

## **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 Farmers & Merchants Bank, Berlin, Wisconsin**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **January 13, 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 **Satisfactory**.

The Farmers & Merchants Bank serves the credit needs of its assessment area consistent with its size, financial capacity, location, and current economic conditions. The bank's loan-to-deposit ratio meets the standards for satisfactory performance, lending within the assessment area exceeds the standard for satisfactory performance, and loans are reasonably distributed among borrowers of different income levels as well as among businesses of different sizes.

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

| <b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>                                   | <b>THE FARMERS &amp; MERCHANTS BANK PERFORMANCE LEVELS</b>               |   |   |
|--|--|---|---|
|  | <b>Exceeds Standards for Satisfactory Performance</b>                    | <b>Meets Standards for Satisfactory Performance</b> | <b>Does Not Meet Standards for Satisfactory Performance</b> |
| 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 in the assessment area. |   |   |
| Response to Complaints   | No CRA-related complaints were received since the previous examination.  |   |   |

**DESCRIPTION OF INSTITUTION**

The Farmers & Merchants Bank, with total assets of \$52.6 million as of September 30, 1996, is located in Berlin, Wisconsin, approximately 100 miles northwest of Milwaukee. The bank operates a full-service main office and two offsite automatic teller machines (ATM) in Berlin. General deposit products and services, as well as installment, single payment, real estate, agricultural, and commercial loan products are offered by the bank. There are no apparent factors relating to the bank's prior performance, size and financial capacity, or local economic conditions that would prevent the bank from meeting the credit needs of its community. The bank's primary competitors are First National Bank of Berlin, Mutual Savings Bank (a branch of Milwaukee), Oshkosh Savings Bank (a branch of Oshkosh), and Citizens First Credit Union (a branch of Oshkosh). Additional competition in Berlin was created in 1996 with the opening of Evergreen State Bank, a branch of Poy Sippi.

**DESCRIPTION OF THE BANK'S ASSESSMENT AREA**

The bank has designated three census tracts and six block numbering areas (BNAs) in portions of Fond du Lac, Green Lake, Waushara, and Winnebago Counties as its assessment area. Census tracts 415 and 416 are located in Fond du Lac County and census tract 21 is located in Winnebago County, which is part of the Appleton-Oshkosh-Neenah metropolitan statistical area (MSA). Two of the six BNAs are located in Waushara County and the remaining four BNAs are located in Green Lake County, which is where the bank's office is located. There are no low- or moderate-income geographies located in the bank's assessment area.

According to the Wisconsin Department of Labor, the State of Wisconsin unemployment rate for November 1996 is 2.7%, which is a lower level when compared to 3.4% for November, 1995. The unemployment rates for the four counties of Fond du Lac, Green Lake, Waushara and Winnebago are 2.4%, 4.0%, 4.5% and 2.3%, respectively for November, 1996. These unemployment rates are also lower when compared to levels in November, 1995 of 3.3%, 5.0%, 5.4% and 2.7%, respectively.

Although a number of area residents are engaged in agriculture, the economy of Berlin is also dependent upon light industry. Local employers include: Berlin Foundry Corp. (manufacturers of gray & ductile iron castings), Berlin Memorial Hospital, and Wal-Mart, which recently opened in Berlin. Additional employment opportunities are found in the nearby communities of Oshkosh, Appleton, and Fond du Lac. The City of Berlin also has several small specialty industries that produce fur and leather products.

According to 1990 U.S. Census data, the assessment area's population is 28,015, with minority residents comprising 2.1% of the total population. There are no designated minority areas within or adjacent to the bank's assessment area. The assessment area's median family income of \$30,368 is consistent with the State of Wisconsin non-metropolitan median family income of \$30,290. Of the 7,603 families in the assessment area, 17.1% are low-income families and 19.8%

are moderate-income families. The assessment area contains 12,981 housing units, of which 61.6% are owner-occupied. Contacts in the community indicated that a need for affordable housing exists, as the larger communities of Oshkosh, Appleton and Fond du Lac expand further towards the bank’s assessment area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Management has developed adequate policies, procedures, and training programs to support 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**

A review of the bank’s Consolidated Report of Condition for the previous six quarters revealed an average loan-to-deposit (LTD) ratio of 58.88%. According to the Uniform Bank Performance Report dated September 30, 1996, the bank’s quarterly loan-to-deposit ratio of 58.15% is slightly below the bank’s peer group loan-to-deposit ratio of 63.70%.

The following chart illustrates the loan-to-deposit ratio comparison to local competitors, according to the *McFadden American Financial Directory*:

| <b>Loan-to-Deposit Ratios of Competition</b>       |                                  |                            |                              |                          |
|--|----------------------------------|----------------------------|------------------------------|--------------------------|
| <b>Bank Name and Location</b>                      | <b>Asset Size (in thousands)</b> | <b>LTD Ratio Fall 1995</b> | <b>LTD Ratio Spring 1996</b> | <b>Average LTD Ratio</b> |
| First National Bank of Berlin; Berlin              | \$63,524                         | 84.09%                     | 83.36%                       | 83.73%                   |
| Evergreen State Bank (branch of Poy Sippi); Berlin | \$53,563                         | 85.77%                     | 90.01%                       | 87.89%                   |
| Oshkosh Savings Bank (branch of Oshkosh); Berlin   | \$258,447                        | 98.51%                     | 102.20%                      | 100.36%                  |
| Mutual Savings Bank (branch of Milwaukee); Berlin  | \$1,205,965                      | 79.28%                     | 77.45%                       | 78.37%                   |
| <b>The Farmers &amp; Merchants Bank; Berlin</b>    | <b>\$52,626</b>                  | n/a                        | n/a                          | <b>58.88%</b>            |

The bank’s loan-to-deposit ratio meets the standards for satisfactory performance, considering its

size, financial condition, and the credit needs of its assessment area.

**Lending in Assessment Area**

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

| <b>LOAN TYPE</b>            | <b>TOTAL SAMPLED</b> | <b>WITHIN ASSESSMENT AREA</b> | <b>PERCENT OF TOTAL</b> |
|-----------------------------|----------------------|-------------------------------|-------------------------|
| Direct Installment          | 24                   | 18                            | 75%                     |
| Single Payment              | 21                   | 18                            | 85.71%                  |
| Real Estate                 | 10                   | 9                             | 90%                     |
| Commercial/Agricultural     | 11                   | 10                            | 90.91%                  |
| <b>Total Approved Loans</b> | <b>66</b>            | <b>55</b>                     | <b>83.33%</b>           |

The preceding chart illustrates that a substantial majority of sampled loans were originated within the bank’s assessment area. In addition, a random six-month sample of installment and real estate loan originations for the period ending November 30, 1996, was analyzed. This analysis revealed that of the 181 loans reviewed, 148 (81.77%) were within the bank’s assessment area. The bank’s performance for lending within its assessment area exceeds the standards for satisfactory performance.

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

A six-month sample of loans was analyzed to determine the distribution of loans among borrowers of different income levels. The bank does not regularly collect income information; therefore, a proxy based on loan amount was used to determine the extent of lending among the various income levels for installment loans. Of the 483 consumer installment originations reviewed, 68 (14.08%) were for \$1,000 or less, and 98 (20.29%) were for amounts greater than \$1,000 but less than or equal to \$2,500. This indicates that the bank is willing to make smaller loans in order to accommodate borrowers of various income levels. Of the 39 real estate originations reviewed, 2.56% (1) was originated to low-income individuals, 10.26% (4) were originated to moderate-income individuals, 38.46% (15) were originated to middle-income individuals, and 48.72% (19) were originated to upper-income individuals.

According to the bank’s Consolidated Report of Condition dated June 30, 1996, all of the agricultural and business loans currently in the bank’s portfolio have origination amounts of \$100,000 or less.

The bank’s loan penetration among borrowers of different incomes and businesses of different

revenue sizes meets the standards for satisfactory performance.

**Geographic Distribution of Loans**

There are no designated low- or moderate-income geographies located within the assessment area in which lending activity could be analyzed; therefore, this criterion is not rated.

**Response to Substantiated Complaints**

No CRA-related complaints were received by either the institution or the Federal Reserve Bank of Chicago since the previous examination.