

PUBLIC DISCLOSURE

February 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F & M BANK GRANT COUNTY

RSSD Number: 843243

1275 10th Street
Fennimore, Wisconsin 53809

FEDERAL RESERVE BANK
OF CHICAGO

230 South LaSalle
Chicago, Illinois 60604

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.

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 families, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **F&M Bank-Grant County, Fennimore, Wisconsin**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of February 1, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated Outstanding.

F&M Bank-Grant County promotes economic growth in a manner consistent with its asset size, location and current assessment area economic conditions. The bank's efforts are accomplished primarily through the origination of real estate, small business, small farm and consumer loans. The bank's loan-to-deposit ratio is reasonable and evidences the bank's willingness to meet community credit needs. A substantial majority of all loans in the CRA loan sample are extended within the bank's assessment area. The bank's lending to businesses and farms with gross annual revenues of \$1 million or less is strong. The bank's extension of residential real estate and consumer loans to low- and moderate-income borrowers is also strong considering the demographics of the bank's assessment area. There is no evidence of discriminatory lending practices, or policies intended to discourage individuals from applying for loans offered by the bank.

DESCRIPTION OF INSTITUTION

F&M Bank-Grant County, with total assets of \$136 million as of December 31, 1998, is a wholly-owned subsidiary of F&M Bancorporation, Inc., a multi-bank holding company located in Kaukauna, Wisconsin, with total assets of \$2.38 billion as of September 30, 1998. The bank has its main office in Fennimore, Wisconsin; three branches are located in Lancaster, Potosi and Dickeyville, Wisconsin. Full loan and deposit services are offered at each location. The bank has a total of four automated teller machines (ATMs), two in Fennimore, one in Lancaster and one in Dickeyville. All but one of the ATMs are available 24 hours per day. There are no financial or legal impediments that might affect the institution’s ability to meet the credit needs of its assessment area. The bank’s CRA performance was last evaluated September 30, 1996, with a rating of outstanding.

The bank’s primary competition in Lancaster is from a branch of AnchorBank SSB of Madison, Wisconsin, a branch of Heartland Credit Union also of Madison and New Line Financial (a mortgage broker). The bank also competes with a branch of Clare Bank National Association of Platteville, Wisconsin, in Fennimore. Loans constituted \$97,710M or 74 percent of total assets, based upon the bank’s September 30, 1998 Consolidated Report of Condition. Table 1 reflects the composition of the bank’s loan portfolio as of that date.

Table 1 F&M Bank-Grant County’s Loan Portfolio		
Loan Type	Amount (\$000)	Percent of Total
Agricultural or Farmland	29,501	30
Multi- and 1-4 Family Real Estate	20,988	22
Commercial Real Estate	19,438	20
Commercial and Industrial	16,624	17
Consumer	7,223	7
Construction and Land Development	1,705	2
State and Political Obligations	1,349	1
Home Equity Lines of Credit	384	<1
Credit Cards	344	<1
Other	154	<1
TOTAL	97,710	100

Agricultural lending represents the largest portion of the bank’s outstanding loan portfolio as illustrated above. Residential real estate, commercial real estate and commercial/industrial lending comprise the next largest categories of lending.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area encompasses all of Grant County, Wisconsin, which is located in southwestern Wisconsin, bordering Iowa and Illinois. The population of Grant County is 49,432 based upon estimated 1995 census data. The population of Grant County has remained relatively unchanged in the last two decades. Grant County population grew 5.0 percent from 49,266 to 51,736 in the period from 1980 to 1990, and then decreased 4.5 percent to 49,432 in 1995. A community representative involved in local economic development described the population in Grant County as "frighteningly stagnant". The area has lost a significant number of individuals between the ages of 18 and 25 years. This same community representative attributed the loss within this age group to a belief that there were limited job opportunities in the area. The area economy has been growing steadily in recent years, in line with the trend in the national economy, despite the loss of individuals in this age group.

The four communities in which the bank maintains offices are Fennimore, Lancaster, Potosi and Dickeyville, Wisconsin. All four locations are located on a 30-mile segment of Highway 61 running north to south. Fennimore is located furthest north on Highway 61 and has an estimated population of 2,400 estimated as of 1997; next is Lancaster, the county seat, with a population of 4,242; next is Potosi, which has a population of 674 followed by Dickeyville with a population of 931.

Table 2 details the general demographic and economic characteristics of the bank’s assessment area based upon 1990 census data.

Table 2	
F&M BANK-GRANT COUNTY	
ASSESSMENT AREA CHARACTERISTICS	
Summary	
Total Number of BNAs	12
Number of Middle-Income BNAs	12
Income Summary	
Median Family Income	\$29,472
Percent Low-Income Families	17.3
Percent Moderate-Income Families	20.8
Percent Middle-Income Families	26.8
Percent Upper-Income Families	35.0
Miscellaneous Information	
Total Population	49,264
Percentage of Families Below Poverty	8.7
Total Housing Units	18,450
Percentage of Owner Occupied Units	64.7
Percentage of Rental Units	28.4
Percentage of Vacant Units	6.9
Median Housing Value (Assessment Area)	\$43,438
Median Housing Value (Non-metro: WI)	\$50,092
Median Housing Value (State: WI)	\$62,141

Approximately 62 percent of the assessment area population is considered middle- or upper-income according to 1990 census data. The Department of Housing and Urban Development estimate of 1998 median family income for the assessment area is \$41,400, which is consistent with the estimate of \$41,800 for all non-metropolitan areas within the State of Wisconsin (State). All of the block numbering areas (BNAs) within the bank’s assessment area are considered middle-income.

Grant County’s labor force totaled 24,547 people as of December 1998; its non-seasonally adjusted unemployment rate was 3.6 percent according to the Wisconsin Department of Workforce Development. This rate is only slightly higher than that of the State at 3.1 percent. An individual involved in local economic development activities indicated that the economy is exceptionally strong, consistent with state and national economic trends. There has been substantial growth in the most recent two years, particularly in the manufacturing sector.

Farming operations contribute heavily to support the local economy, although the number of jobs provided by manufacturing operations is increasing. Grant County is the number one pork-producing county in Wisconsin. Pork producers have suffered in recent months, especially in the latter part of 1998, due to historically low pork prices. Pork producers incurred significant losses per head based upon prices paid at slaughter. The county is also a large dairy producer, with

significant corn and hay production. Dairy prices had been relatively strong with more recent weakness.

There are several major employers in the communities in which the bank has offices. The major employers in Fennimore are Rayovac Corp. (batteries) with 550 employees and Southwest Technical College (education) with 230 employees. The largest employers in Lancaster are Grant County Government with 350 employees, Loudspeaker Company (speaker cones) with approximately 225 employees and Milprint (candy wrappers) with 200 employees. Milprint is planning a major expansion that will add a significant number of jobs according to local community representatives. The major employers in Potosi are Potosi Public Schools with 51 employees and Walsh Stores, Inc. (hardware) with 17 employees. The major employees in Dickeyville are SC DATA (seasonal telemarketing) with 100 employees and Sunset Lanes and Hall (bowling/restaurant) with 20 employees. There are also plans to build a new prison in Boscobel, Wisconsin, which is located 12 miles north of Fennimore, which will provide additional employment opportunities.

Many Grant County residents commute to Dubuque, Iowa to work. It is the closest metropolitan area and is located approximately 30 miles south of Grant County. The Dubuque area's major employers are John Deere Dubuque Works (industrial tractors) with 2,352 employees, Dubuque Community School District with 1,410 employees, Mercy Health Center (acute hospital services) with 1,329 employees and Farmland Foods, Inc. with 1,300 employees. Community representatives indicated that the largest group of area residents who are employed in Dubuque are employed at the John Deere Dubuque Works.

There are 18,450 housing units in the assessment area according to 1990 census data, of which 64.7 percent are owner-occupied in comparison to 66.4% within all non-metropolitan areas within the State. Single family units comprise 83.2 percent of the housing in the assessment area, according to 1990 census data, in comparison to 74.8 percent of the State's overall housing supply. The assessment area's median housing age is 45 years compared to 30 years for all non-metropolitan areas statewide.

The housing affordability ratio¹ for the assessment area is 56 percent compared to 47 percent for the State, and 51 percent for all non-metropolitan areas statewide, based upon 1990 census data. These ratios imply that housing is more affordable within the bank's assessment area as compared to the State and all non-metropolitan areas within the State. Area housing has been increasing in value over the past few years. The average price of housing currently on the market in Grant County is in the range of \$75,000 to \$90,000 according to local realtors; the dwellings are generally 20 to 40 years old. Newer homes are selling anywhere from \$120,000 to \$200,000. In Lancaster, the maximum price approaches \$140,000 while in Fennimore it is closer to \$200,000. There was minimal housing development in the early 1990s according to local community representatives; however, a few new subdivisions have been developed in the past two years.

¹ The affordability ratio is calculated by dividing the area's median household income by the area's median housing value.

Nevertheless, there is general housing shortage, including affordable housing. As a result, communities within the assessment area are encouraging all types of housing development in order to meet the demand in the local housing market. Realtors in both Fennimore and Lancaster are optimistic that new jobs to be created in Lancaster and Boscobel will further increase housing demand.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Reviews of the bank’s loan portfolio and of a sample of recent loan originations were conducted to analyze the bank’s loan performance with respect to overall lending volume and borrower income characteristics.

LOAN-TO-DEPOSIT RATIO

Overall lending levels reflect a strong responsiveness to credit needs within the bank’s assessment area. The bank’s average net loans and leases to total deposits ratio for the previous nine reporting quarters is 84.39%. This ratio compares favorably to that of the bank’s national peer group and three similarly sized institutions within the bank’s assessment area which have loan to deposit ratios of 67.82, 61.34, 82.31 and 85.07%, respectively. The bank’s ratio is also consistent with the average ratios for two of its primary competitors of 85.08 percent and 88.69 percent; while the competitors have significantly more assets than the bank.

Community representatives indicated that the volume and distribution of the bank’s loan portfolio is consistent with current assessment area credit needs which include residential real estate mortgage, agricultural and consumer loans. The bank’s loan volume as evidenced by its average loan-to-deposit ratio meets the standards for satisfactory performance.

LENDING IN ASSESSMENT AREA

This performance criterion measures the number and amount of the bank’s loans originated within its assessment area. The analysis was based upon five loan samples including consumer installment, consumer single payment, residential real estate, small business and small farm loans. Small business loans are defined in the regulation as those commercial loans with original amounts of \$1 million or less and small farm loans are defined as those agricultural loans with original amounts of \$500,000 or less. The samples were chosen from loans originated between July 18, 1998 and January 18, 1999. Table 3 demonstrates the percentage and dollar amount of loans that were originated within the bank’s assessment area by product type:

Table 3						
Loans Within the F&M Bank-Grant County’s Assessment Area						
Loan Product	Total Originations		Lending Within Assessment Area			
	#	\$(000s)	#	%	\$(000s)	%
Consumer Installment	313	1,963	283	90	1,750	89

Consumer Single Payment	208	1,030	193	93	929	90
Residential Real Estate	165	8,359	152	92	7,386	88
Small Business	185	12,000	153	83	7,724	64
Small Farm	237	5,444	232	98	4,826	89
TOTALS	1,108	28,796	1,013	91	22,615	79

A substantial percentage of both the dollar amount and the number of the bank’s total loans as reflected within the loan sample, is originated within its assessment area. The bank’s performance with respect to lending within its assessment area exceeds the standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The CRA loan sample was also analyzed to determine the bank’s distribution of loans among borrowers of different income levels and to businesses and farms of different revenue sizes. The bank’s distribution of lending among borrowers of different income levels is analyzed using the Department of Housing and Urban Development’s 1998 estimate of median family income of \$41,800 for all non-metropolitan areas within the State. Families with income levels of less than \$20,900 are classified as low-income, \$20,900 to less than \$33,440 are moderate-income, \$33,440 to less than \$50,160 are middle-income and incomes of \$50,160 or above are classified as upper-income. Table 4 reveals the distribution of the bank’s lending by borrower income level:

Table 4 Distribution of F&M Bank-Grant County’s Lending by Borrower Income Level				
Income Level of Borrower	Percentage of Consumer Installment Loans Reviewed*	Percentage of Consumer Single Payment Loans Reviewed**	Percentage of Residential Real Estate Loans Reviewed	Percentage of Families within Assessment Area (1990 census data)
Low	43.8	31.1	7.9	17.3
Moderate	26.1	34.2	19.1	20.8
Middle	16.3	18.1	37.5	26.8
Upper	12.0	16.1	35.5	35.0

Based upon the HUD 1998 Estimate of the Median Family Income for all Non-Metropolitan areas within the State of Wisconsin of \$41,800

* Income was not available for 5 borrowers. ** Income was not available for 1 borrower.

The distribution of consumer installment and single payment loans is strong compared to the distribution of the assessment area’s population. The level of lending to low- and moderate-income borrowers significantly exceeds the percentage of low- and moderate-income families within the bank’s assessment area. In addition, the overall volume of consumer installment and single payment loans to low- and moderate-income borrowers exceeds the volume of lending to middle- and upper-income borrowers.

A review of the bank's residential real estate lending compared to the assessment area's income distribution, reveals that the percentage of loans to low-income borrowers was relatively low; whereas the distribution of loans to moderate-income borrowers was generally strong. This distribution of mortgage lending is reasonable considering the relatively high prices of homes in the assessment area. A community representative involved in residential real estate sales indicated that the majority of homes for sale in Grant County are priced between \$80,000 and \$100,000. In addition, there is a shortage of housing in general, including more affordable housing. As a result, it is less likely that a low-income family could purchase a home within the assessment area based upon availability and current market prices. The distribution of residential real estate loans to borrowers of different income levels is deemed reasonable.

A sample of 185 new and renewed commercial loans was reviewed to evaluate the bank's distribution of lending to businesses of different sizes within its assessment area, particularly to small businesses. Small business loans are defined as those commercial and industrial loans with original amounts of \$1 million or less. Small business lending is further analyzed to evaluate the bank's lending to those businesses with gross annual revenues of \$1 million or less. The majority of businesses in the bank's community are considered small based upon revenue size. Of the 153 small business loans originated within the bank's assessment area, 138 (90 percent) were to businesses with gross annual revenues of \$1 million or less. In addition, 133 of the 153 small business loans (87 percent) were for amounts of \$100,000 or less. The large percentage of loans with original amounts of \$100,000 or less indicates the bank's willingness to meet the credit needs of small business borrowers. The distribution of loans to small businesses is strong given the local economic conditions.

A sample of 237 new and renewed agricultural loans was reviewed to evaluate the bank's distribution of lending to farms of different sizes within its assessment area, particularly those to small farm owners. Small farm loans are defined as those agricultural loans with original amounts of \$500,000 or less. Small farm lending is further analyzed to evaluate the bank's lending to those farming operations with gross annual revenues of \$1 million or less. The farms within the bank's assessment area are primarily small, independent operations. Of the 232 agricultural loans originated within the bank's assessment area, 222 (96 percent) were to farms with gross annual revenues of \$1 million or less. In addition, 223 of the 232 farm loans (96 percent) had original amounts of \$100,000 or less. The large percentage of loans with original amounts of \$100,000 or less indicates the bank's willingness to meet the credit needs of small farming operations. This analysis indicates the bank's willingness to meet the credit needs of the agricultural borrowers within its assessment area, especially those of small farming operations.

In addition, the bank's WHEDA and Farm Service Agency (FSA) lending activity indicates the bank's willingness to meet credit needs within its assessment area. Since the previous examination the bank has originated 46 WHEDA home purchase, home improvement, and farm operating loans for a total of \$1,123M and 18 FSA loans for a total of \$3,083M. The bank also originates mortgage loans on the secondary market to offer long-term fixed rate residential real estate loans to its borrowers. The bank has originated 120 loans for a total of \$8,668M since the

previous examination.

The bank's loan penetration among borrowers of different income levels and to businesses and farms of different sizes is favorable compared to the demographics of the assessment area and based upon assessment area credit needs. The bank's performance exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

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

RESPONSE TO COMPLAINTS

The bank has received no complaints regarding its CRA performance since the previous examination.

INVESTMENTS AND SERVICES

Current qualified investment opportunities are limited. The bank has been in negotiations with the City of Lancaster since the previous examination regarding the sale of property owned by the bank. The land will be used by the city for affordable housing development and it will be sold to the City for approximately \$12,000 less than its market value. In addition, the bank will pay for the estimated \$4,000 cost of an environmental inspection.

The bank has also financed the construction of four single-family homes in Fennimore. These homes were built by private developers for low- and moderate-income families. The interest rates for the loans were discounted by 2 percent under the normal rate charged for construction loans; there were four loans, each for \$45,000. Each of the four homes qualifies for financing under the Wisconsin Housing and Economic Development Authority's (WHEDA) home loan program targeting low- and moderate-income individuals.

The bank provides a relatively high degree of technical assistance to individuals and organizations within its assessment area. The bank frequently participates in an educational banking program that serves grade school, high school and college students in the area. The bank has also provided technical assistance to the Southwestern Wisconsin Community Action Program (SWCAP) in obtaining grant funds from the Wisconsin Division of Housing to assist low- and moderate-income individuals to buy or renovate a home. The bank participates in the SWCAP's home purchase and improvement loan programs, offering these loans to low- and moderate-income borrowers. The bank has sponsored a homebuyer seminar as a part of these loan programs.

The bank has sponsored training for real estate brokers regarding guaranteed rural housing program loans. These loan programs provide 30-year fixed-rate financing to those creditworthy

applicants lacking the downpayment required by conventional financing. The program requirements follow maximum adjusted income limits depending on family size for those applicants who live in Grant, Crawford, Iowa and Lafayette Counties.

Bank representatives actively participated on committees that created affordable home purchase programs in Fennimore and Potosi in an effort to improve the housing markets within those communities. In addition, the bank was represented on the Fennimore Economic Development Corporation in providing a commercial speculative building specifically for a small start-up business.

GENERAL

The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.