

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 **State Bank of Howards Grove** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **November 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 Satisfactory.

State Bank of Howards Grove serves the credit needs of its assessment area consistent with its size, financial capacity, location, and current economic conditions, as evidenced in the bank's loan-to-deposit ratio. The majority of loan originations occur within the bank's assessment area, and are reasonably distributed among borrowers of different income levels as well as geographically within the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	STATE BANK OF HOWARDS GROVE 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

State Bank of Howards Grove, with \$39.6 million in total assets as of September 30, 1996, is a subsidiary of Eastern Wisconsin Bancshares, Incorporated, a one-bank holding company. The bank operates one full-service office and one automated teller machine (ATM) in Howards Grove, approximately 50 miles north of Milwaukee. In addition to general deposit products and services, the bank offers installment, single payment, real estate, agricultural, and commercial loan products. There are no apparent factors relating to the bank's prior performance, legal impediments, size and financial capacity, or local economic conditions that would prevent the bank from meeting its community's credit needs.

The bank's primary competitors are the Kohler Company Credit Union, in Kohler; Cleveland State Bank, in Cleveland; National Exchange Bank, in Elkhart Lake; F&M Bank - Kiel, in Kiel; and a branch of First National Bank in Manitowoc, in Kiel. Additional competition is provided by financial institutions in Sheboygan, including Associated Bank Lakeshore, National Association; First Financial Bank; Firststar Bank Sheboygan, NA; M&I Bank SSB; Norwest Bank Wisconsin, NA; and Community Bank.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

The bank's assessment area consists of 20 census tracts, three of which are in Manitowoc County, and 17 in the Sheboygan Metropolitan Statistical Area (MSA). Of the census tracts in the MSA, two are moderate-income and are located in downtown Sheboygan, encompassing predominantly industrial areas. The assessment area includes the communities of Meeme, Centerville, Schleswig, and Cleveland in Manitowoc County, and Howards Grove, Plymouth, Elkhart Lake, Sheboygan Falls, and the City of Sheboygan in Sheboygan County.

According to 1990 census data, the population in the bank's assessment area is 93,019, with minority residents comprising 4.2% of the total population. There are no designated minority areas within or adjacent to the bank's assessment area. Community contacts and discussions with bank staff indicate that the Hmong (Asian) population continues to grow in the City of Sheboygan. Of the 25,298 families in the assessment area, 14.6% are designated as low-income families and 19.2% are designated as moderate-income families. The assessment area contains 37,612 housing units, of which 65.4% are owner-occupied. Community contacts indicate that several new subdivisions are being developed in communities such as Plymouth and Howards Grove, in response to the growth in Sheboygan.

Major employers in the area include the Kohler Company, plumbing fixture manufacturing; Enzopac, Inc., dried food production; Bemis Manufacturing, lawn furniture production; and Sargento Cheese Co., Inc., cheese packaging. According to the Wisconsin Department of Labor, unemployment rates for September, 1996 indicate strength in both the local and statewide economy and improvement over figures from one year ago. The State of Wisconsin's seasonally-adjusted unemployment rate of 2.7%, Manitowoc County's rate of 2.7%, and Sheboygan

County’s rate of 2.3% compare favorably with the State of Wisconsin rate of 3.1%, Manitowoc County’s rate of 3.8%, and Sheboygan County’s rate of 2.8% in September, 1995.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management has developed adequate policies, procedures, and training programs to promote fair lending activities. The bank 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

An analysis of the bank’s Consolidated Report of Condition for the previous six quarters revealed an average loan-to-deposit (LTD) ratio of 70.77%. According to the Uniform Bank Performance Report, dated June 30, 1996, the bank’s loan-to-deposit ratio of 71.65% exceeded its peers’ ratio of 64.67%.

The following chart illustrates the loan-to-deposit ratio comparison between the bank and its primary competitors in the assessment area, according to the *McFadden American Financial Directory*:

Loan-to-Deposit Ratios of Competition				
Bank Name and Location	Asset Size (in thousands)	LTD Ratio Fall 1995	LTD Ratio Spring 1996	Average LTD Ratio
Cleveland State Bank; Cleveland	\$31,720	69.03%	63.85%	66.44%
F&M Bank - Kiel; Kiel	\$41,156	84.83%	85.44%	85.14%
Community Bank; Sheboygan	\$96,255	72.49%	71.39%	71.94%
State Bank of Howards Grove; Howards Grove	\$40,032	69.74%	66.68%	68.21%

An analysis of the loan-to-deposit ratio of the bank indicates that the ratio meets the standards for satisfactory performance.

Lending in Assessment Area

The examination loan sample was reviewed to determine the proportion of lending activity within the bank’s assessment area, as illustrated in the following chart:

LOAN TYPE	TOTAL SAMPLED	WITHIN ASSESSMENT AREA	PERCENT OF TOTAL
Installment	18	15	83.33%
Single Payment	10	10	100%
Overdraft Protection	10	9	90%
Real Estate	11	8	72.73%
Home Equity Lines of Credit	10	10	100%
Commercial/Agricultural	10	8	80%
Total Approved Loans	69	60	86.96%

As the preceding chart illustrates, 86.96% of the applications approved by the bank were within its assessment area. The bank performed a geographic analysis of all loans in its portfolio as of June 30, 1996, which revealed that of 900 originations, 763 (84.78%) were originated within its assessment area. This distribution exceeds the standards for satisfactory performance; it is apparent that the bank is focusing its lending efforts within its assessment area.

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

To determine the distribution of loans among borrowers of different income levels, the bank’s 1995 HMDA data, preliminary 1996 LAR data, and the examination loan sample were reviewed. The following chart illustrates the result of the review:

PERCENTAGE OF LOAN ORIGINATIONS				
LOAN TYPE	LOW-INCOME Number/Percent	MODERATE- INCOME Number/Percent	MIDDLE- INCOME Number/Percent	UPPER-INCOME Number/Percent
1995 HMDA- Reportable Loans	8/7.21%	5/4.50%	31/27.93%	67/60.36%
1996 (through October) HMDA- Reportable Loans	2/2.47%	6/7.41%	31/38.27%	42/51.85%

As indicated in the preceding chart, less than 15% of all HMDA-reportable loans in 1995 and through October, 1996 were to low- and moderate-income borrowers. Community contacts indicated that single-family homes in the assessment area sell for \$90,000, which may not be affordable for low- and moderate-income borrowers. The median family income for the assessment area is \$36,427; thus median family income for low income borrowers is \$18,213, and \$29,142 for moderate income borrowers.

A sample of consumer installment loans for the period of April 1, 1996, through June 30, 1996, was also reviewed for the level of lending among borrowers of different incomes. This analysis revealed that of 100 originations, nine were to low-income borrowers and 25 were to moderate-income borrowers. Commercial and agricultural loan originations from the month of September were reviewed to determine the bank’s level of lending among businesses and farms of different sizes. Of the ten loans sampled, two were for amounts greater than \$500,000. The remaining eight loans ranged in amount from \$4,818 to \$91,210. This size of the loans indicates that bank is making loans to small farms and small businesses. The bank’s loan penetration among borrowers of different incomes and businesses of different sizes is considered reasonable, as it is consistent with the demographics of the assessment area.

Geographic Distribution of Loans

A review of both consumer and commercial loans from the bank’s portfolio as of June 30, 1996 revealed that the bank’s loans are reasonably distributed throughout its assessment area. Of the 763 loans within the bank’s assessment area, 266 (34.86%) were originated in the census tract in which the bank’s office is located. The following chart illustrates the distribution of loans by census tract income level:

Census Tract Income	Number of Loans	Percent of Loans Sampled	Percent of Assessment Area Population
Moderate	40	5.24%	10.60%
Middle	665	87.16%	80.59%
Upper	58	7.60%	8.81%

The number of loan originations were reasonably consistent with each respective income level within the assessment area’s population. The lower percentage of originations in the two moderate-income census tracts is reflective of the fact that the tracts are mainly industrial. The bank’s performance is satisfactory, as it is lending throughout the assessment area.

Response to Substantiated Complaints

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