

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 **Farmers & Merchants Bank of Orfordville, Orfordville, Wisconsin**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **December 30, 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 Satisfactory.

Farmers & Merchants Bank of Orfordville generally 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 real estate loans and consumer loans. The bank's loan-to-deposit ratio of 64.6% for the most recent six reporting quarters, supports these efforts. Since June 1996, 77.12% of all loans were made within the bank's assessment area and are reasonably available to applicants of different income levels. There is no evidence of discriminatory lending practices, or policies intended to discourage individuals from applying for loans offered by the bank. No CRA-related complaints were received by the bank since the previous examination.

The following table indicates the performance level of **Farmers & Merchants Bank of Orfordville** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	FARMERS & MERCHANTS BANK OF ORFORDVILLE 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	There are no low- or moderate-income census tracts or BNAs in the assessment area.		
Response to Complaints	No CRA-related complaints were received since the previous examination.		

DESCRIPTION OF INSTITUTION

Farmers & Merchants Bank of Orfordville, with total assets of \$17.9 million as of September 30, 1996, is a family-owned bank located in Orfordville, Wisconsin. The bank offers a variety of deposit products and services, as well as residential, agricultural, commercial and consumer loans. The bank's primary competition is from the neighboring town of Brodhead, which is located 10 miles to the west, and from numerous Credit Unions and Savings Banks located in Janesville. Specifically, management revealed that Blackhawk Credit Union located at the west side of Janesville, and the Bank of Brodhead provide the strongest competition.

DESCRIPTION OF ASSESSMENT AREA

The bank is located approximately 35 miles south of Madison in Rock County, Wisconsin. The bank defines its assessment area as census tracts 27 and 28 of the Janesville-Beloit Metropolitan Statistical Area (MSA). Both census tracts are considered middle income. According to 1990 census information, MSA #3620 has a population of 139,510 while the bank's assessment area has a population of 7,153. The total minority population for the bank's assessment area is 1%. Approximately 13.5% of the assessment area population had income less than 50% of combined MSA median and 20.7% had income less than 80% of the MSA median. The median family income was \$37,115 for the assessment area and \$35,605 for the MSA. In 1990, the median home value was \$53,170 and the median age of housing stock was 42 years. The following chart represents additional housing information.

HOUSING DATA	ASSESSMENT AREA	Percent of Total
Owner Occupied Units	1,959	76.43%
Total Rental Units	465	18.14%
Vacant Units	<u>139</u>	5.42%
Total Housing Units	<u>2563</u>	

The primary industry in the assessment area is agriculture including dairy farming and cash crops. Orfordville serves as a bedroom community for business and industry in both Janesville and Beloit. Although Janesville and Beloit are not included in the bank's assessment area, the most significant manufacturing employers of residents of the assessment area are located in these cities and include the following:

Employer	City	# Employed	Product/Service
GENERAL MOTORS CORP.	Janesville	5500	Light & medium duty trucks
BELOIT CORP., PAPER MACHINE DIV.	Beloit	2500	Paper making machinery & general castings
S S I TECHNOLOGIES, INC.	Janesville	1200	Control devices & sensors & powder metal products
FAIRBANKS MORSE ENGINE	Beloit	700	Diesel engines
LAB SAFETY SUPPLY, INC.	Janesville	650	Safety equipment
LEAR SEATING CORP.	Janesville	595	Automotive seats
PARKER PEN U.S.A. LTD.	Janesville	520	Pencils & pens
PRENT CORP.	Janesville	500	Plastic thermoforming
GIDDINGS & LEWIS-ASSEMBLY AUTOMATION	Janesville	450	Automated assembly systems & machinery
FRITO-LAY, INC.	Beloit	394	Corn, potato & tortilla chips

According to the Wisconsin Department of Labor Employment and Training Library, unemployment in Rock County was 3.0%, compared to the state unemployment rate of 2.7% as of November 1996.

Discussions with community contacts revealed that economic conditions are strong. Many individuals continue to relocate from the larger cities of Beloit, Janesville, and Rockford, IL, to smaller towns in Rock County. The contacts also indicated that there is a strong demand for housing, and that there is a significant amount of new construction in the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs supporting nondiscrimination in lending activities. The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

Loan To Deposit Ratio Analysis

The bank's average quarterly loan to deposit ratio for the six previous reporting quarters is 64.60%. According to the Uniform Bank Performance Report, dated September 30, 1996, the bank's level of lending ranks in the 54th percentile of its peer group and exceeds its peer group average loan-to-deposit ratio of 62.01%.

The bank's loan-to-deposit ratio, considering the bank's capacity to lend, demographic and economic factors present in the assessment area, and the lending opportunities available in the institution's assessment area, meets standards for satisfactory performance.

Lending in Assessment Area

A six-month sample of consumer installment, single payment, and real estate loans were reviewed to determine the bank's level of performance in lending within its assessment area; the analysis revealed the following:

LOAN TYPE	TOTAL SAMPLED # / \$'s	WITHIN THE ASSESSMENT AREA # / \$'s	PERCENT OF TOTAL # / \$'s
Real Estate First Mortgages	7 / \$392,100	5 / \$244,200	71.43 / 62.28
Single Payment	52 / \$237,864	49 / \$218,864	94.23 / 92.01
Installment	59 / \$300,602	37 / \$192,423	62.71 / 64.01
Total	118 / \$930,566	91 / \$655,487	77.12 / 70.44

As the preceding chart illustrates, 77.12% of the total number of loans and 70.44% of the total dollar amount of loans were made within the assessment area. The bank's performance of lending to borrowers within the bank's assessment area meets standards for satisfactory performance.

Lending Analysis Based Upon Borrower Income and Size of Business

A six-month sample of consumer installment, single payment, and real estate loans was reviewed to determine the bank's distribution of loans among borrower income levels. Because the bank does not collect income information for installment and single payment loans, a proxy was substituted using payment amount and loan amount, respectively.

The review of the installment loan sample revealed that the bank originates small dollar amount installment loans.

The review of the single-payment loans sample revealed that the bank made 19 or 57.6% of its unsecured single payment loans in amounts of \$1,000 or less. Based on the income levels of the assessment area, this level of lending suggests that the bank is making credit available to individuals who may not have access to credit from other sources such as credit cards. Loan amounts as low as \$200, illustrates the bank's commitment to low income individuals within the bank's assessment area.

The review of real estate first mortgages, where income information was available, revealed that no loans were originated to low- or moderate-income individuals. The bank offers real estate loans with a maximum loan term of two years (amortized over 20 years). Considering the median income and median housing value levels of the assessment area, many low- or moderate-income individuals may not qualify for real estate loans under those terms. According to management, the bank has recently entered into a broker agreement with Bankers Bank which will allow the bank to offer long term mortgages with a 30 year amortization.

Although annual revenue information was not available for the majority of the commercial loans sampled, all of the loans were to small family farm operations. A review of the bank's loans made since June, 1996 revealed that the bank had 77 agricultural related loans totaling \$1.4 million and 45 commercial-industrial loans for a total of \$846,000. Agricultural loans ranged from \$1,000 to \$106,000 with 39 loans (50.65%) of the loans made for less than \$10,000. Commercial loans ranged from \$1,000 to \$116,000 with 24 (53.33%) of the loans made for \$10,000 or less.

The loan penetration to different borrower income levels, given the demographics of the assessment area exceeds standards for satisfactory performance.

Geographic Distribution of Loans

Because there were no designated low- or moderate-income geographies located within the assessment area in which lending activity could be analyzed, this criterion is not rated.

Response to Substantiated Complaints

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