

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 **Markesan State Bank, Markesan, Wisconsin**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 27, 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

The bank's outstanding performance rating is supported by a reasonable loan-to-deposit ratio and a substantial percentage of loans originated within its assessment area. Further support is evidenced by the bank's penetration among borrowers of various income levels and businesses of different sizes within the assessment area. The bank generally promotes economic revitalization and growth, consistent with its size, financial capacity, location, and current economic conditions. These efforts are primarily accomplished through the origination of agricultural, small business, consumer, and real estate loans. There are no low- or moderate-income geographies in the bank's assessment area, and no CRA-related complaints have been received by the institution.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	MARKESAN STATE BANK'S 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 geographies within the assessment area.		
Response to Complaints	No CRA related complaints have been received since the previous examination.		

DESCRIPTION OF INSTITUTION

Markesan State Bank, with total assets of \$49.9 million as of September 30, 1996, is a subsidiary of Markesan Bancshares, Incorporated; a one bank holding company. Primarily an agricultural lender, the bank also offers a full range of deposit and loan services. Discussions with management revealed that the bank offers credit cards through Elan Financial Services of Illinois. The bank's main office is located in Markesan, Wisconsin, approximately 60 miles north of Madison, and 25 miles west of Fond Du Lac. A branch office is located in Randolph, Wisconsin, approximately 13 miles south of Markesan. The bank does not own or operate an automatic teller machine (ATM), offer an ATM card, or participate in an ATM network.

The bank's primary competitor is Farmers State Bank located in Markesan. Other competitors within the bank's assessment area include a Friesland branch office of Farmers and Merchants Union (Columbus, WI), the National Bank of Waupun (Waupun, WI), Bank One, Beaver Dam (Beaver Dam, WI), Oshkosh Savings Bank (Oshkosh, WI), a Fairwater branch office of M&I Bank of Ripon (Ripon, WI), Ripon Community Credit Union (Ripon, WI), Firststar Bank of Ripon (Fond Du Lac), Citizens Bank of Ripon (Shawano), and Baraboo Bank of Kingston (Baraboo, WI).

One-to-four family residential lending comprises the majority (28.59%) of the bank's loan portfolio. A significant portion of the bank's loan portfolio is also in farmland real estate loans (23.82%) and agricultural loans (18.58%).

DESCRIPTION OF MARKESAN STATE BANK'S ASSESSMENT AREA

The bank's assessment area includes the southern portion of Green Lake County, the southwestern portion of Fond Du Lac County, the northwestern part of Dodge County, and the northeastern part of Columbia County. The assessment area includes block numbering areas (BNAs) 9604 through 9610 in Dodge County, 9701 in Columbia County, 9804 through 9806 in Green Lake County, and 417 in Fond Du Lac County. With the exception of 9607, an upper-income BNA, all of the BNAs in the assessment area are considered middle-income tracts. According to 1990 Census data, low-income families represent 14.1% of all families in the assessment area while moderate income families represent 19.2%. The total population of the assessment area is 42,374, of which non-Hispanic Whites comprise 97.6%. The total minority population represents only 2.4% and primarily includes those of Hispanic origin. During the summer and fall, the area is home to a number of migrant workers that are seasonally employed at the local canning factories.

The median family income for the assessment area is \$31,214, compared to the non-metro state median income of \$30,290. According to the 1990 census data, the assessment area median housing age is 40 years and the median housing value is \$51,892. However, discussions with community members revealed that the current median housing values have risen to between \$60,000 and \$70,000. Owner-occupied units comprise 61.8% of the assessment area housing stock, which includes 85.9% designated as one-to-four family residences.

Agriculture and the canning industry represent significant portions of the local economy. The

major non-consumer crops produced in the area include field corn, soy beans, and hay, while the major consumer crops produced last year were sweet corn, green beans, peas, and some potatoes. The largest employers in the Markesan area include Del Monte Corporation (150 employees), the local school system (80-100 employees), Precision Metalsmiths Incorporated (75 employees), Busse Brothers (50-100 employees), and Jung Seed (125 employees). The unemployment rate for Green Lake County was 4.8% as of December 31, 1996, according to the State of Wisconsin Department of Labor; compared to 3.0% for the State of Wisconsin.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

A review of loans and denied credit applications revealed that the bank is in compliance with substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No prohibited discriminatory lending practices, or policies intended to discourage loan applicants were detected during the examination.

LOAN-TO-DEPOSIT RATIO

A six-quarter review of the bank’s loan-to-deposit ratio revealed an average loan-to-deposit ratio of 73.45%. According to the September 30, 1996 Uniform Bank Performance Report (UBPR), the bank’s current loan-to-deposit ratio is 75%, which exceeds its peer group’s of 67.70%. The following chart shows the loan-to-deposit ratios of the bank and its primary competitors as of September 30, 1996.

LOAN-TO-DEPOSIT RATIO (LTD) ANALYSIS				
Bank Name	Main office location	Competitive Location(s)	Asset Size* (\$000s)	LTD Ratio
Bank One Beaver Dam	Beaver Dam, WI	Beaver Dam, WI	\$274,783	98.65%
National Bank of Waupun	Waupun, WI	Waupun, WI	\$60,170	77.44%
Farmers and Merchants Union	Columbus, WI	Friesland	\$92,120	77.30%
Markesan State Bank	Markesan, WI	N/A	\$49,950	75.00%
Farmers State Bank	Markesan, WI	Markesan, WI Fox Lake, WI	\$65,740	74.28%

*As of September 30, 1996 according to the Federal Reserve Examination Database (FRED).

Based on the bank’s financial condition and the available lending opportunities in the assessment

area, the institution's loan-to-deposit ratio meets standards for satisfactory performance.

LENDING IN ASSESSMENT AREA

The bank's computer-generated list of consumer installment, single payment, real estate, and commercial and agricultural loans made within the six month period between July and December of 1996 were reviewed to determine the bank's level of performance in lending within its assessment area.

Loan Type	Total number in sample	Number within the assessment area	Percent of Total
Commercial*	52	37	71%
Agriculture*	109	86	79%
Single Payment	86	75	87%
Installment	55	43	78%
Real Estate	66	54	82%
Total	371	297	80%
*Commercial and Agricultural real estate loans, and Business and Agricultural lines of credit were included in the sample.			

As the chart above illustrates, approximately 80% of the loans reviewed were made within the bank's assessment area. The bank's performance in lending to borrowers within its assessment area demonstrates the bank's willingness to serve the area's credit needs and exceeds standards for satisfactory performance.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES.

A sample of consumer installment, single payment loans, and real estate loans were reviewed to assess the bank's distribution of loans to borrowers of various income levels. Because the bank does not regularly take applications or collect income information, a proxy based on loan amount was used to determine the extent of lending among the various income levels for these products. Of the 141 installment and single payment loans sampled, 41 (29%) were for amounts of \$1,000 or less, and 38 (27%) were for amounts greater than \$1,000 but not exceeding \$2,500.

The stratification of real estate purchase loans, by loan amount, was based on the relationship between the bank's debt-to-income standards (25%) and the assessment area median income. The loan amounts used for each income category approximate 2.5 times the assessment area median family incomes for low-income (less than 50% of median), moderate-income (between 50% and 80% of median), middle-income (between 80% and 120% of median), and upper-income (greater than 120% of the median). The multiple of 2.5 times, represents the approximate maximum loan amounts, considering the debt capacity standards utilized by the bank. The

following chart represents the distribution of real estate purchase loans to these income categories.

Real Estate Purchases	Low Income	Moderate Income	Middle Income	Upper Income
Maximum Loan Levels	\$39,000	\$62,428	\$93,642	Greater than \$96,642
Number of Loans	6	5	2	4
Total Loan Amount (\$000s)	\$126,479	\$220,659	\$139,855	\$560,721
Percentage of Total (# / \$)	35.29 / 12.07	29.41 / 21.06	11.76 / 13.35	23.52 / 53.52

Because the loan amounts requested for real estate refinance and home improvement loans can have little relationship to an applicant's income level, a stratification was not completed for these loan types. However, the loan amounts that were made, exhibit the bank's willingness to originate loans for low dollar amounts. The bank made 21 real estate refinance loans for an average loan amount of \$61,494, of which 10 loans were under \$50,000. Additionally, the bank made five home improvement loans for an average loan amount of \$8,257, of which two loans were under \$1,000.

An analysis of the bank's lending to small businesses and small farms was also performed to assess the bank's lending performance, by loan amount, under this criterion. The bank prepared a report detailing its business and farm loans originated during the six-month period from July 1996 to December 1996. Of the 52 commercial loans originated during this period, all were for original amounts of \$300,000 or less and the average loan amount was \$33,000. Of the 109 farm loans originated during this period, all were also for original amounts of \$300,000 or less and the average loan amount for this product was \$23,000.

The distribution of loans reflects a more than reasonable penetration to individuals of different income levels and businesses and farms of different sizes. In addition, the bank's small business and farm lending is consistent with its size, assessment area, and comments received from community representatives. The bank's performance in this category 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 CRA-related complaints were received by the bank since the previous examination.