

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-Superior, Superior, Wisconsin, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of January 27, 1997. 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 the bank's satisfactory rating. First, the bank has maintained a high loan-to-deposit ratio since becoming a member of the Federal Reserve System ("FRS") on August 15, 1995. Second, the bank has a reasonable distribution of loans to borrowers of different incomes and to business of different sizes. Finally, it makes a reasonable percentage of its loans in the low- and moderate-income census tracts in its assessment area.

The following table indicates the performance level of F&M Bank-Superior, Superior, Wisconsin, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	F&M BANK-SUPERIOR SUPERIOR, WISCONSIN PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area			X
Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	The bank has not received any CRA complaints since becoming a member of the FRS.		

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of its assessment area. This is the bank's first CRA evaluation since it became an FRS member on August 15, 1995. The bank's performance was rated satisfactory by the Federal Deposit Insurance Corporation at the previous CRA evaluation. The bank's sole office is located in downtown Superior. The bank recently installed a drive-up automated teller machine in the parking lot at its main office.

According to the December 31, 1996, Report of Condition ("ROC"), the bank had total assets of approximately \$32 million. As of its September 30, 1995, ROC data, the bank had total assets of \$28.6 million. This 12% increase is primarily the result of growth in the commercial and consumer real estate areas of the loan portfolio. According to the December 31, 1996, ROC data, the bank's loan portfolio is 69% commercial, 26% consumer real estate, 4% consumer, and the remaining 1% other loans. The bank's loan portfolio mix has remained relatively stable over the last five quarters.

The bank offers a variety of loan products that serve the credit needs of residents and businesses within its assessment area. It extends consumer open- and closed-end, residential real estate, and commercial loans. The bank also provides loans guaranteed by a number of federal and state agencies.

DESCRIPTION OF F&M BANK-SUPERIOR'S ASSESSMENT AREA

The bank's assessment area follows the boundaries of Douglas County, Wisconsin. The bank's sole office is located in Douglas County, Wisconsin. Douglas County lies in the Duluth, Minnesota/Superior, Wisconsin, metropolitan statistical area ("MSA"). Because of the bank's size and location in an MSA, it is subject to the requirements of Regulation C--Home Mortgage Disclosure Act ("HMDA"). The MSA is defined as St. Louis County in Minnesota and Douglas County in Wisconsin. The bank's assessment area does not include any of the MSA's Minnesota census tracts. Douglas County is composed of 15 census tracts.

According to 1990 census data, the assessment area has a total population of 41,758. Individuals familiar with housing and small business and economic development issues and activities in the assessment area were interviewed during the CRA evaluation. Information from these contacts and bank management was used in the evaluation. Community contacts indicated that Superior's population has declined in the last two decades; however, the population decrease has slowed in the last few years. The contacts attributed the population decline to reduced shipping port traffic for grain and iron ore, accompanied by the reduction in jobs associated with these industries. According to community contacts, a number of jobs in the grain and iron ore industries have become automated. In addition, contacts indicated that there is a strong need for higher-paying jobs in Superior and that residents in Superior travel to Duluth, Minnesota, for higher-paying jobs. In addition, the small business and economic development contact stated the business community in Superior was primarily composed of small retail businesses. There are a few manufacturing companies in Superior, but the job market primarily consists of retail employment. The largest employers in Superior are Superior Water, Light & Power Co.; Lakehead Construction Inc.; and Barco Hydraulics, Inc. The housing contact indicated that the Superior area has an oversupply of qualified affordable housing units. The contact also stated that a number of individuals who qualify for these housing units have relocated to Duluth, Minnesota. The housing contact stated that the local affordable housing office has been using a marketing firm to advertise the abundance of affordable housing in Superior.

Community contacts and bank management indicated that the local economy is relatively stable. During the evaluation, examiners noticed a number of

vacant commercial lots in downtown Superior. Small business contacts and bank management indicated that Superior used to have a number of drinking and eating establishments on the north end of the downtown area. During the last few years, the city of Superior purchased a number of these retail buildings--usually at a premium--and then razed them. The city has been attempting to sell these vacant lots at a discount to attract new business. However, these vacant lots and the fact that the city is selling them at a discount have caused commercial real estate prices in Superior to decline.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is located in an MSA, the categorization of a borrower or census tract's income is determined relative to the MSA median family income. Pursuant to CRA's definitions, low-income individuals have incomes of less than 50% of the MSA median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as persons with incomes of at least 80% but less than 120% of the MSA median family income. Individuals with incomes of 120% or more of the MSA median family income are classified as upper-income persons. According to the 1996 updated census data, the median family income for the MSA is \$38,600.

As previously mentioned, the bank's assessment area consists of 15 census tracts. Based on the 1990 census data, census tracts 201.00, 201.99, and 210.99 are classified as low income. The population in the low-income census tracts is 1,719, or 4% of the total assessment area population. Two of the census tracts, 201.99 and 210.99, are classified crews-of-vessels tracts and reflect a combined population of two individuals. These tracts are located on the waterfront where individuals maintain residences on watercraft. Tracts 202.00, 203.00, and 206.00, are classified as moderate income and are located in the downtown Superior area; the bank's main office is located in census tract 206.00. These tracts have a total population of 8,262, or 20% of the total assessment area population. The remaining census tracts that make up the assessment area are classified as middle income. Census tracts 204.00, 205.00, 207.00, 208.00, 209.00, 210.00, 301.00, 302.00, and 303.00 are in this category. Tracts 301, 302, and 303 are outside the city of Superior in rural areas of Douglas County. None of the census tracts in the assessment area is classified as upper income. Census data indicate that these tracts have a total population of 31,777, or 76% of the assessment area's total population.

As indicated previously, the tracts that make up the bank's assessment area have a total population of 41,758.

According to 1990 census data, the assessment area median family income is \$27,425. The median household income is \$22,123. The census data provides a breakdown of the percentage of low-, moderate-, middle-, and upper-income individuals who reside in the assessment area. According to the census data, 25% of the households in the assessment area are classified as low income, 17% as moderate income, 20% as middle income, and 38% as upper income. The number of households in the assessment area below the poverty level is 15%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank has done a satisfactory job of meeting the credit needs of its assessment area. Much of the analysis on the following pages was based on a statistical sample of 65 consumer real estate and 48 consumer loans originated in the six months before the evaluation. The analysis of the bank's small business lending is based on a sample of 158 small business loans originated in the 12 months preceding the evaluation. The following criteria were reviewed in determining this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance based on the ratio's consistently strong level. The quarterly

average of the bank's loan-to-deposit ratio since September 30, 1995, is 80.3%. The chart below, based on quarterly ROC data, reflects that the loan-to-deposit ratio has increased by more than 13 percentage points during 1996.

The increase occurred steadily on a quarterly basis and primarily resulted from increased commercial loan activity. The chart also shows that between September 30, 1995, and March 31, 1996, the bank's deposits declined by more than \$1.5 million. According to bank management, this decline occurred because there was a change in bank ownership that resulted in several large depositors withdrawing their deposits.

Date	Net Loans (In thousands)	Deposits (In thousands)	Loan-to-Deposit Ratio
December 31, 1996	\$22,461	\$26,036	86.2%
September 30, 1996	\$22,451	\$25,623	87.6%
June 30, 1996	\$20,883	\$25,578	81.6%
March 31, 1996	\$19,478	\$24,136	80.7%
December 31, 1995	\$18,731	\$25,706	72.9%
September 30, 1995	\$18,822	\$25,732	73.1%

The bank's average loan-to-deposit ratio from September 30, 1995, to September 30, 1996, is 79.18%. According to the September 30, 1996, Uniform Bank Performance Report ("UBPR"), the bank's loan-to-deposit ratio for the quarter places it in the 91st percentile of its peer group.

The bank's average loan-to-deposit ratio compares favorably with the quarterly average ratios of its local competitors. Based on quarterly ROC data from September 30, 1995, to September 30, 1996, the following table identifies the asset size and quarterly average loan-to-deposit ratios for the bank and its competitors. Only one of the bank's competitors has a higher loan-to-deposit ratio than the subject bank. Since becoming a member of the FRS in 1995, the bank has originated and sold a significant amount of real estate loans on the secondary market. If included, the bank's quarterly loan-to-deposit ratio would increase by several percentage points.

BANK AND LOCATION	TOTAL ASSETS (September 30, 1996) (In thousands)	QUARTERLY AVERAGE LOAN-TO-DEPOSIT RATIO
F&M Bank-Superior Superior, Wisconsin	\$ 31,782	79%
Competitor A	\$ 31,865	87%
Competitor B	\$ 9,656	47%
Competitor C	\$173,797	78%
Competitor D	\$ 99,889	79%
Competitor E	\$ 35,917	77%

In addition to the competing banks listed above, several nonbank entities extend credit to residents and businesses within the bank's assessment area. The many financial institutions that operate in the bank's assessment area create a very competitive market. Community contacts familiar with the small business environment in the assessment area stated that Superior has a very competitive small business loan market. There is a sizable number of financial institutions that aggressively solicit and price such loans. Also, the community contacts interviewed during the evaluation indicated that there are no unmet credit needs in the assessment area based on the competitive banking environment.

Based on the bank's strong and steadily increasing loan-to-deposit ratio, comparison to its competitors, its UBPR peer group ranking, and the lack of

any identified unmet credit needs, the bank's loan-to-deposit ratio exceeds the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

Overall, the bank's lending activity within its assessment area does not meet the standards for satisfactory performance. As reflected in the following table, the loans sampled indicate that the bank made a substantial majority of its consumer and consumer real estate loans in its assessment area; however, the majority of small business loans originated are outside the bank's assessment area. As previously mentioned, small business loans account for 69% of the bank's loan portfolio.

PERCENTAGE OF LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Amount of Loans
Consumer	96	99
Consumer Real Estate	86	85
Small Business	39	35

The bank attributed the low small business origination rates in the assessment area to several factors. First, the bank purchases insurance premium and telephone system installation contracts from various local agents. The majority of these contracts are from businesses located outside the assessment area, but in northern areas of Wisconsin and Minnesota. Second, the bank has participated in a few large dollar commercial loan participations that are also outside of the assessment area. Third, community contacts indicated that there are no unmet credit needs in the assessment area. In addition, contacts identified the larger competing financial institutions in the assessment area as the primary small business lenders. Finally, according to bank management, the bank had the option of originating these contract loans or purchasing investments that may have been considered qualified investments under CRA. The bank decided to originate these loans and earn a higher yield.

Because of the percentage of small business loans located outside of the assessment area, bank management reviewed the reasonableness of its assessment area. It believes that based on the size of the bank, the assessment area is reasonable.

According to bank's reported HMDA data, the bank is not a leading real estate lender in either the MSA or its assessment area. In 1995, the bank originated 85 real estate loans in its assessment area. This represents 94.4% of the bank's total HMDA reportable loans.

As discussed previously, the bank is primarily a small commercial lender. Based on the small percentage of small commercial loans the bank originated in the assessment area, the level of lending in the bank's assessment area does not meet 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 individuals of different income levels and to businesses of different sizes is reasonable and meets the standards for satisfactory performance. As previously mentioned, CRA classifies income levels into four categories: low, moderate, middle, and upper. Based on 1990 census data, the median family and household incomes for the bank's assessment area are \$27,425 and \$22,123, respectively. Both figures are lower than the 1990 MSA median family and household incomes of \$30,561 and \$23,690, respectively. The following table shows the percentage of sampled loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME LEVELS*				
Loan Type	Low-Income Borrowers	Moderate-Income Borrowers	Middle-Income Borrowers	Upper-Income Borrowers
Consumer				
Total Number of Loans	27	23	25	25
Total Amount of Loans	23	17	42	18
Consumer Real Estate				

Total Number of Loans	11	14	29	46
Total Amount of Loans	9	10	22	59
*Income level is determined based on the 1996 median family income of \$38,600 for the Duluth/Superior MSA.				

The table shows that the bank's consumer lending is reasonable. According to 1990 census data, 25% of the households in the assessment area are classified as low income, 17% as moderate income, 20% as middle income, and 38% as upper income. The bank's lending percentages for consumer loans to low- and moderate-income households (50%) is slightly higher than the percentages of these households in the assessment area. Likewise, the percentage of lending to middle- and upper-income borrowers is fairly representative of the percentage of such households in the assessment area.

The table also indicates that the percentage of consumer real estate loans originated to low- and moderate-income households is below the percentage of such households in the assessment area. This is attributable to a couple of factors. First, bank management sells the majority of its consumer real estate loans on the secondary market. As a result, it must follow secondary market underwriting standards and many low- and moderate-income people do not meet such standards. Second, as previously discussed, a community contact familiar with affordable housing in the area stated that Superior has an oversupply of affordable housing. This situation would tend to demonstrate weak demand for real estate loans from low- and moderate-income residents.

We also note that the bank's 1995 HMDA data indicate that the bank originated 19 real estate loans to low- and moderate-income individuals residing in the assessment area. These loans represent 22.4% of total loans in the assessment area. Aggregate lenders made 421 loans to low- and moderate-income residents, representing 32.5% of total loans. The bank's lower percentage is due to its size relative to other competitors and the inability to offer real estate loan programs targeted to low- and moderate-income borrowers.

The bank has an excellent record of lending to small businesses in its assessment area. CRA defines a small business as one with less than \$1 million in gross annual revenues. All of the small business loans sampled had annual revenues of less than \$1 million. Of these loans, 89% were made in amounts under \$100,000. This distribution of small business loans is consistent with the bank's asset size, legal lending limit, and the overall assessment area's economic conditions.

As the preceding table shows, the percentage of consumer loans reflects that 50% of the loans originated and 40% of the amount borrowed were to low- and moderate-income borrowers. This loan category was selected for the CRA sample because of the number of loan originations during the last six months. However, consumer loans represent only 4% of the bank's total loan portfolio. Accordingly, examiners applied greater significance to the small business and consumer real estate loan categories in assigning the rating for this category.

Based on the level of small business loans originated, and the level of consumer and consumer real estate loans to low- and moderate-income individuals, the bank meets the standards for satisfactory performance in this category.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans by income level of geographies throughout its assessment area meets the standards for satisfactory performance. The following table illustrates the distribution of the bank's loans by different geographies. As previously discussed, 1990 census data indicates that 4% of the population resides in the low-income census tracts, 20% in the moderate-income tracts, and 76% in the middle-income census tracts.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY CENSUS TRACT INCOME LEVEL			
Loan Type	Low Income	Moderate Income	Middle Income
Consumer			
Total Number of Loans	2%	13%	85%
Total Amount of Loans	1%	9%	90%
Consumer Real Estate			
Total Number of Loans	1%	20%	79%
Total Amount of Loans	1%	15%	84%
Small Business			
Total Number of Loans	8%	45%	47%
Total Amount of Loans	12%	41%	47%
*There are no upper-income census tracts in the bank's assessment area.			

As discussed previously, the assessment area contains three census tracts that are classified as low income, three tracts that are classified as moderate income, and nine tracts that are classified as middle income. The assessment area does not include any upper-income census tracts. As discussed, small business and consumer real estate loans account for 95% of the bank's loan portfolio.

The preceding table indicates that 53% of the small business loans originated and 53% of the total amounts borrowed for small business loans were to small businesses located in the low- and moderate-income census tracts. The remaining small business loans were originated in the middle-income census tracts. As discussed previously, 24% of the assessment area's population resides in low- and moderate-income census tracts. Since the moderate-income tracts comprise the bulk of the downtown area, this concentration is expected. Based on the loans that the bank has originated in its assessment area, one of every two small business loans have been originated in the low- and moderate-income census tracts.

According to the table, 21% of the consumer real estate loans originated and 16% of the amounts borrowed were in low- and moderate-income census tracts. As discussed, 24% of the population in the assessment area resides in these tracts. The percentage of consumer real estate loans originated approximates the percentage of the assessment area's low- and moderate-income population that resides in these tracts. There are 287 owner-occupied households in the low-income tracts and 1,635 owner-occupied households in the moderate-income tracts. HMDA data indicate that all lenders made only 215 loans in these tracts. The bank's 18 loans in the low- and moderate-income tracts represent 21% of its total loans in the assessment area. Aggregate lenders made 17% of total loans in these geographies. As mentioned, community contacts indicated that there is an abundance of affordable housing in the assessment area.

As for consumer loans, the table reflects that 15% of the loans originated and 10% of the dollars borrowed were to borrowers residing in the low- and moderate-income census tracts. The bank's consumer lending in low- and moderate-income tracts is lower than the percentage of the population in those tracts.

As previously discussed, although consumer loans represent only 4% of the bank's total loan portfolio, this loan category was selected because of the number of loan originations over the last six months. Examiners applied greater significance to the small business and consumer real estate loan categories in assigning the geographic distribution rating.

The bank's geographic distribution of loans is reasonable. Although a large percentage of assessment area small business loans are in low- and moderate-income tracts, this pattern is reasonable since these tracts include the bulk of the downtown area. Moreover, as noted previously, less than 40% of the bank's small business loans are within the assessment area. This concentration of this activity outside the assessment area minimizes the significance of the distribution of small business loans within the assessment area. The distribution of consumer and real estate loans through various tracts appears reasonable in light of the demand for these products in the geographies of various income levels.

GENERAL

The evaluation did not reveal any practices that are inconsistent with the substantive provisions of the fair lending and fair housing laws and regulations. The evaluation revealed minor isolated violations of the technical aspects of HMDA's Regulation C. Bank management agreed to correct these violations. The bank has not received any CRA complaints since the last evaluation.

PUBLIC DISCLOSURE

January 27, 1997

Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M Bank-Superior

Name of Depository Institution

095549000000

Identification Number of Institution

Superior, Wisconsin

Address of Institution

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.