

PUBLIC DISCLOSURE

October 28, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Farmers State Bank of Waupaca
RSSD# 879747

112 West Fulton Street
Waupaca, Wisconsin 54981

Federal Reserve Bank of Chicago

230 South LaSalle Street
Chicago, Illinois 60604-1413

NOTE: This document is an evaluation of this bank's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

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INSTITUTION'S CRA RATING

Farmers State Bank of Waupaca is rated **Satisfactory**. This rating is based on the following conclusions with respect to the performance criteria:

- The net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of loans are originated inside the AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- Lending reflects a reasonable penetration among individuals of different income levels, including low- and moderate-income (LMI), and businesses of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's (FFIEC's) Interagency Examination Procedures for Small Institutions were utilized to evaluate the bank's CRA performance. The evaluation considered CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as AA demographic and economic characteristics, and credit needs. Lending performance was assessed within the bank's non-metropolitan Wisconsin assessment area (Non-MSA WI) comprised of Waupaca and Waushara Counties. The following data was reviewed:

- **NLTD Ratio** - The bank's 18-quarter average NLTD ratio ending June 30, 2019, was calculated and compared to a sample of local competitors.
- **Lending in the Assessment Area, Geographic Distribution, and Distribution to Borrowers of Different Income Levels and to Businesses of Different Sizes** – Statistical samples of the bank's home mortgage loans and small business loans originated from January 1, 2018 through December 31, 2018 were reviewed and compared to applicable demographic data.
- **Response to Substantiated Complaints** – Neither Farmers State Bank of Waupaca, nor this Reserve Bank received any CRA-related complaints since the previous evaluation.
- **Community Contacts** – Two community representatives, one from an economic development organization and one from an affordable housing organization, were contacted to provide insight into the needs of low- and moderate-income individuals and small businesses within the assessment area.

DESCRIPTION OF INSTITUTION

Farmers State Bank of Waupaca is a community bank headquartered in Waupaca, Wisconsin. The bank’s characteristics include:

- The bank is a wholly owned subsidiary of Farmers State Bancorporation, Inc., headquartered in Waupaca, Wisconsin.
- Total assets of \$195.9 million as of June 30, 2019.
- In addition to its main office in Waupaca, the bank operates four branches located in Waupaca, Wild Rose, and Fremont, Wisconsin.
- The bank maintains four automated teller machines (ATMs); two full service and two cash-only.
- On September 30, 2019 Farmers State Bank of Waupaca closed one branch, along with one cash-only ATM, in Waupaca, Wisconsin. The closed branch is included in the total branch count mentioned above as it was open for a majority of the evaluation period.
- As of June 30, 2019 the bank’s primary business focus is residential and commercial lending, as these loans represented 45.6 and 38.9 percent of total loans, respectively.

Composition of Loan Portfolio as of June 30, 2019		
Loan Type	\$(000)	%
Agricultural	10,839	8.8
Commercial	48,094	38.9
Residential Real Estate	56,320	45.6
Consumer	8,125	6.6
Other	269	0.2
Gross Loans	123,647	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

Farmers State Bank of Waupaca was rated Satisfactory under the CRA at its February 23, 2015 performance evaluation. There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

Farmers State Bank of Waupaca assessment area is comprised of Non-MSA Wisconsin, which consists of Waupaca and Waushara Counties in their entirety. See Appendix A for an assessment area map.

- The assessment area is comprised of 19 census tracts, 17 middle-, and two upper-income census tracts. There are no low- or moderate-income geographies located in the assessment area. (See Appendix B for additional demographic information).
- The prior assessment area consisted of two moderate-income census tracts, one each from Waupaca County and Waushara County. In 2017, the census tract designation for

tract 1010.00 in Waupaca County and 9603.00 in Waushara County changed from moderate-income to middle-income while all other tract designations remained the same.

- The assessment area delineation has not changed since the prior evaluation.
- As of June 30, 2018, Farmers State Bank of Waupaca maintained market share of 14.3 percent of Federal Deposit Insurance Corporation (FDIC)-insured deposits, ranking third of 13 financial institutions in Waupaca and Waushara Counties. By comparison, the top two institutions by market share were Bank First National (21.5 percent) and First State Bank (18.2 percent).
- Two community representatives were contacted in connection with this evaluation to provide information regarding local economic and socio-economic conditions in the assessment area. Organizations representing economic development and affordable housing were contacted.

Population Change			
Area	2010 Population	2015 Population	Percent Change
Assessment Area	76,906	76,446	-0.6
Waupaca County	52,410	52,125	-0.5
Waushara County	24,496	24,321	-0.7
State of Wisconsin	5,686,986	5,742,117	1.0

Source: 2010 U.S. Census Bureau Decennial Census 2011 - 2015 U.S. Census Bureau: American Community Survey

- The population in both counties decreased, while the State of Wisconsin increased by approximately one percent. A community representative indicated that the slight decrease in population is attributed to families moving to larger, neighboring cities for employment opportunities.

Median Family Income Change			
Area	2010 Median Family Income (\$)	2015 Median Family Income (\$)	Percent Change
Assessment Area	55,474	61,236	10.3
Waupaca County	58,613	63,490	8.3
Waushara County	50,189	56,675	12.9
State of Wisconsin	64,869	68,064	4.9

Source: 2006-2010 U.S. Census Bureau: American Community Survey 2011-2015 U.S. Census Bureau: American Community Survey

- According to the 2011-2015 Census Bureau data, both Waupaca and Waushara Counties exceeded the State of Wisconsin in percentage of median family income growth. Between 2010 and 2015, Waushara County exhibited the largest increase in median family income at 12.9 percent. Although the percent change was the highest in Waushara County, it is the county with the lowest median family income by dollar.
- A community representative indicated that median family income has not increased as rapidly as prices for consumer goods and homes. However, the local economy remains

strong, with a variety of employment options for local residents, resulting in a tighter labor market.

Housing Costs Change						
Area	Median Housing Value (\$)		Percent Change	Median Gross Rent (\$)		Percent Change
	2010	2015		2010	2015	
Assessment Area	136,903	137,269	0.2	613	666	8.6
Waupaca County	137,100	137,300	0.1	617	668	8.3
Waushara County	136,600	137,300	0.5	594	660	11.1
State of Wisconsin	169,000	165,800	-1.9	713	776	8.8

*Source: 2006-2010 U.S. Census Bureau: American Community Survey
2011-2015 U.S. Census Bureau: American Community Survey*

- According to the 2011-2015 ACS data, median housing values in the assessment area have experienced a minimal increase of 0.2 percent to \$137,269. During the same time, the State of Wisconsin’s median housing value decreased by 1.9 percent to \$165,800.
- In comparison, the assessment area had a greater increase in gross rents by 8.6 percent to \$666. This increase is comparable to the 8.8 percent exhibited in the State of Wisconsin; however, the assessment area’s median gross rent is substantially lower than the \$776 average for the State of Wisconsin.
- A community representative indicated that there is a shortage of available homes ranging from \$70,000 to \$100,000 in value, driving prices up for residences typically purchased by low- and moderate-income buyers.
- Additionally, a community representative attributed an increase in gross rents to developers purchasing single-family homes and renting them out at higher rates based upon the demand. This has caused rents in both counties to increase over time.

Unemployment Rates (%)					
Region	2013	2014	2015	2016	2017
Waupaca County	7.2	5.8	4.7	4.1	3.2
Waushara County	8.1	7.2	6.3	5.2	4.0
State of Wisconsin	6.7	5.5	4.6	4.1	3.3

Source: Bureau of Labor Statistics: Local Area Unemployment Statistics

- As of 2017, the unemployment rates in both counties have decreased consistently. Waupaca County has remained consistent with the state, while Waushara County has remained higher.
- The assessment area’s major employers are largely comprised of manufacturing, healthcare, and wholesale food service. Waupaca Foundry, Incorporated employs a large number of individuals in the assessment area. Major employers include the Waupaca Foundry, Incorporated; Sturm Foods, Incorporated; Wisconsin Veterans Home King; and Creative Converting.
- A community representative indicated declining unemployment rates in Waupaca County are attributed to a vast amount of manufacturing jobs in the area. Waupaca

Foundry, Incorporated provides a large number of those jobs. A representative indicated the Waushara County unemployment rate is higher given employment opportunities are reliant on agricultural and tourism jobs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Net Loan-to-Deposit (NLTD) Ratio

This performance criterion evaluates Farmers State Bank of Waupaca’s average NLTD ratio to determine the reasonableness of lending in light of performance context, such as the bank’s capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the assessment area, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on the area in which they are located, operating with Waupaca County and Waushara County. The bank’s 18-quarter average NLTD ratio is reasonable when compared to local competitors given the bank’s size, financial condition, and assessment area credit needs.

Comparative NLTD Ratios			
Institution	Location	Asset Size (\$000s)	NLTD Ratio (%)
			18 - Quarter Average
Farmers State Bank of Waupaca	Waupaca, Wisconsin	195,901	68.5
Portage City Bank	Almond, Wisconsin	157,719	72.0
Hometown Bank	Fond Du Lac, Wisconsin	475,771	97.5
Bank First National	Manitowoc, Wisconsin	1,804,656	92.4
Old National Bank	Evansville, Indiana	20,038,736	83.6
First State Bank	New London, Wisconsin	305,729	54.5
Premier Community Bank	Marion, Wisconsin	315,055	74.3

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the assessment area. A majority of the bank’s loans, by number and dollar, are originated inside the assessment area. Of the 175 loans originated during the evaluation period, 80.3 percent by volume and 76.3 percent by dollar were made in the assessment area.

Lending Inside and Outside the AA								
Loan Type	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Home Mortgage Loans	87	8,815	80.6	74.4	21	3,027	19.4	25.6
Small Business Loans	88	5,110	80.0	79.7	22	1,303	20.0	20.3
Total Loans	175	13,925	80.3	76.3	43	4,330	19.7	23.7

Note: Percentages may not add to 100.0 percent due to rounding.

Geographic Distribution of Loans

This performance criterion evaluates the bank’s distribution of lending within its assessment area by income level of census tracts. Farmers State Bank of Waupaca’s geographic distribution of loans reflects reasonable dispersion throughout the assessment area. A gap analysis was completed as part of the evaluation. As previously discussed, Farmers State Bank of Waupaca’s Non-MSA assessment area consists of 19 census tracts, 17 middle-, and two upper-income census tracts. Overall, the bank originated no loans within three of the 19 census tracts (15.8 percent) within this assessment area. Considering the evaluation period, and the bank’s size and complexity, lending penetration throughout the assessment area is reasonable.

As the assessment area is comprised of middle- and upper-income census tracts; the analysis of the performance criterion was limited and received less weighting than other criterion of the lending test.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

This performance criterion evaluates Farmers State Bank of Waupaca’s lending to borrowers of different income levels and businesses of different revenue sizes. The bank’s lending has a reasonable penetration among individuals of different income levels and businesses of different sizes.

Home Mortgage Lending

The borrower distribution of home mortgage lending is reasonable. Farmers State Bank of Waupaca’s home mortgage lending to low-income borrowers was 16.1 percent, which was comparable to the 17.5 percent of the families within the assessment area that are classified as low-income. The bank’s lending to moderate-income borrowers was 26.4 percent and exceeds the 19.8 percent of the families within the assessment area that are classified as moderate-income.

Distribution of 2018 Home Mortgage Lending By Borrower Income Level					
Borrower Income Level	Bank Loans				Families by Family Income %
	#	\$(000)	#%	\$%	
Low	14	873	16.1	9.9	17.5
Moderate	23	1,636	26.4	18.6	19.8
Middle	24	1,909	27.6	21.7	23.2
Upper	26	4,397	29.9	49.9	39.5
Unknown	0	0	0.0	0.0	0.0
Total Loans	87	8,815	100.0	100.00	100.0

*Source: 2018 FFIEC Census data
2011 – 2015 U.S. Census Bureau: American Community Survey
NOTE: Percentages may not add up to 100.0 due to rounding.*

Small Business Lending

The distribution of small business loans reflects reasonable penetration among businesses of different revenue sizes. Farmers State Bank of Waupaca originated 80.7 percent of its commercial loans to businesses with gross annual revenues of \$1.0 million or less. Of those small business loans, 90.1 percent were in an amount equal to or less than \$100,000, which is considered most beneficial to small businesses.

A community representative noted that community banks in the assessment area are sufficiently meeting the lending needs of small business; however, there have been a decrease of small businesses in the assessment area. There is a need for more entrepreneurs to stimulate the local economy.

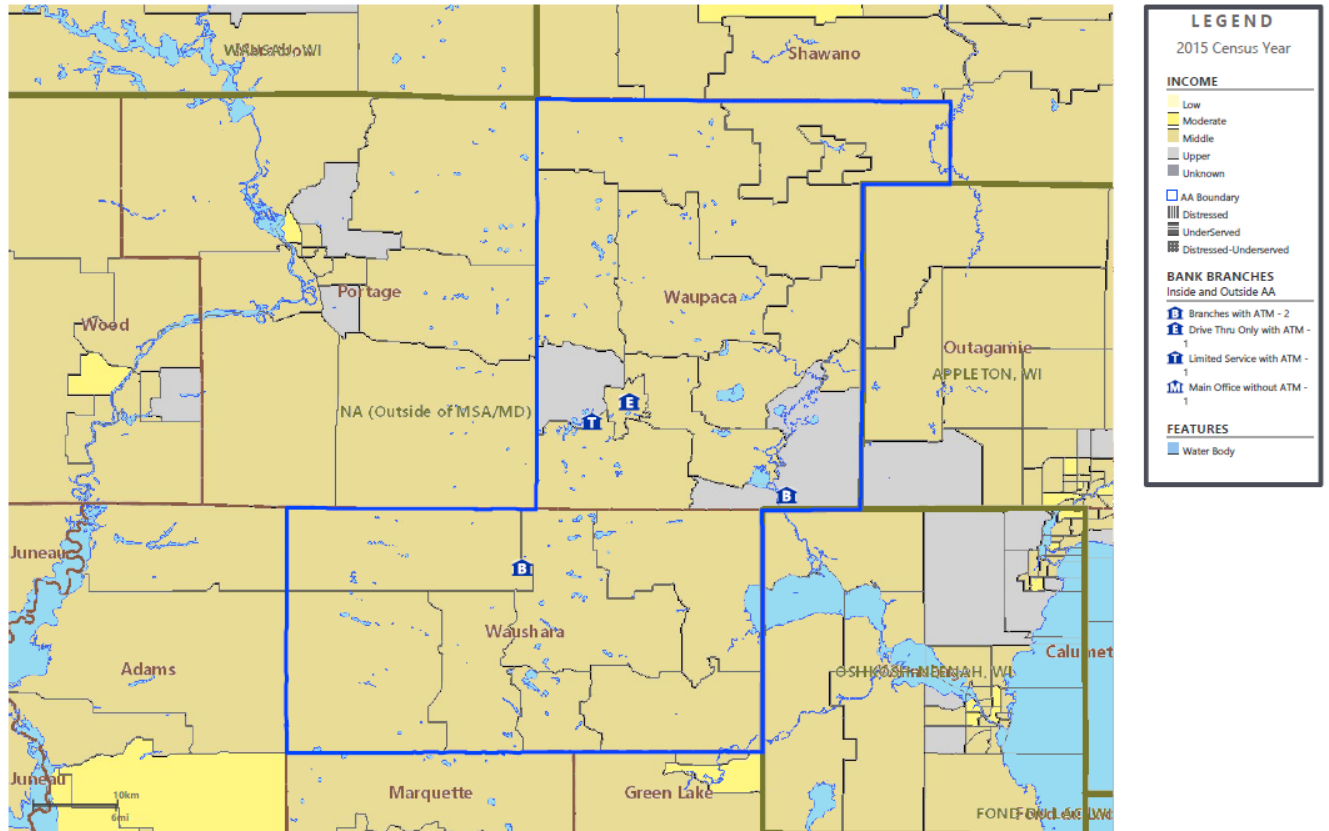
Distribution of 2018 Small Business Lending By Revenue Size of Businesses					
	Bank Loans				Total Businesses
	#	\$(000)	#%	\$%	%
By Revenue					
\$1 Million or Less	71	3,259	80.7	63.8	90.4
Over \$1 Million	17	1,851	19.3	36.2	9.6
Not Known	0	0	0	0	0.0
Total	88	5,110	100.0	100.0	100.0
By Loan Size					
\$100,000 or less	76	2,458	86.4	48.1	
\$100,001 - \$250,000	10	1,778	11.4	34.8	
\$250,001 - \$1 Million	2	874	2.3	17.1	
Total	88	5,110	100.00	100.00	
By Loan Size and Revenue \$1 Million or Less					
\$100,000 or less	64	2,032	90.1	62.4	
\$100,001 - \$250,000	7	1,227	9.9	37.6	
\$250,001 - \$1 Million	0	0	0.0	0.0	
Total	71	3,259	100.0	100.0	
<i>Source: 2018 FFIEC Census Data 2018 Dun & Bradstreet data 2011 – 2015 U.S. Census Bureau: American Community Survey NOTE: Percentages may not add up to 100.0 due to rounding.</i>					

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

An evaluation of the bank’s fair lending activities was conducted during the examination to determine compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – MAP OF THE ASSESSMENT AREA

The Farmers State Bank of Waupaca 879747
WI Non MSA



APPENDIX B – DEMOGRAPHIC INFORMATION

WISCONSIN NON MSA AA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	3,584	17.5
Moderate	0	0.0	0	0.0	0	0.0	4,051	19.8
Middle	17	89.5	18,331	89.5	1,268	6.9	4,748	23.2
Upper	2	10.5	2,152	10.5	84	3.9	8,100	39.5
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	19	100.0	20,483	100.0	1,352	6.6	20,483	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	36,541	21,454	89.2	58.7	6,528	17.9	8,559	23.4
Upper	3,835	2,587	10.8	67.5	652	17.0	596	15.5
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	40,376	24,041	100.0	59.5	7,180	17.8	9,155	22.7
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	2,581	91.8	2,321	91.3	203	97.6	57	93.4
Upper	231	8.2	222	8.7	5	2.4	4	6.6
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	2,812	100.0	2,543	100.0	208	100.0	61	100.0
Percentage of Total Businesses:			90.4		7.4		2.2	
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	262	92.3	241	92.0	16	100.0	5	83.3
Upper	22	7.7	21	8.0	0	0.0	1	16.7
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	284	100.0	262	100.0	16	100.0	6	100.0
Percentage of Total Farms:			92.3		5.6		2.1	
Source: 2018 FFIEC Census Data 2018 Dun & Bradstreet data 2011 – 2015 U.S. Census Bureau: American Community Survey NOTE: Percentages may not add up to 100.0 due to rounding.								

APPENDIX C – GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of

applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Reports of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.