

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 Community Reinvestment Act (CRA) performance of **M&I Bank South Central, Watertown, Wisconsin** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **December 15, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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.

The bank's overall lending is strong as reflected by a high eight-quarter loan to deposit ratio. The bank also had a substantial majority of lending within its assessment area. The bank had a strong level of lending to small businesses and farms based on the high portion of loans originated to small businesses/small farms with loans of \$100,000 or less, and a high percentage of commercial loans extended to business and farms with gross annual revenues of \$1 million or less. The bank's community development lending and participation in loan programs targeted to small businesses, small farms and low- and moderate-income borrowers reflect a responsiveness to community credit needs. The bank's performance under the service test is also considered generally strong; branch locations are accessible to essentially all of the bank's assessment area and the services offered meet the community credit needs. The bank's performance under the investment test was adequate, considering the limited investment opportunities in the community.

The following table indicates the performance level of **M&I Bank South Central, Watertown, Wisconsin**, with respect to the lending, investment and service tests. Based on the component test ratings for large banks, the assigned composite rating is Satisfactory.

PERFORMANCE LEVELS	M&I BANK SOUTH CENTRAL		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF M&I BANK SOUTH CENTRAL'S ASSESSMENT AREA

The bank defines its assessment area as 33 block number areas (BNAs) encompassing all of Dodge County and portions of Jefferson County; 24 of the BNAs are middle-income and nine BNAs are upper-income. The assessment area is located in the southeast portion of Wisconsin, between Madison and Milwaukee.

The population of the assessment area is 127,479, based upon 1990 census data. The median family income for the assessment area is \$34,230, which is slightly lower than the State of Wisconsin median family income of \$35,082, but higher than the State of Wisconsin, nonmetropolitan median income of \$30,290.

The following table illustrates the median family income level of the assessment area in comparison to the State of Wisconsin and statewide nonmetropolitan median income levels:

POPULATION CHARACTERISTICS BY MEDIAN FAMILY INCOME LEVELS								
Area/ # of Families	Low-Income*		Moderate-Income		Middle-Income		Upper-Income	
	#	%	#	%	#	%	#	%
Assessment Area/ 33,870	3,911	11.55%	5,697	16.82%	8,844	26.11%	15,418	45.52%
State of Wisconsin/ 1,284,297	230,129	17.92%	240,790	18.75%	339,926	26.47%	473,452	36.86%
State of Wisconsin Nonmetropolitan Areas/ 420,033	73,737	17.56%	81,765	19.46%	107,060	25.49%	157,471	37.49%

*The percentage of households below the poverty level: 5.00% for the assessment area, 7.60% for the State of Wisconsin and 7.90% for all statewide nonmetropolitan areas.

Housing in the assessment area consists primarily of owner-occupied units. A total of 67.50% of housing units are owner-occupied, compared to the State of Wisconsin levels of 59.10%; rental units comprise 27.10% of the assessment area housing stock. Approximately 73.00% of the housing units in the assessment area are single-family homes; 12.60% are 2-4 family units; and 8.40% are 5 or more family units.

The manufacturing and service industries are the major types of employers in the assessment area. Community representatives indicate a stable and growing economy with a shortage of employees for the number of jobs available. According to the Wisconsin Department of Labor, unemployment rates as of December 1997 for Dodge and Jefferson Counties are 2.50% and 2.60%, respectively. The State of Wisconsin unemployment rate is 3.00%, in comparison. The following are some of the major employers in the bank's assessment area

and their respective location:

Kraft, Beaver Dam; Wis-Pak-Pepsi Bottler, Watertown; John Deere Horicon Works, Horicon; Beaver Dam Community Hospital, Beaver Dam; Watertown Memorial Hospital, Watertown; and Fisher Barton, Watertown.

DESCRIPTION OF INSTITUTION

M&I Bank South Central, with total assets of \$237 million as of September 30, 1997, is a wholly-owned subsidiary of the Marshall & Ilsley Corporation, a multi-bank holding company located in Milwaukee, Wisconsin. The bank operates one main office in Watertown; the bank has two branches, one is located in Beaver Dam and the other is located in Juneau. This a membership examination for the bank which became a state member bank in July 1995. The bank's most recent examination was conducted on April 18, 1994 with a rating of **A**satisfactory record of meeting credit needs@. The bank's loan portfolio is primarily commercial, commercial real estate and real estate mortgage loans.

The bank derives local competition from a number of financial institutions within its assessment area, including: Bank One, Wisconsin (branches of Milwaukee) in Watertown and Beaver Dam; Horicon State Bank (branch of Horicon) in Beaver Dam; American National Bank in Beaver Dam; Ixonia State Bank, (branch of Ixonia) in Watertown; Lebanon State Bank in Lebanon; State Bank of Reeseville (branch of Reeseville) in Watertown, and First Financial Bank (branches of Stevens Point) in Watertown and Beaver Dam.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The bank's commercial and real estate purchase and refinancing loan originations were reviewed to evaluate the bank's overall lending volume, geographic distribution of loans, distribution of lending to borrowers of different income levels, community development lending and the use of innovative and flexible lending practices.

Lending Volume

A review of the composition of the bank's loan portfolio from the September 30, 1997 Consolidated Report of Condition revealed commercial/industrial and commercial real estate together comprised approximately 30.57% of the portfolio. Residential real estate lending followed, comprising nearly 28.62% of the loan portfolio. A review of the September 30, 1997, Uniform Bank Performance Report revealed a net loan-to-deposit ratio of 97.77%. The bank's loan portfolio compared to peer is illustrated in the following chart:

LOAN PORTFOLIO OF M&I BANK SOUTH CENTRAL AND PEER	

LOAN TYPE	BANK AVERAGE LOAN MIX (%)	PEER AVERAGE LOAN MIX (%)
REAL ESTATE LOANS		
Construction/Development	2.99	2.23
1 - 4 Family Residential	28.58	32.81
Home Equity	5.34	0.83
Other Real Estate	25.12	22.24
Farmland	9.58	3.56
Multi-family	1.19	0.65
Commercial	14.36	15.33
TOTAL REAL ESTATE LOANS	56.69	60.69
LOANS TO INDIVIDUALS	13.09	15.00
CREDIT CARD LOANS	2.00	0.47
COMMERCIAL AND INDUSTRIAL LOANS	15.89	14.32
AGRICULTURAL LOANS	10.96	3.66
MUNICIPAL LOANS	2.88	0.52
OTHER LOANS*	0.49	0.18
*Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables		

The composition of the bank's loan portfolio is generally consistent with the lending portfolio of its peer banks, as the chart illustrates.

The bank's net loan-to-deposit ratio of 97.77% is significantly higher than its peer level of 74.51%. The bank's average loan-to-deposit ratio for the last eight quarters is 88.07%. A review of the bank's net loan-to-deposit ratio over the last eight quarters ending September 30, 1997, indicates that the ratio has been increasing. The increase in the loan-to-deposit ratio is indicative of the loan demand in the community, according to bank management. The following table illustrates the bank's average loan-to-deposit ratio compared to three of its local competitors:

M&I BANK SOUTH CENTRAL AVERAGE LOAN-TO-DEPOSIT RATIO COMPARISON TO LOCAL COMPETITORS		
Institution	Asset Size as of 9/30/97 (000)	Average Loan-to-Deposit ratio most recent eight quarters
M&I Bank South Central	\$237,454	88.07%
Horicon State Bank	\$150,324	89.85%
State Bank of Reeseville	\$24,809	70.68%

Ixonia State Bank	\$107,166	80.43%
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The above table indicates that M&I Bank South Central consistently has a comparable or higher loan-to-deposit ratio than its local competitors.

Lending in the Assessment Area

Home purchase, refinancing, small business and small farm loans extended in 1996 and during the first six months of 1997 were reviewed to determine the bank's level of lending in its assessment area. A total of 162 home purchase, 154 refinance, 955 commercial and 723 farm loans were originated during that period. The following table details the number of loans made within the bank's assessment area:

LOANS MADE WITHIN THE ASSESSMENT AREA IN 1996 AND THE FIRST SIX MONTHS OF 1997		
Loan Type	Number of Loans Originated	Percentage in Assessment Area
Home Purchase	147	90.74%
Refinance	146	94.81%
Business	879	92.04%
Farm	626	86.58%

The chart revealed that 92.72% of real estate loans and 89.69% of commercial/farm loans originated were within the assessment area, a substantial majority.

Geographic Distribution

The geographic distribution of real estate, business and agricultural lending was also reviewed within the assessment area. There are no low- or moderate-income geographies in the bank's assessment area; 24 of the BNAs are considered middle-income geographies and the remaining nine BNAs are upper-income geographies.

Analysis of lending in the assessment area indicates that for 1996 and 1997 small business and small farm originations were made in 30 (90.91%) of the 33 BNAs while home purchase and refinancing mortgage loans were made in 24 (72.73%) of the BNAs. The geographic distribution reflects a strong penetration within the assessment area.

Borrower Characteristics

The bank's 1996 and 1997 home purchase, refinancing, small business and small farm lending was analyzed to assess lending to borrowers of different income levels and businesses of different sizes.

The following table illustrates the distribution of home purchase and refinance loans with different borrower income levels:

NUMBER OF LOANS TO BORROWERS OF DIFFERENT INCOME LEVELS								
Loan Type	Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	#	%	#	%	#	%	#	%
Purchase	2	1.37%	13	8.90%	34	23.29%	97	66.44%
Refinance	5	3.43%	15	10.27%	48	32.87%	78	53.43%
Total	7	2.40%	28	9.59%	82	28.08%	175	59.93%

An analysis of real estate lending indicates that 12.00% of mortgage lending is to low- and moderate-income individuals. Approximately 28.00% of families in the assessment area are low- and moderate-income, based on 1990 census data, in comparison.

The following table illustrates the distribution of small business and small farm originations extended in the assessment area:

SMALL BUSINESS/SMALL FARM ORIGINATIONS BY NUMBER AND \$ AMOUNT FOR 1996 AND 1997						
Loan Type	Loan Amount < \$100K		Loan Amount > \$100K &< \$250K		Loan Amount > \$250K	
	#	\$000	#	\$000	#	\$000
Small Business Loans	714	\$20,532	98	\$16,015	67	\$30,410
Small Farm Loans	531	\$17,394	81	\$11,672	14	\$4,258
Total	1,245	\$37,926	179	\$27,687	81	\$34,668

This table reveals that a total of 81.23% of the small business and 84.82% of small farm originations in the assessment area were in amounts of \$100,000 or less.

The following table demonstrates that the bank's lending to small business and small farms with gross annual revenues of \$1 million or less:

LOANS MADE TO SMALL BUSINESS/SMALL FARM WITH REVENUES OF \$1 MILLION OR LESS		
Loan Type	#	\$(000)
Small Business	703	\$39,868

Small Farm	615	\$31,679
Total	1,315	\$71,547

A total of 87.38% of the commercial loans within the assessment area were extended to business and farms with gross annual revenues of \$1 million or less. The bank's performance is strong, based on the high portion of loans originated to small businesses/small farms with loans of \$100,000 or less.

Overall, the distribution of mortgage, small farms and small businesses reflects a strong penetration among businesses and farms of different sizes and an adequate record of serving the mortgage credit needs of low- and moderate-income individuals.

The bank also engages in innovative and flexible lending practices designed to address the credit needs of low- and moderate-income individuals, small businesses and small farming operations. The following table illustrates the volume of lending by the bank utilizing Farmer Service Agency/Rural Development, Small Business Administration (SBA), Veterans Administration (VA), Wisconsin Housing Economic Development Association (WHEDA) Crop, WHEDA Small Business, and WHEDA Home Loan programs.

M&I BANK SOUTH CENTRAL PARTICIPATION IN GOVERNMENT SPONSORED LOAN PROGRAMS		
Program	Number of Originations	\$ Originations
Farm Service Agency/Rural Development	5	586,698
SBA	8	978,000
VA	3	235,000
WHEDA Crop	12	93,530
WHEDA Home	7	416,000
** Originated since 1/1/96		

The bank's participation in these government programs allows it to increase its lending to small farming operations, small business owners and low- and moderate-income individuals.

Community Development Lending

The following table illustrates the bank's community development lending:

M&I BANK SOUTH CENTRAL COMMUNITY DEVELOPMENT LENDING		

Loan	Dollar Amount	Description
Promotive Corporation Incubator Building	416,335	The corporation is a division of the Watertown Area Chamber of Commerce that constructed the building to house four small businesses.
Community Development Authority of the City of Juneau	560,000	The Community Development Authority (CDA) has a purpose of carrying out blight elimination, slum clearance, urban renewal programs and housing projects. Loan was to construct a speculative manufacturing building located in an industrial park.

The bank's community development lending opportunities are limited due to the fact that there are no low- or moderate-income BNAs in the assessment area; a limited number of organizations are committed to qualified community development initiatives. Community representatives confirmed the lack of community development lending opportunities in the assessment area and indicated that loans for small businesses and small farms are the community's current credit needs. The bank has demonstrated a strong performance by its lending to small farm and small business owners.

CONCLUSION

The bank's overall lending activity in its assessment area and its geographic distribution of loans is considered generally strong. The bank has a high percentage of loans within its assessment area and loans are reasonably disbursed within the assessment area. The bank exhibits an adequate record of serving the credit needs of low- and moderate-income individuals and a strong record of serving the credit needs of businesses and farming operations of different income levels. Community development lending is considered adequate, in consideration of the limited community development lending opportunities available.

INVESTMENT TEST

The bank's investment portfolio, donations and special programs that foster community development were reviewed. Qualified investments or grants were reviewed for innovativeness and responsiveness to community credit needs and community development needs. Discussion with management and community representatives indicated that qualified investment opportunities are limited. Discussions with community representatives indicate that it is a lack of opportunity rather than an unwillingness of the bank to invest, although no qualified investments were noted.

Degree to Which Investments Are Not Provided by Private Investors

The bank provides a adequate level of investment in the form of grants, which support the ongoing operating expenses of community nonprofit organizations in its assessment area. Operating grants, essential to the ongoing viability of these organizations, are not routinely available from private investors. The bank has donated a total of \$10,700 for 1996 and 1997

that promote community development activities in the assessment area.

Responsiveness to Available Opportunities

The bank’s current level of investment is reflective of the current level of opportunities for qualified investments. Discussions with bank management and community representatives and in consideration of the bank’s generally strong performance under the lending and service tests, suggests the bank is adequately serving its community’s credit needs.

CONCLUSION

The bank’s performance under the investment test is a low satisfactory. The bank’s limited qualified investments are indicative of the community’s lack of opportunities as indicated by community representatives.

SERVICE TEST

The bank’s systems for delivering retail banking and community development services were reviewed for range and accessibility, innovativeness and responsiveness, including alternative systems used for delivering those services. In addition, the distribution of bank’s branches, record of opening and closing branch offices and community development service activity were reviewed.

Retail Banking Services

M&I Bank South Central is a full-service bank, with two branches. The main office is located in downtown Watertown; two branches are located in Juneau and Beaver Dam. The bank provides a wide range of loan and deposit products.

Distribution of Branches Among Geographies

The following table illustrates the bank’s branch and drive-up facility location and hours of operation:

M&I BANK SOUTH CENTRAL BRANCH ADDRESS LISTING AND HOURS OF SERVICE			
Branch Name	BNA	Lobby and Drive-up Hours	
Beaver Dam 120 Park Avenue Beaver Dam, WI 53916	9610.00	Lobby Hours	M-Th 9am-4:30pm, F 9am-6pm, S 9am-12pm
		Drive-up Hours	M-Th 8am-5pm, F 8am-6pm, S 9am-12pm
Juneau 146 S. Main Street Juneau, WI 53039	9611.00	Lobby Hours	M-Th 9am-4pm, F 9am-6pm
		Drive-up Hours	M-Th 8am-4pm, F 8am-6pm, S 9am-1pm

Watertown 205 N. 2nd Street Watertown, WI 53094	9902.00	Lobby Hours	M-Th 9am-5pm, F 9am-6pm, S 9am-12pm
		Drive-up Hours	M-F 7:30am-6pm, S 7:30am-12pm

The Juneau and Beaver Dam branches are located in middle and upper portions of Dodge County and the Watertown location is in Jefferson County; all offices are located in middle-income BNAs. Portions of the bank's assessment area do overlap with the assessment areas of other M&I affiliate banks. The lower portion of the assessment area in Jefferson County is not as accessible to the Watertown office because I-94 runs right through the entire county; however, a branch of M&I Bank South is accessible to this area.

Record of Opening and Closing Offices

The bank closed one drive-up facility on February 7, 1997. The facility was located at 104 W. Main Street, Watertown, and was only blocks from the bank's main office. Closing of the location did not adversely affect the accessibility of the bank's delivery system of services.

Alternative Systems for Delivering Retail Banking Services

The bank has increased its accessibility by use of alternative systems for delivering retail banking services to low- and moderate-income individuals. The bank has established automated teller machine (ATM) at the Beaver Dam and Watertown office locations, as a part of the TYME network providing access anywhere in Wisconsin. In addition, there are over 200 M&I affiliate ATMs throughout the State of Wisconsin that can be accessed without any fee.

The bank also offers banking by mail and phone. The Mi Line, banking by phone, is accessible 24 hours a day to check account balances, verify that checks have cleared, stop payments on checks, apply for a loan, transfer funds and open accounts. The bank also offers M&I Direct PC Banking and Internet Banking. The PC Banking is similar to the banking by phone, and is accessible 24 hours. Additionally, bank customers have the capability of cross banking; deposits can be made at any M&I affiliate location.

Range and Accessibility of Services Provided to Geographies

All office locations are full service, offering services and products that meet the needs of the assessment area, including low- and moderate-income individuals. In addition to regular banking services, the bank offers the following services: M&I Basic Checking, Young Adult Checking, Prestige & Prestige Plus for individuals ages 50 and up and small business checking. Basic checking features no minimum balance, a \$5 monthly maintenance fee and 10 free checks per month.

Community Development Services

The bank provides community development services to various organizations through officer,

director and employee involvement, and the sharing of financial expertise. Discussions with community representatives and review of assessment area dynamics revealed that there are a limited number of community development organizations within the assessment area. The bank's president serves as a director, and treasurer of the Watertown Chamber of Commerce and the Watertown Promotive Corporation, which was established to assist small business development in the community. The bank's senior vice president serves as director of the Beaver Dam Development Corporation. A review of the bank's internal CRA files revealed that officers, directors and staff are actively involved in a number of local organizations including the organizations previously identified above.

CONCLUSION

The bank's performance under the service test is considered generally strong. The bank's delivery systems are accessible to essentially all portions of the assessment area. The closing of a drive-up facility branch has not adversely affected the accessibility of its delivery systems, particularly to low- and moderate-income individuals. Business hours and services are reasonable and the bank provides an adequate level of community development services.

GENERAL

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity (ECOA) and Fair Housing Acts. Management has developed and implemented policies and procedures supporting nondiscrimination in lending. Bank lending standards are in compliance with the regulations and applied in a consistent manner. A significant portion of loan underwriting has been centralized. A review of bank underwriting conducted concurrent with this examination, supplemented an earlier review of centralized loan underwriting functions. The credit applications reviewed during this examinations represented a sample of applications for which the credit decision was made by bank lending personnel.