

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 **Bank of Brodhead, Brodhead, Wisconsin** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **April 10, 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 originated a substantial majority of its real estate mortgage, agriculture, business, and consumer loans within its assessment area. The bank's geographic distribution of its credit applications, extensions, and denials demonstrates a more than reasonable penetration of all segments of its local community. The distribution of borrowers reflects a more than reasonable penetration among individuals of different income levels and businesses and farms of different sizes. Its loan-to-deposit ratio is reasonable, given the bank's size, financial condition, and assessment area credit needs. The bank's assessment area meets the definition and purpose of the CRA, and does not arbitrarily exclude any low or moderate-income areas or residents that it would reasonably be expected to serve.

The following table indicates the performance level of the **Bank of Brodhead** with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | BANK OF BRODHEAD 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 consumer compliance examination | | |

DESCRIPTION OF INSTITUTION

The Bank of Brodhead, with assets of \$72.4 million as of December 31, 1995, is a rural bank with the majority of its loan portfolio consisting of agricultural and residential mortgage lending. The bank also offers commercial and consumer loans. The bank's primary business focus is to provide retail banking services that will assist local residents, farmers, and businesses in meeting their credit and deposit needs. The bank operates one main office with an attached drive-up automated teller machine located in Brodhead, Wisconsin. The credit products offered are consistent with the credit needs in the assessment area. The bank's financial condition and size allow it to meet the credit needs of its assessment area.

The bank's primary competitor, also located in Brodhead, is Green County Bank with assets of approximately \$31 million. Farm Credit Services of Southeast Wisconsin, located in Janesville, has become a major competitor for agricultural loans. Blackhawk Credit Union, also located in Janesville, has become a competitor of Bank of Brodhead. Additionally, the Bank of New Glarus with assets of approximately \$50 million, located in northwest Green County, has opened its first branch office in Brodhead which is located approximately 2 miles from the bank's main office.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The Bank of Brodhead is located in Brodhead, Wisconsin. Brodhead is located on the eastern edge of Green County, Wisconsin, approximately 15 miles west of the expanding Beloit-Janesville Metropolitan Statistical Area (MSA) and 90 miles southwest of the City of Milwaukee. The bank's assessment area consists of all the townships in Green County and the townships of Union, Porter, Fulton, Magnolia, Center, Janesville, Spring Valley, Plymouth, Rock, Avon, Newark, and Beloit in Rock County. The area also includes the townships of Oneco, Rock Grove, Buckeye, Dakota, and Rock Run in Stephenson County, Illinois, and the townships of Laona, Shirland, Durand, Harrison, and Pecatonica in Winnebago County, Illinois.

According to the Community Lending Analysis System (CLAS) from the Federal Reserve Board of Governors, the total population of the bank's defined assessment area totaled 81,175 residents, of which approximately 1.4% is minority. The assessment area includes eight census tracts, which are parts of a MSA, and 11 block numbering areas (BNAs). Seven census tracts and eight BNAs are considered middle income (80% to 120% of the area's median household income). The remaining three BNAs and census tract are considered upper income or more than 120% of the area's median household income. The bank's assessment area has no BNAs or census tracts that are considered low or moderate income (50% and 80% of the area's median household income, respectively). The CLAS data also reveals the assessment area had a median household income of \$31,231 compared to a median household income of \$29,442 for the State of Wisconsin. Approximately 33% of the households within the assessment area were shown to have incomes considered low-and moderate. The CLAS data also reveals approximately 87% of the housing stock in the assessment area consists of single-family homes, which have median ages of 26 years. Additionally, approximately 70% of the total housing units within the assessment area are owner-

occupied, with median housing values of \$55,356. As of January 1996, the unemployment rate for the State of Wisconsin and Illinois totaled 3.9% and 6.0%, respectively according to the United States Bureau of Labor Statistics.

According to 1990 United States Census Bureau information, the population of Brodhead is 3,165 persons. Minorities make up less than 1% of the population. There are 1,256 housing units in Brodhead; 909 (72%) are owner-occupied and 347 (28%) are rental units. Green County, Wisconsin, has a population of 30,339, with minorities making up less than 1% of the population. There are 11,541 housing units in Green County; 8,003 (69%) are owner-occupied and 3,538 (31%) are rental units. The median age of the Green County population is 34.4 and the median family income is \$32,644. Rock County, Wisconsin has a population of 139,510, of which 129,788 (93%) are White, and 9,722 (7%) are minority. There are 52,252 housing units in Rock County; 35,611 (68%) are owner-occupied and 16,641 (32%) are rental units. These population and housing figures include urban communities (Janesville and Beloit, Wisconsin) located outside of the assessment area, but inside the county. The median age of the Rock County population is 33 and the median family income is \$35,605. The Illinois portion of the assessment area, which includes those block numbering areas (BNAs) of Stephenson and Winnebago Counties, has a combined population of 1,630, of which 99.3% are White. According to the United States Bureau of Labor Statistics, the unemployment rate for Green, Rock, Winnebago, and Stephenson Counties were 4.4%, 4.9%, 3.2%, and 5.8%, respectively.

There are three major employers in Brodhead: Woodbridge Corporation (urethane foam car seats) employs 360; Stoughton Composites (plastic shipping containers) employs 230; and Knight Manufacturing Corporation (agricultural equipment) employs 180. Major employers within the bank's assessment area include: the Monroe Clinic (health care) approximately 950 employees; The Swiss Colony (mail order food gifts) with 850 employees; Advance Transformer (fluorescent ballasts), 500 employees; and Monroe Truck Equipment, Inc. (metal fabrication) with 440 employees. These employers are located in Monroe, the largest city in Green County and the county seat.

Although Brodhead and the surrounding areas are primarily agricultural with a focus on dairy farming and hog operations, a significant number of residents commute northeast and southeast to the Cities of Janesville and Beloit for employment.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

Loan-to-Deposit Ratio

An analysis of the bank's Consolidated Reports of Condition for the six quarter review period disclosed an average loan-to-deposit ratio of 61.01%. According to the Uniform Bank Performance Report, the ratio is comparable with the bank's peer group. As of December 31, 1995, the bank's peer loan-to-deposit ratio was 60.58%. The following chart shows the net loan-to-deposit ratios since the previous examination.

| 9/94 | 12/94 | 3/95 | 6/95 | 9/95 | 12/95 |
|-------------|--------------|-------------|-------------|-------------|--------------|
| 65.02% | 61.30% | 63.06% | 61.71% | 59.85% | 54.94% |

As shown in the above chart, the bank's loan-to-deposit ratio has been reasonable since the previous examination. The large decline from March 1995 to December 1995 was due to a 15% increase in total deposits while net loans remained fairly consistent. The loan-to-deposit ratio is reasonable given the bank's size, financial condition and the nature of the assessment area.

Lending in Assessment Area

The bank's loan activity since the previous examination was reviewed. This data revealed approximately 168 or 94.9% of the 177 residential mortgage loans were originated for the purpose of purchasing, constructing, or improving residences located within the bank's assessment area. Approximately 699 or 95.6% of the 731 consumer loans originated were to borrowers residing within the assessment area. Additionally, of the 814 farm loans and 231 commercial loans, 99.4% and 91.8%, respectively were granted to borrowers having farms or businesses located within the bank's assessment area.

The bank generally conducts a geographic analysis of its loan portfolio and compares this information to a geographic analysis of its deposit products locations. Results are reported to senior management and the board of directors. The most recent analysis was performed on February 9, 1996. Results of the bank's analysis revealed that a substantial majority of the bank's loan volume continues to be within the bank's assessment area. Additionally, a substantial majority of the bank's deposit accounts are held by residents within the bank's assessment area.

The examination loan sample of approved and denied applications were reviewed regarding lending activity within the assessment area. The examination loan sample revealed the following:

| LOAN TYPE | TOTAL SAMPLED | WITHIN THE ASSESSMENT AREA | PERCENT OF TOTAL |
|-----------------------|----------------------|-----------------------------------|-------------------------|
| Single Payment | 11 | 11 | 100% |
| Installment | 10 | 9 | 90% |
| Real Estate | 3 | 3 | 100% |
| Commercial | 20 | 18 | 90% |
| Denied | 14 | 12 | 86% |

The examination loan sample further supports the fact that the majority of the bank's loan activity is within the assessment area. Based upon this review and the information provided by management, the bank exceeds the standards for satisfactory performance in relation to loan originations within its assessment area. Additionally, the geographic distribution of loans reflects reasonable distribution throughout the assessment area. Although the bank's only office is not located within a MSA and the Home Mortgage Disclosure Act (HMDA) Statement could not be used to analyze lending inside the assessment area or in areas considered low-income or moderate-income, it was noted that the bank's ability to analyze their lending was sufficient enough. Additionally, no low-income or moderate-income areas were noted within the assessment area or in those areas surrounding the bank's defined lending territory.

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

Although a small portion of the bank's assessment area is located within an MSA, HMDA data was not available or required at the time of the examination in order to ascertain the amount of loan activity from low or moderate-income individuals. According to the CLAS data, 17.5% of the households within the assessment area were considered low-income, 15.6% were considered moderate-income, 21.2% were considered middle income, and 45.7% were considered upper income. According to community contacts and discussions with management, these individuals are not concentrated in any particular area of the assessment area. Noting that the bank originates the majority of its loans within its assessment area, it appears that the bank is meeting the needs throughout its lending community. Additionally, the bank has not established any minimum loan amount limits therefore low income borrowers needs are being met by the bank. Discussions with management revealed that no other bank in the area originates consumer loans as small as the Bank of Brodhead.

An analysis of a sample of small loans originated under \$1,000, since the previous examination, was conducted. This analysis revealed approximately 114 or 16% of the total 731 consumer loans

originated were granted to borrowers having household incomes considered to be low income or moderate income. An analysis of a sample of loans originated over \$1,000 revealed an additional 71 loans were granted to individuals considered low income or moderate income. These two samples of 489 originations revealed approximately 185 or 25% of the bank's consumer loan activity was granted to borrowers with incomes considered low income or moderate income. The total loans to low income individuals was 126 or 17%, while the total loans to moderate income individuals was 59 or 8%.

An analysis of the examination loan sample of originated loans was conducted regarding lending activity based upon borrower income classifications to ascertain whether loans were originated throughout different income levels. The analysis revealed the following information, with low incomes totaling \$15,616 or less, moderate-incomes totaling \$15,617 to \$24,985, middle-incomes totaling \$24,986 to \$37,477 and upper-incomes totaling more than \$36,477:

| Loan Type | Low-Income Total Amount/ Number of loans | Moderate- Income Total Amount/ Number of loans | Middle-Income Total Amount/ Number of loans | Upper-Income Total Amount/ Number of loans |
|------------------|---|---|--|---|
| Real Estate | \$0/0 | \$70,000/1 | \$51,000/1 | \$100,000/1 |
| Installment | \$0/0 | \$2,000/1 | \$0/0 | \$0/0 |
| Credit cards | \$0/0 | \$0/0 | \$0/0 | \$1,000/2 |
| Single Payment | \$0/0 | \$0/0 | \$0/0 | \$0/0 |
| Total | \$0/0 | \$72,000/2 | \$51,000/1 | \$101,000/3 |

According to the six loan applications sampled, in which income figures could be obtained, the majority of the loans from the sample were originated to upper (3) and moderate (2) income borrowers. The majority of the dollar volume was originated to upper (\$101,000) and moderate (\$72,000) income borrowers. Although the sample is small, it further supports the analysis discussed above. This loan sample reveals two or 33% of the six loans were granted to moderate income borrowers. The sample indicates a reasonable level of lending among the various income segments of the bank's community when noting approximately 33.2% of the households of the assessment area are considered low income or moderate-income.

According to management, the average revenue for farms in the area is \$50,000 to \$200,000. While reviewing the bank's loan report, it was noted that the average size of an agricultural loan origination, since the previous examination, was \$52,444. Management also stated that the business loans originated within their community are considered small business loans, due to the activities in the area and the operations of the bank. The average size of a commercial real estate loan, since the previous consumer compliance examination was \$57,062. Additionally, according

to management, of the farm and business loans originated, less than 15% were originated to borrowers having revenues over one million dollars.

The distribution of borrowers reflects a more than reasonable penetration among individuals of different income levels and businesses and farms of different sizes. The review of commercial and agricultural loans and denied applications revealed no discriminatory lending practices.

Geographic Distribution of Loans

According to the information supplied by the CLAS data, there are seven census tracts and eight BNAs, of the bank's assessment area, considered middle-income. The remaining three BNAs and one census tract are considered upper-income. There are no areas of the bank's assessment area considered low income or moderate income. Although the bank has a small portion of its assessment area located in an MSA, the bank was not required to report this information for HMDA purposes. Therefore an analysis of the bank's major lending activity was conducted from the bank's loan report. According to the loan report, the bank originated approximately 545 loans, or 75% of the 731 consumer loans in Green County. The bank's only office is located in Green County and is considered a middle-income area. Additionally, the bank originated approximately 430 loans, or 53% of the 814 agricultural loans within Green County. This activity appears reasonable, given the amount of middle-income areas within the assessment area. Fifteen or 79% of the assessment area is considered middle-income, with four or 21% considered upper-income. The geographic distribution of loans is more than reasonable. No particular areas were noted with no loan penetration.

Response to Substantiated Complaints

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