSA median family income has increased 33% since the 1990 census. As discussed in the Description of Institution section, consumer real estate loans constitute 29% of the bank's loan portfolio, compared with 10% for consumer loans. The following table shows the percentages of loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE HUDSON ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
<u>Consumer</u>				
Total Number of Loans	35%	24%	26%	15%
Total Amount of Loans	22%	19%	36%	23%
<u>Consumer Real Estate</u>				
Total Number of Loans	5%	28%	24%	43%
Total Amount of Loans	1%	24%	25%	50%
*Income level is determined based on the 1997 median family income of \$57,300 for the Minneapolis/St. Paul MSA.				

The data in the table show that the bank originated 59% of the consumer loans and 33% of the consumer real estate loans to low- and moderate-income individuals. The bank's consumer lending to low- and moderate-income borrowers compares very favorably with the representation of such households and families in the Hudson assessment area. As noted, bank management and community contacts did not identify particular types of loans needed by borrowers in particular income categories.

Overall, the bank's consumer real estate lending to low- and moderate-income borrowers is slightly less than the percentages of such households and families in the assessment area. Notably, however, the bank's consumer real estate lending to moderate-income borrowers is higher than expected given the Hudson assessment area's demographics. The bank's low penetration in the low-income consumer real estate loan market is attributable to market factors. First, the Hudson area and St. Croix County have a shortage of affordable housing. A local housing task force found that there is a significant lack of housing priced lower than \$116,850, the maximum sale price for residences considered affordable housing in St. Croix County. Community contacts stated that high residential real estate development fees, high real estate lot prices, and construction of high-cost homes by developers have impeded affordable housing development. Second, a community contact in the real estate industry stated the average housing cost in the Hudson area is \$144,000. Individuals in the low- and moderate-income categories will not have sufficient income to purchase homes in this price range. The majority of housing in the Hudson area has been purchased by individuals who work in the Twin Cities. According to a community contact, low- and moderate-income individuals who work in Hudson have been forced to find affordable housing in the smaller cities and towns in St. Croix or nearby counties. As previously

mentioned, the bank participates in a consumer real estate program through WHEDA. This program is directed toward low- and moderate-income borrowers.

The 1996 HMDA data reveal that the bank originated 12% of its residential real estate loans in the MSA to low-income borrowers, 29% to moderate-income borrowers, 47% to middle-income borrowers, and 12% to upper-income borrowers. The bank's figures for loans to low- and moderate-income borrowers are slightly higher than the aggregate numbers reported for the MSA. In 1996, the aggregate lenders reported that 9% of the residential real estate loans were originated to low-income borrowers, 26% to moderate-income borrowers, 36% to middle-income borrowers, and 28% to upper-income borrowers. Reporters did not note borrower income for 1% of the loans originated in the MSA. The bank is a small player in the MSA and originated less than 1% of the total loans reported for the MSA.

The bank originates a large percentage of its small business loans to entities with gross annual revenues of \$1 million or less. CRA defines small business loans as most commercial loans with original principal balances of \$1 million or less. The bank extended 100% of its small business loans to businesses with gross annual revenues of \$1 million or less. Of loans to these entities, 88% had amounts of \$100,000 or less and 12% had amounts of more than \$100,000 but less than \$250,000. To service the credit needs of businesses, the bank offers SBA loans. The distribution of small business loans is consistent with the bank's asset size, legal lending limit, and the size of businesses in the Hudson assessment area. Pursuant to CRA, independent banks with assets of \$250 million or more and banks affiliated with a holding company with total bank and thrift assets of \$1 billion or more must report small business loan data. Within St. Croix County, 1996 reporting entities extended 37% of the small business loans to borrowers with gross annual revenues of \$1 million and less. Of the reported small business loans for 1996, 81% had original principal amounts of \$100,000 or less. Compared with the entities reporting small business loan originations in St. Croix County, the bank's lending performance appears strong.

The bank's lending to individuals of different income levels and to businesses of different sizes is reasonable. Although the level of consumer real estate lending to low-income individuals is less than expected given the demographic characteristics of the assessment area, the bank's consumer lending to low- and moderate-income individuals and consumer real estate lending to moderate-income individuals is very good. The state of the local real estate market explains the low number of consumer real estate loans extended to low-income borrowers. Finally, the bank's small business lending activity is good. As such, the bank's lending in the Hudson assessment area is reasonable and meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout the Hudson assessment area meets the standards for satisfactory performance. As previously discussed, the bank's Hudson assessment area includes 10 census tracts in the Minneapolis/St. Paul MSA. Two of the census tracts are classified as moderate income, seven are classified as middle income, and one census tract is classified upper income. The Hudson assessment area does not include any low-income census tracts. The income distribution of the Hudson assessment area census tracts is 20% moderate income, 70% middle income, and 10% upper income. The bank extended loans in 100% of this assessment area's census tract. With respect to consumer loans, the bank did not extend any loans in two middle-income census tracts. It did not extend any consumer real estate loans in one moderate-income census tract or any small business loans in one moderate-income and several middle-income census tracts.

The 1990 census data show that 18% of the assessment area's population resides in the moderate-income census tracts, 72% in the middle-income census tracts, and 10% in the upper-income tract. The following

table reflects the bank's lending pattern within the Hudson assessment area based on the income level of the census tracts.

DISTRIBUTION OF LOANS IN THE HUDSON ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL			
Loan Type	Moderate-Income Census Tracts	Middle-Income Census Tracts	Upper-Income Census Tract
<u>Consumer</u>			
Total Number of Loans	17%	55%	28%
Total Amount of Loans	21%	53%	26%
<u>Consumer Real Estate</u>			
Total Number of Loans	5%	73%	22%
Total Amount of Loans	5%	69%	26%
<u>Small Business</u>			
Total Number of Loans	0%	60%	40%
Total Amount of Loans	0%	49%	51%

According to the data, the bank originated 17% of its consumer loans to individuals residing in the moderate-income census tracts. The bank's consumer lending in the moderate-income census tracts approximates the relative number of households and families, 18%, in these areas. The moderate-income census tracts are in eastern St. Croix County, and many residents of these areas probably do not travel to Hudson, Clear Lake, or Amery to conduct their banking. Also, there are a number of competitor banks closer to these census tracts than the bank's Hudson and Clear Lake offices. Thus, the bank's level of consumer lending in the moderate-income census tracts is commendable.

The bank originated 5% of its consumer real estate loans in the moderate-income census tracts. The bank's originations of consumer real estate loans in the moderate-income census tracts is less than expected given the demographic characteristics of the Hudson assessment area. It is also less than expected given that 19% of the Hudson assessment area's owner-occupied housing is located in moderate-income areas. Two factors explain this performance. First, as previously mentioned, the moderate-income census tracts are farmland. As such, there is less demand for consumer real estate loans in these areas. Second, a number of competitor banks more conveniently serve residents of these census tracts. Bank management indicated it aggressively attempts to underwrite all consumer and consumer real estate loan requests regardless of borrowers' geographic location.

The 1996 HMDA data reveal that the bank originated 12% of its loans in the moderate-income tracts, 82% in middle-income tracts, and 6% in the upper-income tract. In 1996, aggregate lenders reported extending 16% of the residential real estate loans in the moderate-income tracts, 67% in the middle-income tracts, and 17% in the upper-income tract. The bank's lending to moderate-income borrowers is slightly less than that of the aggregate lenders.

The data in the table indicate that the bank did not originate any small business loans in the moderate-income census tracts. As previously stated, the bank originates the majority of its commercial loans through the Hudson offices. Hudson is the largest city in and the business center of St. Croix County. Hudson comprises census tracts 1201, 1202, and 1203, which are classified as middle- and upper-income tracts. Community contacts indicated the eastern section of St. Croix County is farmland used for crop or dairy farming. As such, a limited number of small businesses are located in the moderate-income census tracts. The 1996 aggregate small business lending for St. Croix County supports this statement. According to the aggregate data, reporters originated only 25 small business loans in the moderate-

income census tracts; these 25 loans represented 8% of all small business loans extended to borrowers in St. Croix County. Finally, a number of competitor banks are geographically closer to the larger cities and towns in the moderate-income census tracts. Businesses in these cities likely conduct their banking business with these financial institutions due to the more convenient locations.

The bank's small business and consumer real estate lending activity in the moderate-income census tracts is less than expected given the demographics of the assessment area. However, the lack of small business and consumer real estate lending in these moderate-income census tracts is nonetheless reasonable given the agricultural nature of the area and proximity of these areas to other financial institutions. Based on the bank's distribution of consumer loans in the moderate-, middle- and upper-income census tracts and its commercial and consumer real estate lending in the middle- and upper-income census tracts, the geographic distribution of the bank's loans is reasonable and meets this category's standards for satisfactory performance.

NONMETROPOLITAN AREA

DESCRIPTION OF F&M BANK-LANDMARK'S OPERATIONS IN THE CLEAR LAKE, WISCONSIN, ASSESSMENT AREA

The bank's Clear Lake assessment area consists of 30 BNAs that comprise Polk, Dunn, and Barron counties in western Wisconsin. The bank operates two full-service branch offices and one ATM in this assessment area. Polk, Dunn, and Barron counties border St. Croix County. The largest city in the Clear Lake assessment area is Menomonie, Wisconsin, which is in Dunn County, a considerable distance from the bank's two offices. The Clear Lake assessment area includes portions of the St. Croix Band of Lake Superior Chippewa Indians' reservation.

The bank's Clear Lake office and ATM and the Amery branch are in Polk County. Polk County consists of 11 BNAs: 9601, 9602, 9603, 9604, 9605, 9606, 9607, 9608, 9609, 9610, and 9611. Barron County borders the eastern side of Polk County and also consists of 11 BNAs: 9601, 9602, 9603, 9604, 9605, 9606, 9607, 9608, 9609, 9610, and 9611. Dunn County is directly south of Barron and east of St. Croix County. Dunn County consists of eight BNAs: 9701, 9702, 9703, 9704, 9705, 9706, 9707, and 9708.

According to 1990 U.S. Census data, the population of the bank's Clear Lake assessment area is 111,432. People familiar with housing, small business, and economic development issues and activities in the Clear Lake assessment area were interviewed as part of the CRA evaluation. The economic conditions in Polk and western Barron counties are very good. The majority of cities in these areas are experiencing population growth and small business development. The primary reasons for this growth are strong local and national economies, job growth, and individuals relocating to the area. Real estate prices have steadily increased as a result of the area's growth. This situation has created a need for affordable housing in Polk County. A community contact familiar with affordable housing needs stated that individuals employed by local companies earn only slightly more than the minimum wage. As a result, many individuals do not qualify for mortgage loans in amounts sufficient to buy local real estate; a major impediment to affordable housing development is the cost of real estate.

According to 1990 census data, 27% of the Clear Lake assessment area's population is 17 years old or younger, 58% is between 18 and 64 years old, and 15% is over 65. Community contacts provided economic demographic data for Polk County. According to this data, Polk County estimated its 1997 population at 36,698, a 5.5% increase since the 1990 census. The county's updated age demographic data are similar to the 1990 census data. A community contact stated that Barron and Dunn counties are

experiencing similar population trends as Polk County. The major employers near the bank's Clear Lake and Amery offices are Polaris Industries; Hartzel Manufacturing, Inc.; Colonial Craft; Kroy, Inc.; and Land O'Lakes.

As previously mentioned, CRA divides income levels into four categories: low, moderate, middle, and upper. For purposes of the Clear Lake assessment area, the categorization of a borrower or geography's income level is determined relative to the statewide nonmetropolitan median family income for Wisconsin. The updated 1997 median family income for Wisconsin's nonmetropolitan areas is \$39,600; this figure is used to classify borrower incomes. The 1990 median family income of \$30,290 is used to classify BNA income levels.

Of the 30 BNAs that comprise the bank's Clear Lake assessment area, three are classified as moderate income and the remainder are middle income. The Clear Lake assessment area does not have any low- or upper-income BNAs.

BNAs 9610 in Barron County and 9601 and 9604 in Polk County are classified as moderate income. BNAs 9601 and 9604 are located in the northeastern corner of Polk County. BNA 9610 is in the eastern corner of Barron County. According to the 1990 census data, the total population in the moderate-income BNAs is 9,356, which is 8% of the Clear Lake assessment area's population. The moderate-income BNAs have 5,653 housing units, or 11% of the total housing units in the Clear Lake assessment area. The data show that 49% of the housing units are owner occupied, 15% are rental units, and the remaining 36% are classified as vacant. All three moderate-income BNAs are considerable distances from the bank's offices. Community contacts stated individuals who reside in these areas do not conduct their banking business in Clear Lake or Amery. Moderate-income BNA 9604 includes sections of the St. Croix Band of Lake Superior Chippewa Indians' reservation.

The remaining 27 BNAs are classified as middle income. According to 1990 U.S. Census data, the middle-income BNAs have a total population of 102,076, which is 92% of the assessment area's population. The bank's Clear Lake office and ATM are located in BNA 9611, and its Amery office is in BNA 9605. The 1990 census data show that there are 45,494 housing units, or 89% of the assessment area's total housing units, in the middle-income tracts. Approximately 59% of these units are owner occupied, 22% are rental units, and the remaining 18% are classified as vacant.

According to the 1990 census data, the Clear Lake assessment area's median family income is \$28,466 and its median household income is \$23,637. Community contacts indicated the next census will show a large increase in the median income for the assessment area. Of the 40,782 households in the assessment area, 26% are classified as low income, 17% are moderate income, 20% are middle income, and 37% are upper income. The income distribution of the Clear Lake assessment area's families is 20% low income, 21% moderate income, 24% middle income, and 35% upper income. Approximately 14% of the households and 9% of the families have incomes below the poverty level. These figures are slightly higher than comparable figures for Wisconsin's rural areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's CRA performance in the Clear Lake assessment area meets the standards for satisfactory performance. As previously mentioned in the Overall Institution Analysis section, 201 loans were reviewed for purposes of this evaluation. The bank extended 92, or 46% of the loans sampled, in the Clear Lake assessment area. The Clear Lake assessment area sample consists of 52 consumer, 31 consumer real estate, and 9 small business loans originated in the six months preceding the evaluation.

In assigning the rating, the greatest weight was assigned to the bank's lending to borrowers of different income levels and to businesses of different sizes and in geographies of different income levels.

LOAN-TO-DEPOSIT RATIO ANALYSIS

As discussed on pages 4 and 5, the bank's net loan-to-deposit ratio exceeds the ratios of almost all of the competitor banks. As of February 28, 1998, the bank's net loan-to-deposit ratio for the Clear Lake assessment area office was 51%, which is less than the overall net loan-to-deposit ratio for the bank as of the same date. The Clear Lake assessment area offices hold approximately 42% of the net loans and 71% of the total deposits for the bank.

Based on the bank's high quarterly average net loan-to-deposit ratio, the bank exceeds this category's standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

As discussed in the Overall Institution Analysis section on pages 5 and 6 concerning the percentage of loans originated in the bank's assessment area, the bank originates a substantial majority of its small business, consumer real estate, and consumer loans within its two assessment areas. As such, the bank meets this category's the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to borrowers of different income levels and to businesses of different sizes in the Clear Lake assessment area meets the standards for satisfactory performance. As previously mentioned, CRA classifies income into four categories: low, moderate, middle, and upper. The distribution of households by income level in the Clear Lake assessment area is 26% low income, 17% moderate income, 20% middle income, and 37% upper income. In addition, 1990 census data show that 20% of the families are classified as low income, 21% are moderate income, 24% are middle income, and 35% are upper income.

In the Clear Lake assessment area, borrower income classification is based on the 1997 statewide nonmetropolitan area median family income of \$39,600. The following table shows the percentage of sampled loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE CLEAR LAKE ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
<u>Consumer</u>				
Total Number of Loans	16%	29%	22%	33%
Total Amount of Loans	7%	27%	28%	38%
<u>Consumer Real Estate</u>				
Total Number of Loans	13%	13%	23%	51%
Total Amount of Loans	7%	12%	9%	72%
*Income level is determined based on the 1997 median family income of \$39,600 for Wisconsin's nonmetropolitan areas.				

The percentages in the table show that the bank originated 45% of its consumer loans to low- and moderate-income borrowers. The bank's consumer lending to low- and moderate-income borrowers is higher than expected given the demographic characteristics of the Clear Lake assessment area. To service the credit needs of these borrowers, the bank underwrites small-dollar loans through its overdraft lines of credit.

The percentages in the consumer real estate category show that the bank originated 26% of these loans to low- and moderate-income borrowers. The percentage of consumer real estate lending to low- and moderate-income individuals is less than expected given the assessment area's demographic characteristics. Several factors explain this situation. First, the Clear Lake assessment area needs affordable housing. A community contact stated that individuals employed by local small manufacturers earn only slightly more than minimum wage. Based on the high cost of housing in the area, these individuals probably do not qualify for mortgage loans. Second, community contacts indicated high real estate lot prices and development fees impede private and public affordable housing developments. Finally, the bank participates in the WHEDA mortgage loan program. However, a community contact stated the cost of existing housing exceeds program guidelines. Thus, opportunities to use WHEDA loans to service the consumer real estate loan needs of low- and moderate-income borrowers are limited. Based on the current housing market in the assessment area, the bank's consumer real estate lending is reasonable.

The bank originates a large percentage of its small business loans to entities with gross annual revenues of \$1 million or less. Of the small business loans originated in the Clear Lake assessment area, the bank extended 100% to businesses with gross annual revenues of \$1 million or less. Of the nine small business loans extended to borrowers in the Clear Lake assessment area, eight, or 89%, had original principal amounts of \$100,000 or less. The only other loan had an original principal balance of more than \$100,000 but less than \$250,000. As previously discussed, the bank originates the majority of its commercial loans through its Hudson offices.

Based on the consumer loans extended to low- and moderate-income borrowers and the reasonable percentage of consumer real estate loans to low- and moderate-income individuals, the bank's performance in this category meets the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout the moderate- and middle-income BNAs is reasonable and meets the standards for satisfactory performance. As previously mentioned, the Clear Lake assessment area includes 3 BNAs classified as moderate income and 27 BNAs classified as middle income. The Clear Lake assessment area does not have any low- or upper-income BNAs. The income distribution of the Clear Lake assessment area BNAs is 11% moderate income and 89% middle income. The bank extended loans in 27% of the Barron County BNAs; it did not extend loans in the moderate-income BNA or in 30% of the middle-income BNAs in Barron County. It did not extend any loans in the Dunn County BNAs. Finally, the bank extended loans in 50% of Polk County's moderate-income BNAs and 78% of the county's middle-income BNAs. Most of the bank's lending activity is concentrated in the BNAs where bank offices are located.

The 1990 census data show that only 8% of the Clear Lake assessment area's population resides in the moderate-income BNAs and 92% in the middle-income BNAs. According to information provided by community contacts, the population in the assessment area is becoming more concentrated in the middle-income BNAs. The following table reflects the bank's lending pattern within its assessment area based on the income level of the BNAs.

DISTRIBUTION OF LOANS IN THE CLEAR LAKE ASSESSMENT AREA BY BNA INCOME LEVEL		
Loan Type	Moderate-Income BNAs	Middle-Income BNAs
<u>Consumer</u>		
Total Number of Loans	2%	98%
Total Amount of Loans	1%	99%
<u>Consumer Real Estate</u>		
Total Number of Loans	0%	100%
Total Amount of Loans	0%	100%
<u>Small Business</u>		
Total Number of Loans	0%	100%
Total Amount of Loans	0%	100%

The table shows that the bank's lending activities in the moderate-income BNAs are less than expected given the demographic characteristics of the Clear Lake assessment area. Two factors explain these low lending percentages in the moderate-income BNAs. First, the bank's Clear Lake and Amery offices are considerable distances from the moderate-income BNAs. The majority of the bank's borrowers reside in Clear Lake, Amery, and the surrounding rural areas. As discussed, both the Clear Lake and Amery offices are located in middle-income BNAs. Second, a number of competitor banks are located nearer to the moderate-income BNAs than the bank. Community contacts indicated borrowers prefer to conduct banking business with financial institutions located closer to their homes and businesses.

Although the bank extends few loans in the Clear Lake assessment area's moderate-income BNAs, its lending pattern is reasonable. As explained, residents and businesses in the moderate-income BNAs are not likely to conduct banking business in Clear Lake or Amery. Therefore, the bank's lending distribution pattern meets this category's standards for satisfactory performance.

PUBLIC DISCLOSURE

March 30, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M Bank-Landmark
Name of Depository Institution

095509300000
Identification Number of Institution

Clear Lake, Wisconsin
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue
Minneapolis, Minnesota 55401-1804

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.