

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 CRA performance of the **Bank of Elmwood, Racine, Wisconsin** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 12, 1996**. 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**.

The Bank of Elmwood actively promotes economic revitalization and growth, consistent with its size, financial capacity, location, and assessment area's current economic conditions. The bank's efforts are accomplished primarily through the origination of 1-4 family residential real estate, consumer and small business loans. The bank's loan-to-deposit ratio, which averaged 78.52% since the last examination, evidences these efforts. Approximately 84% of all loans originated since the previous examination were made within the bank's assessment area and the distribution of borrowers reflects excellent penetration among individuals of different income levels (including low- and moderate-income). The geographic distribution of loans reflects excellent dispersion throughout the assessment area. There is no evidence of discriminatory lending practices or policies intended to discourage individuals from applying for loans offered by the bank. No complaints were received by the bank regarding its CRA performance since the previous examination.

The following table indicates the performance level of the **Bank of Elmwood, Racine, Wisconsin** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	BANK OF ELMWOOD 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 Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	No complaints were received since the previous examination.		

DESCRIPTION OF INSTITUTION

The Bank of Elmwood, with total assets of \$131 million as of June 30, 1996 is a subsidiary of Elmwood Financial Corporation, a one-bank holding company. The bank operates one main office, two full-service branches and a drive-up facility. All offices and the drive-up facility are located in Racine, Wisconsin.

Although the bank provides a full range of credit products and deposit services, the bank is characterized as a retail bank. According to the March 31, 1996 Uniform Bank Performance Report (UBPR), the bank's largest portfolio holding is 1 - 4 family residential real estate, comprising 56.98% of the bank's loan mix and placing the bank at the 92nd percentile compared to its peers. The bank's peer group is considered to be all insured commercial banks having assets between \$100 million and \$300 million with three or more banking offices, and located in a metropolitan area. The bank also actively funds, but does not service, credit card loans (88th percentile compared with peer) and originates home equity loans (71st percentile compared with peer). The credit products offered by the bank are consistent with the credit needs in the assessment area. There are no apparent factors relating to the bank's financial condition and size, or local economic conditions that would prevent the bank from meeting the community's credit needs.

The bank's primary competitors include: Firststar Bank Milwaukee, N.A.; M & I Bank of Racine; Bank One, Wisconsin, N.A.; Norwest Bank Wisconsin, N.A.; and Heritage Bank and Trust.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank is located in the City of Racine, Wisconsin. Racine is approximately 25 miles south of Milwaukee, Wisconsin and 65 miles north of Chicago, Illinois. The bank's assessment area is all of the portion of Racine County which lies east of Interstate 94. This assessment area encompasses the City of Racine and is located entirely within the Racine Metropolitan Statistical Area (MSA). The assessment area is comprised of 28 census tracts, of which six are low- and moderate-income tracts and three are minority census tracts.

The bank's main office and grocery store branch are located in the City of Racine, with the third office located at the intersection of Highways 31 and 38. Since the previous examination, the assessment area has been changed to reflect the sale of the bank's Oak Creek branch office. This office was located in a middle-income census tract of the Milwaukee MSA. Because the prospective buyer of the Oak Creek branch intended to continue to operate a bank branch at the current location and customers were able to convert their account relationships if they chose, the sale did not constitute a branch closing. The bank maintains four full-service ATMs and four cash dispensing ATMs located within its assessment area.

According to 1990 U.S. Census data, the population of the bank's defined assessment area

totaled 131,920. The racial and ethnic makeup of the population within the assessment area is as follows: Whites 106,300 or 80.58%; Blacks 16,681 or 12.64%; individuals of Hispanic descent 7,614 or 5.77%; and all other minorities 1,325 or 0.01%.

The median family income for the Racine MSA is \$43,976, resulting in a low- and moderate-income level of \$35,181. As a percentage of the assessment area's population, low- and moderate-income individuals total 26,376 (19.99%). There are a total of 50,820 housing units in the market, with 32,282 or 63.52% owner-occupied units and 16,580 or 32.62% rental-units. Of the total number of owner-occupied units, 1,780 or 5.51% are in low-income areas and 1,856 or 5.75% are in moderate-income areas. The median age of the housing stock in the assessment area is 40 years, while the median age of the housing stock in the low- and moderate-income areas is 53 and 52 years respectively.

Community representatives described the assessment area as evolving economically from a heavy reliance on manufacturing to a more diverse economy, with some degree of reliance on light manufacturing. The assessment area has been attractive to companies due to its convenient access to major interstates and its location on Lake Michigan. The economy has also seen an increase in tourist-related business, primarily due to a rebuilt harbor and a new Marina on Lake Michigan. Major employers located within the assessment area include:

<u>Name of Employer</u>	<u>Product-Service/Number of Employees</u>
Golden Books Publishing	Commercial Printing/3,400
J.I. Case Company	Manufacturing/1,800
Twin Disc Inc.	Power Transmission Equipment/950
In-Sink-Erator	Household Appliances/850
Young Radiator Co.	Heating Equipment/650
Modine Mfg. Co.	Manufacturing/645
Cudahy Inc., Patrick	Meat Processing/600
Jacobsen, Div. Of Textron	Lawn and Garden Equipment/549
Racine Steel Castings	Steel Foundries/450
Ruud Lighting, Inc.	Lighting Fixtures/300
Ametek, Lamb Electric Division	Motors & Generators/300

According to the Wisconsin Department of Workforce Development, as of June 1996, the unemployment rate for the United States was 5.3%, the State of Wisconsin was 3.4%, the Racine MSA was 4.6%, and the City of Racine was 7.7% (unadjusted). The unemployment rate in the Racine MSA and City of Racine had risen 0.5% from 4.1% and 0.9% from 6.8% (unadjusted), respectively, since June 1995. Community representatives indicated that the primary reason for the rise in the local unemployment rate was that two major local employers (Golden Books Publishing and Racine Steel Castings) had been downsizing during the previous year.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs supporting nondiscrimination in lending activities. The examiners review revealed that the institution is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and Fair Housing Act. No discriminatory lending patterns or practices intended to discourage loan applicants were detected during the examination.

Loan-to-Deposit Ratio Analysis

An analysis of the bank's Consolidated Reports of Condition since the previous examination revealed the following:

Quarter Ending	Loan-to-Deposit Ratio
June 30, 1996	79.64%
March 31, 1996	79.76%
December 31, 1995	77.32%
September 30, 1995	79.13%
June 30, 1995	76.75%
Average	78.52%

The five-quarter review period disclosed an average loan-to-deposit ratio of 78.52%. This ratio is higher than the average ratio for the bank's peer group (as of 3/31/96) which was 68.35%. The bank's performance placed it in the 82nd percentile compared with its peers.

Loan-to-Deposit (LTD) Ratios of Competitors		
Name of Competition/Location	Assets Spring 1996	LTD Ratio Spring 1996
M & I Bank of Racine/Racine	\$132,471,000	61.82%
Heritage Bank and Trust/Racine	\$692,526,000	59.36%
Bank One, Wisconsin, N.A./Racine	\$746,852,000	74.88%
Norwest Bank Wisconsin, N.A./Racine (Branch Office)	Information not readily available on branch offices	
Firststar Bank Milwaukee, N.A./Racine (Branch Office)		

Source: McFadden American Financial Directory

As the preceding chart illustrates, the bank's average loan-to-deposit ratio of 78.52% exceeds all of the bank's identified local competition (for which data could be obtained). This ratio is

considered to exceed expectations for satisfactory performance, given the bank's size, financial condition, and assessment area credit needs.

Lending in Assessment Area

A review of the bank's Home Mortgage Disclosure Act (HMDA) data revealed that during 1995, the bank made 83.56% (488 of 584) of HMDA reportable loans within its assessment area. A review of the 1996 year-to-date loan application register (LAR) indicates that the bank MADE 97.35% (330 of 339) of HMDA-reportable loans within its assessment area. Management stated that the higher percentage of lending within the assessment area during 1996 was because the bank was making fewer referral loans (with a local heating company) outside of its assessment area. The majority of the borrowers for this product were located in Kenosha, Wisconsin.

The examination loan sample (from June, 1996) reviewed revealed the following lending activity within the assessment area:

Loan Type	Total Number of Loans Sampled	Number within Assessment Area	Percent of Total
Consumer (Direct)	20	16	80
Consumer (Indirect)	6	0	0
Single Payment	11	10	91
Overdraft Protection	20	16	80
Home Equity Lines	10	10	100
Real Estate	13	13	100
Commercial	15	15	100
Total Originations	95	80	84.2

As the preceding chart illustrates, 84.2% of the loans were made within the bank's assessment area. The examination loan sample further supports the fact that a substantial majority of the bank's loan activity is within the assessment area. Based upon a review of HMDA data and the examination loan sample, the bank exceeds the standards for satisfactory performance regarding the level of lending within its assessment area.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

An analysis of the examination loan sample and the bank's 1995 HMDA data was conducted to ascertain whether loans were originated throughout different borrower income levels. The analysis utilized demographic data. According to 1990 U.S. Census data, approximately 20.9% of the families within the assessment area are considered low-income, 17.4% are considered moderate-income, 26.1% are considered middle-income, and 35.6% are considered upper-income.

The analysis utilized a median family income of \$43,976, with low-income totaling \$21,988 or less, moderate-income totaling \$21,989 to \$35,181, middle-income totaling \$35,182 to \$52,771 and upper-income totaling more than \$52,772.

The examination loan sample revealed the following distribution of loans, by dollar and number, among borrowers of different incomes:

Loan Type	Low-Income \$000's/Number	Moderate-Income \$000's/Number	Middle-Income \$000's/Number	Upper-Income \$000's/Number
Consumer Direct	\$13/4	\$93/8	\$9/5	\$85/3
Consumer Indirect	\$20/1	\$20/1	\$60/4	\$0/0
Home Equity Line	\$15/1	\$0/0	\$76/5	\$68/4
Overdraft	\$8/3	\$32/8	\$25/6	\$25/3
Single Payment	\$6/1	\$13/2	\$26/4	\$23/4
Real Estate	\$0/0	219/4	\$290/6	\$433/3
Total Originations	\$62/10	\$377/23	\$486/30	\$634/17

As the preceding chart illustrates, of the 80 loans sampled, 33 or 41.25%, by number, and \$439,000 or 28.14%, by dollar amount (of the total \$1,560,000) were made to low- and moderate-income borrowers.

A review of the bank's 1995 HMDA data revealed that 25.42% (122 of 480) of originations were to low- and moderate-income borrowers.

A review of the bank's June 1994, 1995, and 1996 Consolidated Reports of Condition showed the following trends regarding the number of loans outstanding to small businesses and small farms:

Loans Outstanding to Small Businesses	1994	1995	1996
Loans Secured by Nonfarm Nonresidential Property	130	119	122
Commercial and Industrial Loans	213	216	229

As the preceding chart illustrates, the bank's level of outstanding loans secured by nonfarm nonresidential property has been relatively stable since 1994, while commercial and industrial loans have increased moderately. The bank also participates in the Small Business Administration

(SBA) loan program and since the previous examination has originated ten loans totalling \$1,061,095 through the program. The bank has no agricultural loans to small farms, which is consistent with the credit needs of the assessment area.

Demographic data indicates that low- and moderate-income families comprise 38.30% of the assessment area and that 19.99% of all individuals in the assessment area are considered low- and moderate-income. The examination loan sample and 1995 HMDA data illustrate that the bank's loan distribution among borrowers of different incomes compares favorably with the demographic data and exceeds the standards for satisfactory performance.

Geographic Distribution of Credit Within the Assessment Area

The assessment area is comprised of 28 census tracts, including six low- and moderate-income tracts (21.43% of the total tracts). Owner-occupied units totaled 32,282 within the assessment area, with low- and moderate-income areas owner occupied housing units comprising 11.26% of the total.

The bank is a participant in the City of Racine Down Payment Assistance Program. Lending institutions involved in the program cooperate with the City of Racine to provide down payment funds for eligible persons interested in purchasing single family residential properties in census tracts one through five (low- and moderate-income) in the City of Racine. Persons eligible to participate in the Down Payment Assistance Program may not have a total family income above the program's guidelines and cannot purchase a single family home valued greater than \$88,350. Eligible buyers can receive a zero (0%) percent, forgivable loan from the City of Racine. The loan will be forgiven at the rate of 20% per year for five years as long as the buyer retains the home as their principal dwelling. Since the previous examination, the bank has originated five loans through this program.

A review of the bank's 1995 HMDA data revealed that the bank made loans in all six low- and moderate-income tracts. The data also revealed that the bank originated 76 loans in low- and moderate income tracts, which represented 15.57% of the bank's total HMDA loans and exceeded the delineation aggregate, which originated 11.12%. The percentage (15.57%) of HMDA originations in low- and moderate-income areas also compared favorably with the fact that owner-occupied housing units in these areas comprised only 11.26% of the total. This activity indicates that the bank exceeds the standards for a satisfactory performance under this criterion.

Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.