

## **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 **First Banking Center-Burlington, Burlington, Wisconsin** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 4, 1997**. 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**.

First Banking Center-Burlington's lending activity promotes economic growth, consistent with its size, location, and current economic conditions in the assessment area. The bank's efforts are primarily accomplished through the origination of commercial, agricultural, real estate and consumer loans. These efforts are evidenced by a high loan-to-deposit ratio, which is consistently higher than other financial institutions competing within the bank's assessment area. The bank's performance of lending to borrowers of different income levels and to businesses and farms of different sizes is strong. The examination revealed no prohibited discriminatory lending practices. No CRA-related complaints have been received since the bank became a member of the Federal Reserve System.

**DESCRIPTION OF INSTITUTION**

First Banking Center-Burlington, with assets of \$275.1 million as of June 30, 1997, is a subsidiary of First Banking Center, Inc., a two-bank holding company, with \$301 million in total assets as of the same date. The bank's main office is located in Burlington, Wisconsin, approximately 42 miles southwest of Milwaukee. The bank operates 11 branch locations throughout the three counties of Racine, Kenosha, and Walworth, all in the southeastern corner of the state. In addition to loan and deposit services, the bank offers ATMs, debit cards ("Checkmate"), bank-by-phone ("First Touch"), PC banking, trust services and safe deposit facilities.

Competition in the bank's market area is extensive and comes from branches of large multi-state banks headquartered in Milwaukee, such as Firststar Bank Milwaukee, N.A. and Bank One, Wisconsin, as well as from state, regional, and local financial institutions. This latter group includes Bank of Elmwood, Heritage Bank and Trust, and M&I Bank of Racine (all headquartered in Racine), Community State Bank (Union Grove), Commercial Bank and The First Citizens State Bank of Whitewater (both headquartered in Whitewater), Walworth State Bank (Walworth), State Financial Bank (headquartered in Hales Corners with a branch in Waterford), M&I Bank of Burlington (Burlington), Mitchell Savings Bank (headquartered in Greenfield with a branch in Franklin), Advantage Bank, FSB (Kenosha), and North Shore Bank, FSB (headquartered in Brookfield with a branch in Burlington). Many of these institutions have more than one branch that competes within the assessment area.

Consumer loan products offered by the bank include installment, single payment and student loans, as well as home equity and personal lines of credit. Consumer real estate loan products include fixed-rate balloon mortgages, adjustable rate mortgages (ARMs) and construction loans. Consumers seeking other types of real estate loans can usually be accommodated through secondary market arrangements the bank has with Associated Mortgage, Inc. and Homeside Lending Corp. Non-consumer loan products include agricultural, commercial, and industrial loans. Agricultural loan products include loans to acquire and improve farm properties, operating loans and lines of credit, and loans for crops, cattle and machinery. These agricultural loans include those with guarantees from the Farm Services Agency or through the Wisconsin Housing and Economic Development Association (WHEDA). The bank also offers government-assisted loans for consumers and businesses through WHEDA and the Small Business Administration (SBA). There are no factors relative to the bank's financial condition, size, or local economic conditions which would prevent the bank from meeting the community's credit needs.

## **DESCRIPTION OF THE BANK'S ASSESSMENT AREAS**

### **Combined Description of the Bank's Three Assessment Areas**

The bank has defined three separate assessment areas including 28 contiguous census tracts and 1 block numbering area (BNA) in portions of five counties in southeastern Wisconsin. These assessment areas include portions of three Metropolitan Statistical Areas (MSAs): Racine, Kenosha, and Milwaukee-Waukesha.

According to 1990 census data, the population of the combined assessment area is 152,456. The aggregate median family income for the combined assessment area is \$39,627, in comparison to the State of Wisconsin median family income of \$35,082. There are no low- or moderate-income geographies within the assessment areas, although low- and moderate-income families constitute 11.4% and 16.3%, respectively, of the families within the combined assessment area.

The housing stock in the combined assessment area has a median value of \$74,996. There are 65,980 housing units in the combined assessment area of which 59.5% are owner-occupied, 22.1% are rental units, and 18.4% are vacant. One-to-four family residences represent 84% of the housing units in the combined assessment area.

The assessment areas contain a mixture of urban and agricultural communities. Strong commercial and residential development is reducing the amount of farmland in the area. Many residents commute to the nearby cities of Milwaukee, Janesville and Beloit, or cities in northern Illinois for employment. Residents enjoy a lower cost of living in comparison to Chicago and Milwaukee.

Overall, economic conditions in the combined assessment area are strong. As economic conditions continue to improve, increasing demand for all types of credit offered by the bank can be expected.

### **Description of the Bank's Milwaukee CMSA Assessment Area**

The first of the bank's three assessment areas contains census tracts in the Racine and the Milwaukee-Waukesha MSAs. The two MSAs are part of the larger Milwaukee Consolidated Metropolitan Statistical Area (CMSA). The bank's Burlington headquarters is located in the Milwaukee CMSA assessment area. The Milwaukee CMSA assessment area generally consists of the western portion of Racine County and the extreme southeastern corner of Waukesha County. The following table summarizes the geographies that comprise this assessment area:

<b>Milwaukee CMSA Assessment Area</b>			
<b>County</b>	<b>MSA</b>	<b>Census Tract Nos.</b>	<b>Branch Locations</b>
Racine	Racine #6600	18.00, 20.00, 21.00, 24.01, 24.02, 26.00, 27.00, 28.00	Burlington, Union Grove, Wind Lake
Waukesha	Milwaukee-Waukesha #5080	2017.02, 2019.00	N/A

According to 1990 census data, the population of the assessment area is 48,474. The median family incomes for the Racine and Milwaukee-Waukesha MSAs are \$37,992 and \$39,005, respectively. Low- and moderate-income families constitute 14.4% and 15.1%, respectively, of the families within the assessment area. The median housing values for the Racine and Milwaukee-Waukesha MSAs are \$63,507 and \$76,108, respectively. Owner-occupied housing units equate to 70.2% of all the housing units in the assessment area.

The seasonally-adjusted unemployment rate for Racine County is 4.0%, and 3.4% for Waukesha County, as of May, 1997. These figures compare with the state unemployment rate of 3.4% and the national unemployment rate of 4.8%. Large employers in the assessment area include: S. C. Johnson & Son, Inc. (Racine-2,800 employees); All Saints Healthcare System, Inc. (Racine-2,800); Western Publishing Co., Inc. (Racine-2,300); Case Corporation (Racine-2,300). In Burlington, the largest employers are Nestle Chocolate & Confections (550), Memorial Hospital Corporation of Burlington (480) and Foster-Forbes Glass (300).

Although Racine County’s economic condition has been improving in recent years, its performance lags behind other regions in the state, as evidenced by its higher-than-average unemployment rate. Median housing values are also lower when compared to the other assessment area averages.

**Description of the Bank’s Kenosha MSA Assessment Area**

The second of the bank’s three assessment areas contains census tracts in the Kenosha MSA. Kenosha County is located directly south of Racine County and southeast of Burlington. The Kenosha County MSA consists of all of Kenosha County with the exception of extreme eastern portion; this portion includes the majority of the City of Kenosha and census tracts bordering Lake Michigan. The following table summarizes the geographies that comprises the Kenosha MSA assessment area:

<b>Kenosha MSA Assessment Area</b>			
<b>County</b>	<b>MSA</b>	<b>Census Tract Nos.</b>	<b>Branch Locations</b>
Kenosha	Kenosha #3800	6.00, 14.00, 25.00, 26.00, 27.00, 28.00, 29.01, 29.02, 30.00	Pleasant Prairie, Somers

According to 1990 census data, the population of the assessment area is 49,939. The median family income for the Kenosha MSA is \$35,657. Low- and moderate-income families constitute 13.9% and 15.4%, respectively, of the families within the assessment area. The median housing value for the Kenosha MSA is \$64,588. Owner-occupied housing units equate to 66.2% of all the housing units in the assessment area.

The seasonally-adjusted unemployment rate for Kenosha County is 3.4%, as of May, 1997. These figures compare with the state unemployment rate of 3.4% and the national unemployment rate of 4.8%. Large employers in or near the assessment area include Chrysler Corp. (Kenosha-1,800) and St. Catherine’s Hospital (Kenosha-900).

The Kenosha MSA’s economy is strong. Community representatives stated that an increasing number of individuals and families who work in Illinois are moving to Kenosha County due to lower housing costs. Increasing demand for home mortgage and construction loans is expected in order to meet the demand as the county’s population grows.

**Description of the Bank’s Non-MSA Assessment Area**

The third of the bank’s three assessment areas contains geographies in Walworth County and one geography in Jefferson County. The non-metropolitan assessment area consists of all of Walworth County with the exception of the extreme southwestern corner and one geography in the extreme southwestern corner of Jefferson County. Walworth County is located to the immediate west of Burlington, and Jefferson County is located to the immediate north of Walworth County.

<b>Non-MSA Assessment Area</b>			
<b>County</b>	<b>MSA No.</b>	<b>Geography Nos.</b>	<b>Branch Locations</b>
Walworth	N/A	2.00, 3.00, 4.00, 5.00, 10.00, 15.00, 16.01, 16.02, 17.00	Lake Geneva, Lyons, Genoa City, Pell Lake, Whitewater, Woolworth
Jefferson	N/A	9916	N/A

According to 1990 census data, the population of the assessment area is 54,043. The median family income for the non-metropolitan portion of the state is \$30,290. Low- and moderate-income families constitute 18.7% and 14.3%, respectively, of the families within the assessment area. The median housing value for the assessment area is \$70,461. Owner-occupied housing units equate to 47.0% of all the housing units in the assessment area.

Lake Geneva is a nearby tourist attraction; this industry provides significant opportunity for service industry-related employment at hotels, resorts and restaurants. According to community representatives, Walworth County is one of the wealthiest counties in the state. Community representatives stated that economic development is increasing in the area because of favorable economic conditions. A high demand for middle- and upper-income housing loans is expected in this assessment area as new seasonal residences are constructed due to the regional trend of increasing economic growth.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank was examined for compliance with fair lending laws and regulations. No evidence of prohibited discriminatory lending practices was detected. The bank is in compliance with the substantive portions of antidiscrimination laws and regulations, including the Equal Credit Opportunity and Fair Housing Acts.

#### **Loan-to-Deposit Ratio Analysis**

A review of the bank's quarterly Consolidated Reports of Condition and the Uniform Bank Performance Reports (UBPR) for the period March 31, 1996 through March 31, 1997 revealed an average loan-to-deposit ratio of 83.08%. The bank's average loan-to-deposit ratio exceeds the bank's peer group ratio (69.64%) for the same period, and compares favorably to local competitors in the bank's assessment areas.

The following chart compares the bank’s loan-to-deposit ratio with its competition and national peer group:

<b>Loan-to-Deposit Ratio of First Banking Center-Burlington                      Its Peer Group, and Other Local Financial Institutions                      (Ranked from Highest to Lowest Five-Quarter Average Loan-to-Deposit Ratio)</b>							
	<b>Assets at                      3/31/97                      (millions)</b>	<b>Loan-to-Deposit Ratio</b>					
		<b>3/31/97</b>	<b>12/31/96</b>	<b>9/30/96</b>	<b>6/30/96</b>	<b>3/31/96</b>	<b>Average</b>
Bank One, Wisconsin	\$8,894.7	103.31%	109.83%	119.83%	141.58%	149.35%	124.78%
Mitchell Savings Bank	\$84.9	106.74%	110.09%	101.84%	109.41%	100.78%	105.77%
Community State Bank	\$112.2	85.43%	82.65%	87.97%	89.00%	83.99%	85.81%
Firststar Bank Milwaukee N.A.	\$7,466.9	86.30%	76.94%	83.27%	86.59%	90.70%	84.76%
<b>First Banking Center-Burlington</b>	<b>\$271.4</b>	<b>80.99%</b>	<b>81.66%</b>	<b>87.14%</b>	<b>84.50%</b>	<b>83.99%</b>	<b>83.65%</b>
First Citizens State Bank of Whitewater	\$89.9	83.52%	83.47%	83.26%	83.92%	83.06%	83.45%
Bank of Elmwood	\$142.8	81.36%	81.58%	79.64%	79.64%	79.76%	80.40%
M&I Bank of Burlington	\$195.9	87.17%	76.53%	72.53%	71.11%	72.92%	76.05%
State Financial Bank	\$39.5	81.21%	70.77%	73.06%	78.45%	73.53%	75.40%
Walworth State Bank	\$96.3	76.34%	70.60%	71.80%	70.50%	68.34%	71.52%
Commercial Bank	\$62.9	76.50%	72.49%	72.29%	69.16%	65.47%	71.18%
Nationwide Peer Group	N/A	70.61%	70.65%	70.45%	69.64%	68.32%	69.93%
Heritage Bank and Trust	\$782.8	70.62%	68.05%	70.39%	68.99%	62.36%	68.08%
M&I Bank of Racine	\$138.3	65.75%	60.69%	64.17%	63.37%	62.76%	63.35%

As the preceding chart illustrates, the bank’s loan-to-deposit ratio consistently exceeds its peer group, and most of its local competition. The loan-to-deposit ratio is especially strong when the

two large banks in the comparison, Bank One, Wisconsin and Firststar Bank Milwaukee, N.A., are discounted. Although the bank competes with these two institutions, greater loan funding alternatives are available because of their size; as a result, they are able to maintain consistently higher loan-to-deposit ratios than the smaller banks in the comparison. The bank’s loan-to-deposit ratio exceeds the standards for satisfactory performance based on comparisons with the bank’s local competition.

**Lending in Assessment Area**

To evaluate the bank’s CRA lending performance within its assessment areas, a sample of one-year balloon consumer mortgage loans and fixed-rate business loans originated during the six-month period January 1, 1997 through June 30, 1997 were reviewed. Samples of 101 and 122 loans, respectively, were reviewed. The following table summarizes this review:

<b>Loans Within All Assessment Areas For Loans Made in the Period 01/01/97 - 06/30/97</b>				
<b>Loan Type</b>	<b>Total Number of Loans Sampled</b>	<b>Number of Loans Within the Assessment Area</b>	<b>Number of Loans Outside the Assessment Area</b>	<b>% of Loans Within the Assessment Area</b>
One-Year Balloon Mortgages	101	80	21	79.21
Fixed-Rate Business Loans	122	96	26	78.69
Totals	223	176	47	78.92

As the preceding chart illustrates, a substantial majority of the loans sampled were located within the bank’s assessment areas. Based on information gained from community representatives and the examination loan analysis, a significant portion of the loans made outside of the assessment areas were to individuals who own secondary residences in the assessment areas. This distribution exceeds the standards for satisfactory performance.

**Lending Analysis Based Upon Borrower Income and Size of Business**

Business and Agricultural Loans

The bank’s June 30, 1997 and June 30, 1996 Consolidated Reports of Condition, which contain additional schedules of lending to small businesses and small farms, were reviewed. Small business loans are defined as those with original amounts of \$1 million or less; small farm loans are defined as those with original amounts of \$500,000 or less. The following tables summarize this analysis:

Commercial Real Estate Loans						
	June 30, 1997			June 30, 1996		
Original Loan Amount	#	Amount (000)		#	Amount (000)	
\$100,000 or less	229	\$7,692	17.50%	186	\$6,577	19.10%
>\$100,000-\$250,000	88	\$10,718	24.38%	74	\$8,894	25.83%
>\$250,000-\$1,000,000	66	\$25,549	58.12%	62	\$16,621	48.28%
Subtotal	383	\$43,959	100.00%	322	\$32,092	93.21%
>\$1,000,000	0	0	0	N/A	\$2,337	6.79%
Total	383	\$43,959	100.00%	N/A	\$34,429	100%

N/A: not available

Commercial and Industrial Loans						
	June 30, 1997			June 30, 1996		
Original Loan Amount	#	Amount (000)		#	Amount (000)	
\$100,000 or less	583	\$9,035	29.76%	548	\$8,951	31.91%
>\$100,000-\$250,000	38	\$4,749	15.64%	36	\$4,342	15.48%
>\$250,000-\$1,000,000	31	\$16,573	54.60%	18	\$5,883	20.97%
Subtotal	652	\$30,357	100.00%	602	\$19,176	68.36%
>\$1,000,000	0	0	0	N/A	\$8,877	31.64%
Total	652	\$30,357	100.00%	N/A	\$28,053	100.00%

N/A: not available

Loans to Finance Agricultural Production and Other Loans to Farmers						
Original Loan Amount	June 30, 1997			June 30, 1996		
	#	Amount (000)		#	Amount (000)	
\$100,000 or less	149	\$4,227	100.00%	135	\$2,358	61.78%
>\$100,000-\$250,000	0	0	0	17	\$1,392	36.47%
>\$250,000-\$500,000	0	0	0	1	\$67	1.75%
Subtotal	149	\$4,227	100.00%	153	\$3,817	100.00%
>\$500,000	0	0	0	0	0	0
Total	149	\$4,227	100.00%	153	\$3,817	100.00%

As the preceding tables illustrate, the bank is meeting the needs of commercial and agricultural borrowers of all sizes, especially small businesses and farms based on the large volume of small commercial and agricultural loans originated by the bank.

Consumer Loans

Consumer single payment loans and consumer direct installment loans made during the period from January 1, 1997 through June 30, 1997, were reviewed. Because borrower income information was not consistently available, the loan amount was used as a proxy for income. The analysis is summarized in the following table:

Single-Payment Loans 01/01/97 - 06/30/97			Direct Installment Auto Loans 01/01/97 - 06/30/97		
Original Loan Amount	#	%	Original Loan Amount	#	%
\$0 - \$1,500	29	19.08%	\$0 - \$2,500	27	15.61%
\$1,501-\$2,500	14	9.21%	\$2,501-\$3,500	28	16.18%
Subtotal	43	28.29%	Subtotal	55	31.79%
>\$2,500	109	71.71%	>\$3,500	118	68.21%
Total	152	100.00%	Total	173	100.00%

Based on the median family incomes of the assessment areas ranging from \$30,290 and \$39,005, management agreed that loan amounts up to \$2,500 are typical for credit requested by low- and moderate-income families. The preceding table indicates that the bank is meeting the credit needs

of its community by originating a significant number of small consumer loans that are affordable to low- and moderate-income families. The bank's performance exceeds the standards for satisfactory performance.

**Geographic Distribution of Loans**

There are no low- or moderate-income geographies within any of the bank's assessment areas; therefore, this criterion is not rated.

**Response to Complaints**

No CRA-related complaints have been received since the bank became a member of the Federal Reserve System.