

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-Lakeland, Woodruff, Wisconsin, prepared by the Federal Reserve Bank of Minneapolis, the institution’s supervisory agency, as of April 6, 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 the bank’s satisfactory CRA rating. First, based on a sample of the bank’s loans, the bank makes loans to individuals and businesses of different income levels. Second, the bank originates loans in geographies of different income levels. Third, the bank maintains a loan-to-deposit ratio that is reasonable in comparison to competitors and given the loan demand in its assessment area. Finally, the bank has made a significant number of loans within its assessment area.

DESCRIPTION OF INSTITUTION

The bank is able to fulfill area credit needs effectively. The bank operates seven offices in north-central Wisconsin. The main office in Woodruff and the Minocqua and downtown Tomahawk branches offer a full range of services, including loans. Three of the four other offices, Hazelhurst, Boulder Junction, and Manitowish Waters, accept deposits and take loan applications; loan officers from the main office are at each of these three offices one day a week, and loan applicants can also submit loan applications by appointment. The other branch office in Tomahawk is located in a grocery store and is primarily used as a paying and receiving station. The bank has not closed any offices since the last examination. The bank also operates four automated teller machines ("ATM"). The ATMs are located in Woodruff, Minocqua, Tomahawk, and Manitowish Waters. The Manitowish Waters ATM only dispenses cash; the other three also accept deposits. The bank's offices and ATMs are located throughout the assessment area. Six of the bank's offices and three of its ATMs are located in middle-income block numbering areas ("BNA"): 9713 (Woodruff and Minocqua), 9802 (both Tomahawk offices), 9709 (Hazelhurst), and 9508 (Boulder Junction). The bank's Manitowish Waters office and ATM are in moderate-income BNA 9501.

The bank's size does not restrict its ability to meet the credit needs of the residents or businesses in its assessment area. According to the December 31, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$161 million. It had net loans of about \$119 million and total deposits of about \$139 million as of the same date. According to a review of quarterly ROC data, the bank's loan portfolio has increased over the three quarters since the last examination. Over the same period, deposits increased slightly the first quarter, but remained relatively flat the succeeding quarters.

The bank is a subsidiary of F&M Bancorporation, Inc., Kaukauna, Wisconsin ("FMB"). FMB had total consolidated assets of \$1.6 billion as of December 31, 1997. This was the second consecutive year-end in which the holding company had assets in excess of \$1 billion dollars. Accordingly, the bank began collecting data for CRA as of January 1, 1998. The bank's CRA performance will be evaluated as a large bank at its next evaluation. The bank received a satisfactory CRA rating at its April 21, 1997, evaluation.

According to the December 31, 1997, ROC data, the bank's loan portfolio is 46% consumer real estate, 45% commercial, 8% consumer, and 1% other loans. The bank's loan portfolio mix has remained relatively stable during the last three quarters. The composition of the bank's loan portfolio reflects the level of demand for specific types of credit by residents and businesses in the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of residents and business within its assessment area. It extends conventional open- and closed-end consumer, residential real estate, mobile home, and commercial loans. The bank also extends low-interest loans through a Christmas loan program.

In addition to conventional loan products, the bank offers several types of government-guaranteed loans. For residential real estate loan borrowers, it offers Federal Housing Administration Title I, Wisconsin Housing Economic Development Authority ("WHEDA") home purchase and construction, and U.S. Department of Agriculture Rural Housing Service loans. In addition, the bank is certified to offer U.S. Department of Housing and Urban Development ("HUD") Section 184 loans for loans secured by tribal trust land. The bank also actively originates conventional real estate loans that it sells to its affiliates. Commercial borrowers also have access to Small Business Administration ("SBA") loans, and the bank offers the WHEDA Linked Deposit Loan Program, which is designed to increase small business ownership by minorities and women.

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

The bank has defined its assessment area as sections of five north-central Wisconsin counties: Vilas, Oneida, Lincoln, Iron, and Price. The assessment area includes 30 BNAs. This sparsely populated, heavily forested area stretches approximately 90 miles from the northern to the southern boundaries. From east to west, the assessment area is approximately 54 miles. The assessment area encompasses several small Wisconsin towns and villages, including Woodruff, Minocqua, Tomahawk, Merrill, Eagle River, Arbor Vitae, St. Germain, Boulder Junction, Manitowish Waters, and Lac du Flambeau. The bank's assessment area includes the Lac du Flambeau Indian Reservation ("Reservation"), most of which is located in Vilas County. Offices of several other banks and credit unions are located in the assessment area, including Firststar Bank Wisconsin, First Financial Bank, and Park City Credit Union in Minocqua; M&I Merchants Bank of Rhinelander in Woodruff and Lac du Flambeau; M&I Bank of Eagle River in Eagle River and St. Germain; and Tomahawk Community Bank, S.S.B. in Tomahawk.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not located in a metropolitan statistical area, the categorization of a borrower or area's income is determined relative to the statewide nonmetropolitan median family income. Pursuant to CRA's definitions, low-income individuals have incomes less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines middle-income individuals as persons with incomes of at least 80% but less than 120% of the statewide nonmetropolitan median family income. Individuals with incomes greater than 120% of the statewide nonmetropolitan median family income are defined as upper income by the regulation. According to the 1996 data, the statewide nonmetropolitan median family income in Wisconsin is \$37,700; this figure is used to classify income levels of borrowers. BNAs are classified using similar categories based on the level of the median family income in the geography, compared with the 1990 statewide nonmetropolitan median family income of \$30,290. Although the 1997 HUD-adjusted nonmetropolitan median family income of \$39,600 was available, the bank used the 1996 figure in classifying the income level of borrowers. Bank management was informed that the use of the 1996 figure would result in some borrowers being classified in a higher income group than they would be in if the 1997 figure was used, but management choose to have the evaluation conducted using the 1996 figure of \$37,700.

According to 1990 U.S. Census data, the assessment area's median family income is \$27,073, which is slightly lower than the statewide nonmetropolitan median family income. Its median household income is \$23,324. There are approximately 13,994 families and 18,571 households within the assessment area. Approximately 1,119 of the families and 1,936 of households have incomes below the poverty level. The percentage of such families in the assessment area is about the same as the nonmetropolitan statewide percentage of 7.9%. The distribution of families and households by median income for the assessment area is summarized in the following table.

ASSESSMENT AREA POPULATION DISTRIBUTION BY INCOME LEVEL				
Unit of Measure	Low Income	Moderate Income	Middle Income	Upper Income
Families Compared to Median Family Income	20.3%	23.3%	25.0%	31.3%
Households Compared to Median Household Income	23.4%	19.1%	21.4%	36.1%

As previously discussed, the bank's assessment area includes 30 BNAs in 5 counties. According to 1990 census data, the assessment area's total population, is 47,374. The assessment area includes 1 low-income BNA, 9 moderate-income BNAs, and 20 middle-income BNAs.

The bank's assessment area has one low-income area: BNA 9509 in Vilas County. This BNA encompasses the majority of the Reservation and is located approximately 12 miles west of Minocqua and Woodruff. This BNA has 4% of the assessment area population. The moderate-income BNAs collectively represent the northern third of the assessment area; this area is sparsely populated and heavily forested. The moderate-income BNAs contain about 20% of the assessment area's population. The southernmost section of the assessment area, including the town of Merrill, is served by financial institutions located in the Wausau, Wisconsin, metropolitan statistical area. Middle-income BNAs contain the remaining 76% of the population.

Bank management and members of the community (i.e., housing, development, and tribal government) were contacted during the CRA evaluation. They characterized the area's economy as stable. One community contact estimated the current unemployment rate at 3%. The major employers continue to be tourism and service-related industries; many area jobs are seasonal and low-paying. Although tourism is dominant, a medical facility and other light industry contribute to the economy of the area.

The nontourism-related sector of the assessment area is centered in Rhinelander, Wisconsin, and, to a lesser extent, Tomahawk. As previously mentioned, the assessment area is heavily forested and has numerous lakes and resorts. According to community members familiar with Oneida and Vilas counties, hotels and resorts are the dominant businesses in the Minocqua area. There are also a large number of cabins, cottages, and family vacation homes; most are reportedly owned by out-of-area residents from Milwaukee, Wisconsin, and Chicago, Illinois.

The assessment area also is home to the Lac du Flambeau Band of Lake Superior Chippewa Indians of Wisconsin ("Tribe"). Most of the Reservation is located in southwestern Vilas County, adjacent to Oneida and Iron counties. Tribal offices are located in Lac du Flambeau, approximately 12 miles northwest of Woodruff and Minocqua. According to a tribal official contacted during the CRA evaluation, the Reservation encompasses 144 square miles. Approximately one-third of the Reservation is water, one-third is tribal trust land, and the other third is fee simple land. The Tribe is the largest employer on the Reservation. The Tribe owns Lake of the Torches Resort Casino, the local grocery store, a campground, an electric monitoring manufacturing company, and a small wood-pallet manufacturer. A small number of Reservation residents are self-employed. The casino employs approximately 500 people and attracts business from as far away as Chicago. According to tribal contacts, the unemployment rate on the Reservation is approximately 26%. The contacts indicated there is a need for small business lending on the Reservation. The contacts also stated that it is difficult to obtain financing for new businesses because most financial institutions were reluctant to lend using tribal trust land as collateral.

The assessment area has 41,955 housing units, according to the 1990 U.S. Census data. Of the total housing units, 36% are owner occupied. As indicated earlier, a portion of the assessment area contains many vacation or second homes. This fact helps to explain the low percentage of owner-occupied units and the 55% vacancy rate in the assessment area. The median housing value is \$55,788, which is 10% higher than the comparable figure for nonmetropolitan areas of the state. Of the owner-occupied units, 2% (311) are located in the low-income BNA, 22% (3,369) are located in moderate-income BNAs, and the remaining 76% are located in middle-income BNAs.

The contacts indicated that affordable housing is not the problem it has been in the past. The tribal contacts stated that the availability of HUD Section 184 loans from several lenders has made housing

credit more available. Bank management stated that there probably is still a need for housing on the Reservation, but the overall housing situation in the assessment area is good.

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 140 consumer, 96 residential real estate, and 85 commercial loans originated in the six months preceding the examination. The criteria discussed below were reviewed in determining this rating. In assigning the overall rating, greatest weight was placed on the level of lending to borrowers of different income levels and to businesses of different sizes and lending to geographies of different income levels. These criteria most closely measure the bank's effectiveness in serving all segments of its assessment area, including low- and moderate-income people and areas.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is good and meets the standards for satisfactory performance. The quarterly average of the bank's net loan-to-deposit ratio is 85%, based on the data for the three quarters since April 1, 1997. The bank's net loan-to-deposit ratio has been relatively stable since the last evaluation.

The bank's general lending performance compares favorably with its peer group based on the December 31, 1997, Uniform Bank Performance Report ("UBPR") data. These data indicate that the bank's net loan-to-deposit ratio of 86% ranks it in the 85th percentile as compared with its peers. The following chart summarizes the bank's quarterly net loan-to-deposit ratio and its components since April 1, 1997.

DATE	NET LOANS (IN THOUSANDS)	DEPOSITS (IN THOUSANDS)	NET LOAN-TO- DEPOSIT RATIO
June 30, 1997	\$113,930	\$133,659	85%
September 30, 1997	\$116,501	\$139,064	84%
December 31, 1997	\$119,733	\$139,026	86%

The chart shows little fluctuation in deposits and a slight increase in loans over the three-quarter period. According to bank management, lending levels usually increase during the second and third quarters to fund the operating costs of the numerous resorts and small service-related industries in the assessment area. This trend also continued during the fourth quarter as a prelude to the winter tourist season. Management attributed the deposit increase during the third quarter to normal market growth.

The bank's loan data does not reflect loans sold to the secondary market since April 1, 1997. The bank sells residential real estate loans to the secondary market.

According to bank management, the bank's main competitors are Firststar Bank Wisconsin, First Financial Bank, and Park City Credit Union in Minocqua; M&I Merchants Bank of Rhinelander in Rhinelander; M&I Bank of Eagle River in Eagle River; Tomahawk Community Bank, S.S.B., in Tomahawk; and First National Bank, Park Falls, Wisconsin. The bank's net loan-to-deposit ratio is lower than some of the financial institutions operating in the bank's assessment area but remain good. Although the bank competes with First National Bank in Park Falls, the institution is not located in the bank's assessment area.

The following chart shows the quarterly average net loan-to-deposit ratios available for some of the bank's local competitors.

BANK	TOTAL ASSETS (As of December 31, 1997) (In thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
F&M Bank-Lakeland Woodruff, Wisconsin	\$161,090	85%
M&I Merchants Bank Rhineland, Wisconsin	\$257,874	102%
M&I Bank of Eagle River Eagle River, Wisconsin	\$184,283	97%
Tomahawk Community Bank, S.S.B. Tomahawk, Wisconsin	\$57,202	102%
First National Bank Park Falls, Wisconsin	\$65,481	70%

As the net loan-to-deposit data indicate, the demand for credit appears strong throughout the assessment area. Although three of the four bank competitors listed in the table have higher quarterly average net loan-to-deposit ratios than the bank, the situation is mitigated by the fact that M&I Merchants Bank ("M&I") has two offices in Rhineland that are not included in the bank's assessment area. Given the economic and demographic characteristics of Rhineland, it is quite likely that M&I's loan-to-deposit ratio has benefited from Rhineland's much larger customer base. The M&I Bank of Eagle River operates a branch in Three Lakes, Wisconsin, which is also not included in the bank's assessment area. It is also likely that some of the loan and deposit activity for M&I Bank of Eagle River includes a larger customer base than the subject bank. The many financial institutions that operate in the bank's assessment area create a very competitive market.

Based on the bank's reasonable loan-to-deposit ratio, competitive banking environment, UBPR peer group ranking, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

The bank's lending activity within its assessment area exceeds the standards for satisfactory performance. Based on the loans sampled, the bank has extended a significant majority of its loans to residents and businesses in its assessment area. The table below shows the percentages of consumer, residential real estate, and commercial loans by the total number and dollar amount originated in the assessment area.

LOANS IN THE ASSESSMENT AREA		
Loan Type	Total Number of Loans	Total Dollar Amount of Loans
Consumer	95%	94%
Residential Real Estate	96%	93%
Commercial	96%	88%

As mentioned previously, the data are based on a statistical sampling of consumer, residential real estate, and commercial loans originated during the six-month period preceding the evaluation. As the data indicate, the bank's lending activity is heavily concentrated in the assessment area.

Based on the bank's strong concentration of consumer, residential real estate, and commercial lending in the assessment area, the bank's performance in this area exceeds the standard 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 incomes and to businesses of different sizes meets the standards for satisfactory performance. As previously discussed, CRA classifies income levels into four categories: low, moderate, middle, and upper. According to the 1990 U.S. Census data, the median family income for the assessment area is \$27,073. For purposes of classifying the bank's consumer borrowers, the 1996 Wisconsin nonmetropolitan median family income of \$37,700 is compared with the borrowers' incomes. As previously discussed, the bank chose to use the 1996 figure instead of the higher 1997 figure.

The following table shows the percentages of consumer and residential real estate loans made to borrowers of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY BORROWER INCOME*								
Loan Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Consumer	23%	14%	30%	22%	17%	14%	29%	50%
Residential Real Estate	8%	8%	24%	25%	15%	10%	53%	56%

*Income level is determined based on the 1996 Wisconsin nonmetropolitan median family income of \$37,700.

The consumer loan data reveal that the bank extends a reasonable percentage of consumer loans to low- and moderate-income borrowers. Low- and moderate-income families and households comprise 20% and 23% of the assessment area population, respectively. Middle-income families represent 25%, and the remaining 31% of families in the assessment area are classified as upper-income. The sample indicates the bank's consumer lending closely approximates the demographics of the assessment area. In addition, contacts did not indicate that there were unmet consumer credit needs in the community.

The residential lending data indicated that more of the bank's loans are made to upper-income borrowers than the demographic data would indicate is expected. As mentioned earlier, much of the assessment area's housing consists of vacation homes and the median housing value in the assessment area is higher than the same figure for the nonmetropolitan areas of the state. These factors contribute to the higher lending levels to upper-income borrowers. As for the relatively low level of real estate lending to low-income borrowers, bank management indicated that wages in the area are not at a level that would allow many of the lower-income residents to qualify for a residential loan. Low-income residents have incomes below \$18,850, which limits their ability to purchase housing. In addition, the median rent is only \$318, making rental housing very affordable. Further, tribal contacts indicated much of the housing needs on the Reservation are handled by the Tribal Housing Authority, which may lead to lower demand for residential lending to the low- or moderate-income individuals on the Reservation.

As discussed earlier, the bank offers WHEDA home purchase and construction and U.S. Department of Agriculture Rural Housing Service loans to serve the residential real estate credit needs of low- and

moderate-income people. In addition, the bank is certified to offer HUD Section 184 loans secured by tribal trust land on the Reservation.

The sample of commercial loans reviewed during the evaluation shows that the bank originates loans to small businesses, defined as entities with gross annual revenues of \$1 million or less. Specifically, the bank made 96% of its commercial loans to small businesses. Of the loans to small businesses, 96% of those loans were for dollar amounts of \$100,000 or less. This indicates that the bank is willing to make small-dollar loans to small businesses. According to community contacts, these are the types of loans needed in the area because of the seasonality of resort business.

The bank's lending performance to small business is generally strong, but reflects the concentration of small businesses in the assessment area. The bank's performance with respect to consumer loans extended to low- and moderate-income people is reasonable given the demographics and loan demand characteristics of the assessment area. In contrast, the bank's residential real estate lending performance to low-income people is less than expected based on area demographics. Nevertheless, in light of the conditions discussed above, this performance is reasonable. In addition, the significance of consumer real estate lending in the loan portfolio (42%) dictates that greater weight is placed on this category of lending in assigning the rating for this category. For the reasons detailed above, the bank's lending to individuals of different incomes and to businesses of different sizes meets this category's standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans among geographies of different income levels meets the standards for satisfactory performance. As previously discussed, the bank's assessment area has 1 low-income BNA, 9 moderate-income BNAs, and 20 middle-income BNAs. The following table shows the distribution of the bank's consumer, residential real estate, and commercial loans in geographies of different income levels.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA BY INCOME LEVEL OF GEOGRAPHIES*						
Loan Type	Low-Income		Moderate-Income		Middle-Income	
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans
Consumer	5%	4%	15%	13%	80%	83%
Residential Real Estate	5%	5%	11%	10%	84%	85%
Commercial	4%	3%	13%	10%	83%	87%

*There are no upper-income geographies in the assessment area.

As stated earlier, the bank's assessment area contains 1 low-income geography (3%), 9 moderate-income geographies (30%), and 20 middle-income geographies (67%). The table indicates the bank's lending in the low-income geography is at a level that is to be expected given the percentage of this type of geography in the assessment area. As previously mentioned, the low-income BNA encompasses the majority of the Reservation and contains about 4% of the assessment area's population. Real estate lending in the low-income BNA is good when compared to the percentage of owner-occupied housing units in that BNA.

There appears to be more lending in the middle-income geographies and less in the moderate-income geographies than would be expected. The penetration of real estate loans in moderate-income BNAs is below the percentage of owner-occupied units in these BNAs. However, the moderate-income BNAs primarily represent the northern third of the assessment area; this area is sparsely populated and heavily forested, which would account for the lower level of lending in these geographies. As previously mentioned, this is a resort area and vacation homes make up much of the housing in these BNAs. According to bank management, many of these seasonal dwellings are financed by lenders located outside the assessment area. In other words, many of these vacation homes are financed by the purchasers' home-town lenders. The lack of demand is also reflected in the bank's decision to staff its branch offices (including the Manitowish office, which is located in a moderate-income BNA) with lenders on a part-time basis (i.e., one day per week). The concentration of inhabitants in the middle-income BNAs, approximately 76% of the assessment area population, would also account for the relatively high level of lending in this type of geography.

The bank made loans in the overwhelming majority of BNAs located in the assessment area. Activity is spread reasonably throughout the assessment area with activity heaviest in the BNAs closest to the bank's offices and lightest in the sparsely populated areas more distant from the bank or served by other financial institutions. Based on the preceding discussion of the assessment area and the bank's lending activity, the distribution of the bank's loans among geographies of different income levels is reasonable and meets the standards for satisfactory performance.

GENERAL

The evaluation did not reveal any violations of the substantive or technical provisions of the fair lending and fair housing laws and regulations. In addition, the bank has not received any CRA-related complaints since the previous examination.

PUBLIC DISCLOSURE

April 6, 1998
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

F&M Bank-Lakeland
Name of Depository Institution

095555700000
Identification Number of Institution

Woodruff, 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.