

PUBLIC DISCLOSURE

October 18, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M BANK - HILBERT

RSSD Number: 868349

P.O. Box 391
Hilbert, Wisconsin 54129-0391

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 neighborhoods, 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 Community Reinvestment Act (CRA) performance of **F&M Bank-Hilbert, Hilbert, Wisconsin** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **October 18, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. 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 Satisfactory.

F&M Bank-Hilbert promotes economic growth in its assessment area in a manner consistent with its asset size, location and current local economic conditions. The bank's efforts are accomplished through its origination of commercial, real estate, agricultural and consumer loans. The bank's average loan-to-deposit ratio exceeds that of its national peer group and three out of four of its local competitors. The bank originates a substantial majority of its loans within its assessment area and has a generally strong level of lending to borrowers of different income levels and to businesses and farms of different revenue sizes. Community development lending opportunities have been limited; however, the bank has made one such loan. Community development investments have also been minimal; however, interviews with community representatives and a review of economic and demographic information in the assessment area indicate that few opportunities of this nature are available. Banking services provided by the bank are accessible within the assessment area, and banking hours and products meet the needs of the community. The bank has not closed any branches since the previous examination. Lastly, the examination revealed no patterns or practices intended to discriminate against or to discourage applications from any member of a protected class.

The following table details the performance level of **F&M Bank-Hilbert, Hilbert, Wisconsin** with respect to the lending, investment and service tests. Based on the component test ratings for large banks, the assigned composite rating is satisfactory.

PERFORMANCE LEVELS	F&M BANK-HILBERT		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

F&M Bank-Hilbert, with total assets of \$34 million as of June 30, 1999, is a subsidiary of F&M Bancorporation, Inc., a multi-bank holding company. The bank operates three full-service offices located in Hilbert, Forest Junction and Potter, Wisconsin. The bank's CRA performance was most recently evaluated as of October 28, 1996.

The bank is predominantly a real estate lender offering a variety of deposit products and services, as well as residential, agricultural, commercial and consumer loans. The bank also has a significant level of commercial loans in its loan portfolio, followed by agricultural and consumer loans. The bank offers a wide variety of lending products, including a number of government loan programs such as the State of Wisconsin's Petroleum Environmental Cleanup Fund Act (PECFA); Farm Service Agency's loan guarantee program for farmers; Wisconsin Housing and Economic and Development Authority's (WHEDA) program for first-time homebuyers and small farm operators and Small Business Administration loan programs. Credit cards are available through Elan Financial Services. The bank also participates in the secondary market for real estate loans through its affiliate bank, F&M Bank-Northeast to better serve the residents of its assessment area. There are no factors relative to the bank's financial condition, size, or economic conditions that would prevent it from meeting the community's credit needs.

The bank has four main competitors, with offices located in the nearby communities of Brillion, Chilton and Sherwood. The State Bank of Chilton is located in Chilton and both M&I Bank Fox Valley of Appleton and Community Bank of Sheboygan operate a branch office in Chilton. M&I Bank Fox Valley also operates an office in Sherwood. In addition, Calumet County Bank, located in Brillion provides additional competition to the bank.

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

Hilbert is located in Calumet County, approximately 20 miles southeast of Appleton. The bank's assessment area consist of five census tracts located in the northeast corner of Calumet County (201.00, 202.00, 203.02 and 205.00), and a small portion of Brown County (215.00). All five-census tracts are designated as middle-income. The assessment area includes the communities of Hilbert, Potter, Forest Junction, Chilton, Brillion and Sherwood. Calumet County is one of the three counties included in the Appleton-Oshkosh-Neenah Metropolitan Statistical Area (MSA) 0460 and Brown County represents the entire Green Bay MSA 3080.

The bank's assessment area has a population of 20,969, based upon 1990 census data. Calumet County has experienced a 13 percent growth in population from 1990 to 1998, in comparison to the state's overall growth rate of seven percent during the same period. Much of this growth can be attributed to population increases in the communities of Appleton (a portion of which is located in Calumet County) and Harrison. These two cities have accounted for approximately 70 percent of the overall growth in the county. Hilbert, conversely, has only grown 2.5 percent during the same period, according to the Wisconsin Department of Administration estimates.

The median family income for the assessment area is \$37,984; based upon 1990 census data, which is comparable to the median family income for both MSAs of approximately \$37,150. Of the 5,625 families in the assessment area, low- and moderate-income families comprise 32 percent of the population, a figure slightly lower than either of the MSAs or the State of Wisconsin.

A review of the assessment area housing stock indicates that housing is generally newer and is primarily single-family. There are a total of 7,438 housing units in the assessment area, with 79.1 percent of the units owner-occupied, based upon 1990 census data. The majority of the owner-occupied units are single-family, comprising 78.1 percent of the assessment area housing stock. The median housing value of homes in the assessment is \$61,263 based upon 1990 census data.

The housing sector of the local economy is especially strong and further confirms the affluence of the assessment area. The median sales price of homes for Calumet County for the second quarter of 1999 was \$137,900, in comparison to \$119,400 for all of 1998. Total number of home sales in Calumet County for the first two quarters of 1999 was 144 units in comparison to 121 for the same time period in 1998. The median sales price of homes in Brown County for the second quarter of 1999 was \$114,800, in comparison to \$107,600 for all of 1998. Total number of home sales in Brown County for the first two quarters of 1999 was 1,205 units in comparison to 1,187 for the same time period in 1998.

Community representatives indicated that housing development and redevelopment efforts, although substantial in the region, have not focused on the need for more affordable housing.

Low and further decreasing unemployment rates are another indicator of the strong local economy at this time. According to the state’s Department of Workforce Development (DWD), the unadjusted unemployment rates for Calumet County in September 1999 and September 1998 were 1.6 percent and 2.1 percent, respectively. The unadjusted unemployment rates for Brown County in September 1999 and September 1998 were 1.7 percent and 2.5 percent, respectively. Both compare favorably to the state’s unadjusted unemployment figures of 2.0 percent and 3.0 percent, respectively, for the same periods. The state’s September 1999 unadjusted employment rate of 2.0 percent was second lowest in the nation, according to the DWD.

The manufacturing industry, which is the largest industry in Calumet County, employs approximately 5,500 workers, or 46.30 percent of the county’s total employment base, based upon information from the DWD as of the first quarter of 1998. The restaurant industry, the second largest industry, employs nearly 900 workers, followed by educational services industry with approximately 600 employees. The following table highlights the major employers in the county:

F&M BANK-HILBERT Largest Employers in Calumet County		
Employer	Location	# of Employees

Tecumseh Products Engine Group	New Holstein	>1,000
Brillion Iron Works Inc.	Brillion	500 - 999
Ariens Company	Brillion	500 - 999
Chilton Products Division	Chilton	250 - 499
Kaytee Products Inc.	Chilton	250 - 499
Ameriquip Corporation	Kiel	250 - 499

Job opportunities have increased with the creation of new manufacturing jobs in Calumet County, but not enough to offset its growing population. As a result, nearly 50 percent of the assessment area’s workers travel to surrounding communities for employment, while maintaining their residences in Calumet County.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

F&M Bank-Hilbert’s performance under the lending, investment, and service tests is summarized in each section. Lending data and pertinent supporting information detailing demographic and other related characteristics of the bank’s assessment area follow in detail. Management has implemented policies and procedures that support nondiscrimination in lending. The bank is in compliance with the substantive provisions of the anti-discriminatory laws and regulations, including the Fair Housing and Equal Credit Opportunity Acts.

LENDING TEST

The bank’s June 30, 1999 Consolidated Report of Condition and quarterly Uniform Bank Performance Report, the 1998 Home Mortgage Disclosure Act (HMDA) reportable lending, and a sample of 1998 CRA-reportable small business and small farm lending were reviewed and analyzed to evaluate the bank’s CRA performance under this test. This data was reviewed to assess the bank’s overall lending volume, assessment area lending concentration, lending distribution to borrowers of different income levels, and community development lending. Interviews with community representatives and bank management were also conducted to identify and evaluate the bank’s efforts in addressing community development lending needs.

Lending Volume

The bank’s lending volume is strong as evidenced by the following table, which highlights the loan-to-deposit ratios of the bank, its competitors and its peer group:

F&M BANK-HILBERT COMPARISON OF LOAN TO DEPOSIT RATIOS		
Bank	Loan-to-Deposit Ratio (as of 06/30/99)	Eight-quarter average Loan to Deposit Ratio through June 30, 1999
F&M Bank-Hilbert	75.36%	81.38%
Community Bank and Trust	87.61%	84.69%
State Bank of Chilton	81.58%	80.35%
M&I Bank Fox Valley	79.89%	78.53%
Calumet County Bank	71.28%	71.21%
National Peer Group	66.18%	66.96%

The bank's average loan-to-deposit ratio exceeds the majority of its competitors and its national peer group. The bank's average loan-to-deposit ratio does not fully capture all of the bank's lending activity since the bank also originates home mortgage loans on the secondary market through its affiliate, F&M-Northeast.

The bank's loan portfolio also reflects a reasonable diversification among various loan categories, including real estate, commercial, agricultural and consumer, as illustrated in the following table. The distribution of the bank's loan portfolio by loan type in comparison to peer as of June 30, 1999 is as follows:

F&M BANK-HILBERT COMPOSITION OF LOAN PORTFOLIO IN COMPARISON TO PEER AT JUNE 30, 1999		
LOAN TYPE	BANK	PEER
REAL ESTATE		
Construction & Development	3.26%	6.36%
Farmland	3.52%	3.85%
Revolving open-end (1-4)	1.20%	1.65%
Residential (1-4)	21.44%	29.36%
Multi-family	0.36%	1.56%
Commercial	17.86%	17.30%
Total real estate loans	47.64%	60.08%
CONSUMER		
Open-end	0.25%	0.42%
All other	6.57%	14.84%
COMMERCIAL AND INDUSTRIAL	29.35%	18.52%
AGRICULTURAL	13.87%	5.60%
STATE AND POLITICAL SUBDIVISIONS	2.33%	0.32%
ALL OTHER	0.00%	0.22%

A review of the distribution of the bank's loan portfolio in comparison to peer indicates that the bank's lending is generally consistent with that of its peers; the bank does have a higher

proportion of commercial and industrial loans and a smaller percentage of 1-4 residential lending in its portfolio. The comparison to peer has changed little in the period since December 31, 1996 with the exception of a decrease in residential real estate loans and a similar level of increase in commercial real estate loans.

Lending in Assessment Area

The bank’s 1998 HMDA-reportable lending and a sample of 1998 CRA-reportable small business and small farm lending was reviewed to evaluate the bank’s lending in its assessment area. The results of this analysis are summarized in the following table:

F&M BANK-HILBERT LOANS MADE WITHIN THE COMBINED ASSESSMENT AREA			
Loan Type	Total Number of Loans	Loans Made Within the Assessment Area	
		#	%
1998 HMDA-reportable	17	16	94.12
1998 CRA-reportable small business	94	65	69.15
1998 CRA-reportable small farm	62	48	77.42
Totals	173	129	74.57

The preceding table illustrates that the bank originated a majority of its loans within its assessment area. This is generally consistent for each of the bank’s major loan types including residential mortgage, commercial and agricultural loans.

Borrower Characteristics

The bank’s 1998 HMDA-reportable lending and a sample of the 1998 CRA-reportable small business and small farm lending was also reviewed to evaluate the bank’s lending to borrowers of different incomes and to businesses and farms of different revenue sizes. The income categories were determined using the estimated 1999 HUD-adjusted median family income for the Green Bay MSA (\$54,100) and Appleton-Oshkosh-Neenah MSA (\$53,700) for residents of each. The following table details the bank’s 1998 HMDA-reportable residential mortgage lending to borrowers of different income levels. Low-income is defined as less than 50 percent of the median family income; moderate-income is defined as greater than 50 percent and less than 80 percent of the median family income; middle-income is defined as greater than 80 percent and less than 120 percent of the median family income; and upper-income is defined as greater than 120 percent of the median family income.

F&M BANK-HILBERT LENDING TO BORROWERS OF DIFFERENT INCOMES				
Borrower Income Designation	Families in the Assessment Area		1998 HMDA-Reportable Loans	
	#	%	#	%
Low-income	748	13.30	3	18.80
Moderate-income	1,059	18.80	4	25.00
Middle-income	1,877	33.40	6	37.50

Upper-income	1,941	34.50	3	18.70
Total	5,625	100.00	16	100.00

The preceding table indicates that the percentage of 1998 HMDA-reportable lending within the bank’s assessment area to low- and moderate-income borrowers is satisfactory. In fact, seven of the 16 loans were made to low- and moderate-income individuals combined representing 44 percent of the total loans originated. As noted in the preceding table, 32 percent of the assessment area population is designated as low- or moderate-income in comparison. A review of the bank’s 1997 HMDA-reportable lending in comparison, indicated that a total of 25 loans were reported. Of these, 1 was to a low-income borrower and 6 were to moderate-income borrowers representing 28 percent of the total loans originated.

A sample of the bank’s 1998 CRA-reportable small business and small farm lending was also analyzed. Small business loans are defined in the regulation as those loans with an original loan balance of \$1 million dollars or less. Small farm loans are those loans with an original loan balance of \$500,000 dollars or less. The bank’s lending to small businesses and small farms is further analyzed, based upon a range of original loan amounts and the lending to those businesses and farms with gross annual revenues of \$1 million or less. The following table and narrative illustrate the distribution of the bank’s small business and small farm lending based upon the loan amount and revenue size of the business and farm:

F&M BANK-HILBERT				
DISTRIBUTION OF 1998 COMMERCIAL AND FARM LOANS				
IN THE BANK’S ASSESSMENT BY LOAN AMOUNT AND BORROWER REVENUES				
Original Loan Amount	1998 Commercial loans		1998 Farm loans	
	#	%	#	%
Loans \$100,000 or less	59	90.77	48	100.00
Loans > \$100,000 to \$250,000	5	7.69	0	0.00
Loans > \$250,000	1	1.54	0	0.00
Revenues \$1,000,000 or less	64	98.46	48	100.00
Revenues >\$1,000,000	1	1.54	0	0.00
Totals	65	100.00	48	100.00

The preceding table illustrates that the bank has been responsive to the borrowing needs of small businesses and small farms in the bank’s assessment area through the origination of a significant number of these loans. In addition, the majority of commercial loans and all farm loans were made in amounts \$100,000 or less, amounts most frequently requested by small business and small farm owners which further indicates the bank’s willingness to serve this market.

A review of the aggregate of all 1998 reporting small business and small farm lenders indicated that F&M Bank-Hilbert was the number two small business and small farm lender in Calumet County behind M&I Bank Fox Valley. F&M Bank-Hilbert was again the number two small farm lender in Calumet County to those farms with gross annual revenues of less than \$1 million and was the number one lender to those businesses with gross annual revenues of less than \$1 million.

Geographic Distribution

The bank's assessment area does not include any low- or moderate-income census tracts or block numbering areas. As a result, an analysis of the geographic distribution of the bank's lending would not be meaningful and was not performed.

Innovative or Flexible Lending Practices

The bank offers a wide variety of secured and unsecured loan products to consumers, businesses, farmers, organizations and governmental bodies. The bank also offers consumer mortgage loan products through its affiliate, F&M Bank-Northeast to residents of the assessment area.

In addition, the bank participates in certain governmental-assisted loan programs, which are designed to enable qualifying small businesses and farmers and homeowners obtain loans. The bank has originated 15 WHEDA CROP loans totaling \$212,000 and three WHEDA HOME loans totaling \$233,110 since the previous examination.

The bank also has a "Business Manager Loan Program," which assists small businesses by providing advances against receivables. Under this program, the bank also accepts and processes payments on the receivables; the borrower, however, must replace any receivables aged more than 90 days with current receivables.

Community Development Loans

There are few opportunities within the bank's assessment area for it to originate or participate in community development loans, as defined under the regulation, according to both bank management and community representatives. One such loan was identified, however, in September 1999 when the bank originated a line of credit for \$30,000 to the only health facility serving the Hilbert, Forest Junction and Potter communities.

CONCLUSION

The bank's lending performance is considered strong. The bank's loan-to-deposit ratio on average is higher than its national peer group and three of its four local competitors. A significant percentage of the bank's loans are originated within its assessment area, and lending to businesses of different revenue sizes and to borrowers of different income levels is strong. While there are few community development loan opportunities within the assessment area, one community development loan was made. The bank has also made government-sponsored loans to help small businesses, small farms and homeowners obtain credit.

INVESTMENT TEST

The bank’s investment portfolio and donations were reviewed to evaluate the bank’s community development investment activities. Discussions with bank management, community representatives and a review of the demographic information related to the bank’s assessment area revealed that few opportunities exist for community development investments. While community representatives indicated that there was a need for affordable housing, there are limited efforts within the county in which the bank is able to participate.

CONCLUSION

The bank’s investment performance is considered adequate due to the lack of community development investment opportunities within the assessment area which limits the bank’s ability to make these types of investments. Bank management continues to monitor the local community for such investment opportunities.

SERVICE TEST

The bank’s retail banking delivery system was reviewed. The services provided by the bank were evaluated for range and accessibility, as were alternate delivery systems for delivering these services. In addition, the distribution of the bank’s branches, record of opening and closing branch offices and community development service activity were also reviewed.

Retail Banking Services

F&M Bank-Hilbert operates three full-service offices. The bank provides a wide range of deposit and loan products to consumers, businesses, farms and organizations through its offices. Included in the deposit products is a no minimum balance, no monthly service charge checking account that would be affordable by low- and moderate-income individuals.

Distribution of Branches among Geographies

The following table lists the bank’s branch and drive-up facility locations, including hours of service:

F&M BANK-HILBERT’S OFFICES AND HOURS OF OPERATION					
OFFICE NAME / ADDRESS	CENSUS TRACT	HOURS OF OPERATION			
		LOBBY		DRIVE-UP	
Main Office 69 South 8 th Street	0202.00	M-Th Friday	8:30 AM – 4:30 PM 8:30 AM – 6:30 PM	M-Th Friday	8:30 AM – 4:30 PM 8:30 AM – 6:30 PM

Forest Junction W2163 Highway 10	0201.00	M-W, Fri 8:30 AM – 4:30 PM Thursday 8:30 AM – 6:30 PM	M-W, Fri 8:30 AM – 4:30 PM Thursday 8:30 AM – 6:30 PM
Potter 202 Central Street	0202.00	M-Th 8:30 AM – 12:30 PM Friday 8:30 AM – 1:00 PM Saturday 8:30 AM – 11:30 AM	M-Th 8:30 AM – 12:30 PM Friday 8:30 AM – 1:00 PM Saturday 8:30 AM – 11:30 AM

The bank provides flexible hours of service, including weekend hours at the Potter office and extended hours on Thursday and Friday at the Hilbert and Forest Junction office to meet the needs of the community.

Record of Opening and Closing Offices

The bank has not opened or closed any branch offices since the previous examination.

Alternative Systems for Delivering Retail Banking Services

The bank does not own or operate automated teller machines (ATMs); however, customers of the bank have wide access to their accounts through a network of 84 affiliated offices in the F&M Bancorporation family via the “Bank Anywhere” program. This program allows any F&M Bank customer to visit any other F&M Bank location in Wisconsin, Iowa and Minnesota to make deposits and withdrawals, transfer funds between accounts and make payments on an F&M bank loan. Information about F&M Bank products and services is also available on the Internet, but this website is currently only informational in nature.

Community Development Services

The number of opportunities for the bank and its employees to participate in community development services is limited by the demographic characteristics of the assessment area. The population of the entire county is fairly small, with most of it distributed in small communities, and no major concentration of people in any one city. President Mark Hillegas serves as a director for the Hilbert Housing Authority, a low-income housing project. Mr. Hillegas provides financial advice and assistance in his capacity as a director, mostly during working hours.

CONCLUSION

The bank’s performance under the service test is generally strong. The bank’s system of delivering services, including alternate delivery systems, make its products and services accessible to all portions of the assessment area through the location of its offices. The bank offers a wide variety of credit and deposit products, including secondary market mortgage loan products, to residents, businesses and farms in the assessment area. Business hours are reasonable, and the fact that the bank has no automated teller machines (ATMs) has not adversely affected the accessibility of banking products and services to residents of the assessment area, in large part due to its affiliation with the F&M Bancorporation affiliates.

GENERAL

Management has developed adequate policies, procedures, and training programs that support nondiscrimination in lending activities. The institution is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts. Interviews with community representatives revealed no evidence of discriminatory lending activity.