

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 State Bank of Waupaca, Waupaca, Wisconsin**, prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **July 7, 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 Farmers State Bank of Waupaca serves the credit needs of its assessment area consistent with its size, financial capacity, location, and current economic conditions. The bank's efforts are evidenced through a reasonable loan-to-deposit ratio, a substantial majority of loans generated within the assessment area, and a strong performance in lending to businesses and farms of different sizes and borrowers of different income levels. There is no evidence of prohibited discriminatory lending practices or policies.

DESCRIPTION OF INSTITUTION

The Farmers State Bank of Waupaca, Waupaca, Wisconsin, with total assets of \$92 million as of March 31, 1997, is a subsidiary of Farmers State Bancorp, Inc., a one-bank holding company. The bank's main office and 24-hour automated teller machine (ATM) are located on Fulton Street in Waupaca, approximately 60 miles southwest of Green Bay. The bank also operates two branches: the Churchill Street branch in Waupaca and the Chain O=Lakes branch in the neighboring community of King. The main office is full-service, offering deposit services as well as consumer, commercial and agricultural loans. Both branches offer complete deposit services; a loan officer is available afternoons at the Chain O=Lakes branch and by appointment at the Churchill Street branch. Loan applications are available at all locations and are processed centrally at the main office. 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 the credit needs of its community.

The bank's primary competitors in Waupaca are: First National Bank; Bank One, Wisconsin (a branch of Milwaukee); Security Bank S.S.B. (a branch of Milwaukee); and Community Credit Union. Competition in the community of King consists of Baylake Bank (a branch of Sturgeon Bay).

DESCRIPTION OF ASSESSMENT AREA

The bank has designated eight middle-income block numbering areas (BNAs) as its assessment area; one BNA is located in Portage County and seven BNAs are located in Waupaca County. The assessment area encompasses the majority of smaller communities located between the cities of Appleton to the east and Stevens Point to the west.

Economic conditions in the assessment area are favorable. According to the Wisconsin Department of Labor, the State of Wisconsin unemployment rate for May, 1997 is 3.3%, which is comparable to 3.4% for May, 1996. The unemployment rates for Portage and Waupaca Counties are 4.0% and 3.2%, respectively, for May, 1997. These unemployment rates are marginally lower than May, 1996 levels of 4.2% and 3.9%, respectively. Major employers in the area include: Waupaca Foundry, Filter Materials, Transtar Trucking and a State of Wisconsin Veterans Home. Additionally, many residents commute to either Stevens Point or Appleton for employment opportunities.

According to 1990 census data, the assessment area's population is 29,967, minority residents comprise 1.5% of the total population. The assessment area's median family income of \$31,832 is slightly higher than the State of Wisconsin non-metropolitan median family income of \$30,290. Of the 7,990 families in the assessment area, 15.3% are low-income families and 18.9% are moderate-income families. The assessment area contains 13,263 housing units, of which 63.2% are owner-occupied. Community representatives indicated that expansion of the Fox Valley/Appleton area towards Waupaca has created a demand for affordable rental housing in the

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 ratio of 74.31%. According to the March 31, 1997 Uniform Bank Performance Report (UBPR), the bank’s loan-to-deposit ratio of 76.70% exceeds the peer ratio of 69.56%, consistent with previous trends.

The following chart illustrates a loan-to-deposit ratio comparison between the bank and its primary competitors, according to the Consolidated Report of Condition of each bank:

Loan-to-Deposit Ratio (LTD) Comparison								
Bank Name	Asset Size (000s) 3/97	LTD Ratio 12/95	LTD Ratio 3/96	LTD Ratio 6/96	LTD Ratio 9/96	LTD Ratio 12/96	LTD Ratio 3/97	Average LTD Ratio
First National Bank (Waupaca)	\$172,660	89.78%	89.97%	93.19%	93.16%	92.42%	97.85%	92.73%
Bank One Wisconsin (branch of Milwaukee)	\$8,894,707	144.18%	149.35%	141.58%	119.83%	109.83%	103.31%	128.01%
Security Bank SSB (branch of Milwaukee)	\$3,550,844	110.83%	110.86%	113.63%	113.93%	116.11%	116.27%	113.61%
Baylake Bank (branch of Sturgeon Bay)	\$391,502	84.08%	81.34%	83.48%	76.49%	80.41%	85.38%	81.86%
The Farmers State Bank of Waupaca	\$92,005	72.79%	73.68%	74.75%	74.22%	73.70%	76.70%	74.31%

As indicated above, the bank has maintained a relatively stable loan-to-deposit ratio throughout the review period. The bank’s loan-to-deposit ratio meets the standards for satisfactory performance, considering its size and financial condition.

LENDING IN ASSESSMENT AREA

An analysis of the bank's installment, single payment, commercial and agricultural loans originated during the six-month period ending May 30, 1997 revealed the following proportion of lending within the bank's assessment area:

LOAN TYPE	TOTAL LOANS SAMPLED	LOANS WITHIN ASSESSMENT AREA	PERCENT OF TOTAL LOANS WITHIN
Installment	497	424	85.31%
Single Payment	245	209	85.31%
Real Estate	67	55	82.09%
Commercial	80	63	78.75%
Agricultural	58	48	82.76%
Total Loans	947	799	84.37%

As the above chart illustrates, a substantial majority of the loans in the examination sample were originated 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 for the period ending May 30, 1997, 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 borrowers of different income levels for installment and single payment loans. Based upon assessment area income demographics and discussions with management, low- and moderate-income individuals would be capable of supporting a personal loan of up to \$2,500. Of the 742 consumer installment and single payment originations reviewed, 159 (21.43%) were for less than \$1,000 and 217 (29.25%) were for amounts greater than \$1,000 but less than or equal to \$2,500. This indicates that the bank makes loans to accommodate borrowers of different income levels.

Commercial and agricultural loan originations for the six-month period ending May 30, 1997, were reviewed to determine the bank's performance in lending to businesses and farms of different sizes. Small farm loans are those with original amounts of \$500,000 or less, and small business loans are those of \$1 million or less. Of the 58 agricultural originations reviewed, 55 (94.83%) were for amounts less than \$50,000 and only two (3.45%) were extended for amounts over \$250,000. Additional review of the 80 commercial originations revealed that 64 (80.00%) were for amounts less than \$50,000, 14 (17.50%) were for amounts greater than \$50,000 but less than or equal to \$150,000, and two (2.50%) were for amounts greater than \$150,000 but less than or

equal to \$250,000. A review of the bank's June 30, 1995 and June 30, 1996 consolidated reports of condition also indicated that all or substantially all of the loans outstanding were to small businesses and small farms, based on loan amount.

The bank's loan penetration among borrowers of different income levels is strong in comparison to assessment area demographic information; a strong level of lending to small businesses, small farms and individuals also exists, based on the loan amount. The bank exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

There are no 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 have been received since the previous examination.