

PUBLIC DISCLOSURE

April 8, 2024

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.

TABLE OF CONTENTS

SCOPE OF EXAMINATION 2

DESCRIPTION OF INSTITUTION..... 3

DESCRIPTION OF ASSESSMENT AREA 4

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA 11

LENDING TEST 11

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW 16

APPENDIX A – MAP OF ASSESSMENT AREA..... 17

APPENDIX B – SCOPE OF EXAMINATION 18

APPENDIX C – GLOSSARY 19

BANK'S CRA RATING

Farmers State Bank of Waupaca is rated Satisfactory.

Farmers State Bank of Waupaca is meeting the credit needs of its assessment area based on an analysis of the bank's lending activities. The bank's loan-to-deposit ratio is reasonable, given the bank's asset size, financial condition, and assessment area credit needs. A majority of the bank's loans are originated in the assessment area. The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The bank's loan distribution reflects excellent penetration among individuals of different income levels, including low- and moderate-income, and businesses of different sizes. Neither Farmers State Bank of Waupaca nor this Reserve Bank has received any Community Reinvestment Act (CRA)-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

Farmers State Bank of Waupaca's CRA performance was evaluated using the Small Institution Examination Procedures issued by the Federal Financial Institutions Examination Council (FFIEC). Performance was evaluated in the context of information about the institution and its assessment area, including the bank's asset size, financial condition, competition, and assessment area economic and demographic characteristics.

The performance evaluation was conducted for the bank's single assessment area, which consists of non-metropolitan Waupaca and Waushara Counties in their entirety. Loans used for this evaluation consisted of a sample of residential real estate and small business loans originated from January 1, 2023, through December 31, 2023.

Performance in the assessment area was evaluated using the streamlined assessment method for small banks based on the following performance criteria:

- ***Loan-to-Deposit Ratio*** – An 18-quarter average loan-to-deposit ratio ending December 31, 2023, was calculated for the bank, and compared to a sample of local competitors.
- ***Lending in the Assessment Area*** – A sample of the bank's residential real estate and small business loans originated from January 1, 2023, through December 31, 2023, were reviewed to determine the percentage of loans originated within the assessment area.
- ***Geographic Distribution of Lending in the Assessment Area*** – A sample of the bank's residential real estate and small business loans originated within the assessment area from January 1, 2023, through December 31, 2023, were analyzed to determine the extent to which the bank is making loans in geographies of different income levels, particularly those designated as low- and moderate- income.

- ***Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes*** – A sample of the bank’s residential real estate loans and small business loans originated from January 1, 2023, through December 31, 2023, were reviewed to determine the distribution among borrowers of different income levels, particularly those considered low- or moderate-income, and to businesses with different revenue sizes.
- ***Response to Substantiated Complaints*** – Complaints were reviewed to determine if any were related to the bank’s record of helping to meet community credit needs and its responses to any received were evaluated for appropriateness.

In addition, two community representatives were contacted in connection with this evaluation to provide information regarding local economic and socio-economic conditions in the assessment area. The following types of organizations were contacted: economic development and housing organizations.

DESCRIPTION OF INSTITUTION

Farmers State Bank of Waupaca is a wholly owned subsidiary of Farmers State Bancorporation, Inc., a one-bank holding company headquartered in Waupaca, Wisconsin. The bank maintains a total of four offices. The bank’s main office and a drive thru branch are located in a middle-income census tract in Waupaca, Wisconsin; the drive thru has a full-service automated teller machine (ATM), while the main office has no ATM. There is an additional branch located in a middle-income census tract with a full-service ATM in Wild Rose, Wisconsin, and one additional branch and a cash-only ATM in an upper-income census tract in Fremont, Wisconsin. The bank has not opened or closed any branches or ATMs since the previous evaluation.

As of December 31, 2023, the bank reported \$253.2 million in total assets. The bank serves its assessment area primarily as a residential real estate and commercial lender, with residential real estate and commercial loans comprising 51.7 percent and 36.8 percent of the bank’s portfolio by dollar volume, respectively. Loan products include, but are not limited to, agricultural, commercial (including Small Business Administration), consumer loans, and residential real estate loans. The bank also offers electronic banking products on its website, at www.fsbwaupaca.com. Details of the allocation of the bank’s loan portfolio are provided in the following table:

Composition of Loan Portfolio as of December 31, 2023		
Loan Type	Dollar Volume (\$ are in 000s)	% of Portfolio
Residential Real Estate	78,587	51.7
Commercial	55,965	36.8
Consumer - Closed End	7,379	4.9
Consumer - Open End	5,789	3.8
Agricultural	3,893	2.6
Other Loans	503	0.3
Total	152,116	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

According to the June 30, 2023, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, Farmers State Bank of Waupaca ranked fourth out of 10 FDIC-insured institutions within the assessment area. The bank’s market share represented 14.9 percent of the total deposit market share in Waupaca and Waushara Counties. Comparatively, Bank First National Association, First State Bank, and Premier Community Bank had the highest market shares within the assessment area, at 24.5, 19.4, and 16.6 percent of the market, respectively.

There are no known legal, financial, or other factors impeding the bank’s ability to help meet the credit needs in its communities.

The bank was rated satisfactory under the CRA at its previous evaluation conducted on October 28, 2019.

DESCRIPTION OF ASSESSMENT AREA¹

Farmers State Bank of Waupaca’s assessment area consists of nonmetropolitan Waupaca and Waushara Counties in their entirety. The assessment area contains 20 census tracts and includes no low-income tracts, two moderate-income, 17 middle-income, and one upper-income census tract. No middle-income census tracts are categorized as underserved or distressed by the FFIEC. The assessment area’s footprint has not changed since the previous evaluation. However, there have been changes to census tract income level designations and census tract delineation changes that resulted in an increase in the number of census tracts. These changes are due to the 2020 U.S. Census which resulted in one additional tract in Waushara County and the five-year period of American Community Survey (ACS) data used to determine family and individual income levels, and therefore income levels of census tracts. These changes resulted in each county having a middle-income census tract shift to a moderate-income tract.

¹ Census tract designations are based on American Community Survey income data. For years 2022 and after, the designations are based on 2016-2020 American Community Survey data. For years 2021 and before, the designations are based on 2011-2015 American Community Survey data. For examinations that include performance before and after 2022, both sets of data have been used to perform the analysis of bank activity in the respective timeframes.

The median family income levels for census tracts are calculated using the income data from the United States Census Bureau's ACS and geographic definitions from the Office of Management and Budget and are updated approximately every five years. As a result, Farmers State Bank of Waupaca's CRA performance evaluation for 2023 lending data utilizes the median family income data set in the 2016-2020 data.

The following table presents a summary of the assessment area's tract distribution at the bank's current and previous evaluations.

Census Tract Designation Change			
Tract Income Designation	2019 Performance Evaluation (#)	2023 Performance Evaluation (#)	Net Change (#)
Low	0	0	0
Moderate	0	2	2
Middle	17	17	0
Upper	2	1	-1
Unknown	0	0	0
Total	19	20	1
<i>Source: U. S. Census Bureau: Decennial Census: American Community Survey Data: 2011-2015 U.S. Census Bureau: Decennial Census: America Community Survey Data: 2016-2020</i>			

The bank's moderate-income census tracts are home to 2,493 families, representing 11.8 percent of all families in the assessment area. A total of 40,992 total housing units are located in the assessment area, of which 4,562 (11.1 percent) are located in moderate-income census tracts. Within the moderate-income census tracts 10.8 percent are owner-occupied. This indicates there are sufficient opportunities for home ownership within these tracts.

A total of 2,807 businesses are located in the assessment area, of which 383 (13.6 percent) are in moderate-income census tracts. Businesses with gross annual revenues less than \$1 million represent 90.7 percent of total businesses.

Additional assessment area demographic information is presented in the following table.

2023 WI 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	3,754	17.7
Moderate	2	10.0	2,493	11.8	295	11.8	4,361	20.6
Middle	17	85.0	17,246	81.5	1,055	6.1	4,779	22.6
Upper	1	5.0	1,416	6.7	45	3.2	8,261	39.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	20	100.0	21,155	100.0	1,395	6.6	21,155	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	4,562	2,683	10.8	58.8	1,445	31.7	434	9.5
Middle	34,172	20,372	82.0	59.6	6,057	17.7	7,743	22.7
Upper	2,258	1,798	7.2	79.6	184	8.1	276	12.2
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	40,992	24,853	100.0	60.6	7,686	18.8	8,453	20.6
	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	383	13.6	340	13.4	35	19.0	8	10.4
Middle	2,283	81.3	2,072	81.4	145	78.8	66	85.7
Upper	141	5.0	134	5.3	4	2.2	3	3.9
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	2,807	100.0	2,546	100.0	184	100.0	77	100.0
Percentage of Total Businesses:				90.7		6.6		2.7
	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	15	5.7	15	6.0	0	0.0	0	0.0
Middle	237	89.8	221	89.1	15	100.0	1	100.0
Upper	12	4.5	12	4.8	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	264	100.0	248	100.0	15	100.0	1	100.0
Percentage of Total Farms:				93.9		5.7		0.4
Source: 2023 FFIEC Census Data 2023 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey Note: Percentages may not total 100.0 percent due to rounding.								

Population Characteristics

The following table presents the population trends for the assessment area, the counties that comprise the assessment area, the entire Non-MSA Wisconsin, and the state of Wisconsin from 2015 to 2020. Waupaca County contains 67.9 percent of the assessment area’s population of 76,332, while Waushara County comprises 32.1 percent of the assessment area’s population. The slight population decline in the assessment area of 0.1 percent is due to population loss in Waupaca County (0.6 percent) while Waushara County experienced minimal growth (0.8 percent). The assessment area’s total population declined slightly compared to the entire Non-MSA Wisconsin which experienced a 1.8 percent increase in population. The state of Wisconsin experienced a 2.6 percent increase in population over the same period.

A community representative attributes the assessment area’s lack of population growth to its location between Outagamie and Portage Counties, which include the population centers of Appleton and Stevens Point, Wisconsin, respectively. These cities are job and population hubs that are building higher cost housing and have more affordable housing opportunities. A representative noted that lack of population growth is due to the area being a vacation destination, where a significant portion of the population are only residents in the summer months. Efforts are being made to meet these challenges by emphasizing housing development and tourism that can lead to permanent residency and population growth over the next few years.

Population Change			
Area	2015 Population	2020 Population	Percent Change (%)
Assessment Area	76,446	76,332	-0.1
Waupaca County	52,125	51,812	-0.6
Waushara County	24,321	24,520	0.8
Non-MSA Wisconsin	1,476,482	1,503,031	1.8
State of Wisconsin	5,742,117	5,893,718	2.6
<i>Source: 2011-2015 U.S. Census Bureau American Community Survey 2020 U.S. Census Bureau Decennial Census</i>			

Income Characteristics

According to the U.S. Census Bureau, the assessment area is comprised of 21,155 families of which 17.7 percent are designated as low-income, 20.6 percent are moderate-income, 22.6 percent are middle-income, and 39.0 percent are upper-income. Further, 6.6 percent of families residing within the assessment area live below the poverty line, which is comparable to the state of Wisconsin’s poverty rate of 6.8 percent.

The following table compares the median family income (MFI) for the assessment area, the counties that makeup the assessment area, the entire Non-MSA Wisconsin, and the state of Wisconsin. According to the 2015-2020 ACS, the 2020 MFI for the assessment area is \$70,662,

representing an increase of 5.6 percent from the 2015 income level. This MFI is lower than the average of the entire Non-MSA Wisconsin of \$71,740, particularly in Waushara County. Waushara County experienced a greater increase in MFI (8.3 percent) in comparison to Waupaca County (5.2 percent). The entire Non-MSA Wisconsin experienced an 8.1 percent increase in MFI comparable to the state of Wisconsin’s MFI increase of 8.7 percent.

A community representative indicated that the rise in MFI in the Waupaca area is due to local manufacturers needing to increase wages to attract and retain employees. In addition, significant numbers of assessment area residents commute outside of their respective counties to work, with the state of Wisconsin’s 2023 Workforce Profiles for the assessment area counties indicating that 37.0 percent of Waupaca residents and 51.3 percent of Waushara residents work outside of their respective counties, compared to 28.0 percent for Wisconsin residents on average. This corresponds with community representatives’ statements that many residents commute outside of Waupaca and Waushara Counties in pursuit of higher wages. A community representative also indicated that opportunities for wage growth within the counties are supported by employers’ internal training programs, and through manufacturing training opportunities at the local technical college.

Median Family Income Change			
Area	2015 Median Family Income (\$)	2020 Median Family Income (\$)	Percent Change (%)
Assessment Area	66,906	70,662	5.6
Waupaca County	69,368	72,999	5.2
Waushara County	61,922	67,038	8.3
Non-MSA Wisconsin	66,365	71,740	8.1
State of Wisconsin	74,365	80,844	8.7
<i>Source: 2011 - 2015 U.S. Census Bureau American Community Survey 2016 - 2020 U.S. Census Bureau American Community Survey Median Family Incomes have been inflation-adjusted and are expressed in 2020 dollars.</i>			

Housing Characteristics

The bank’s assessment area includes 40,992 housing units. The majority of housing units are owner occupied at 60.6 percent, whereas rental units account for 18.8 percent of total units. There are also 20.6 percent units that are vacant within the assessment area. A community representative noted the assessment area is a vacation destination, with a significant level of the population only being summertime residents; the U.S. Census includes homes intended for year-round use whose sole occupants are persons who usually live elsewhere as a vacant home.

The following table presents housing cost burden for owners and renters within the assessment area, the counties that make up the assessment area, the entire Non-MSA Wisconsin, and the state of Wisconsin. The cost burden is a measure of affordability via a comparative analysis of individuals of different income levels that spend 30.0 percent or more of their income on housing

costs. As evidenced by the following table, low-income individuals are generally impacted at a higher rate than moderate-income individuals as both renters and owners. Low-income renters and low-income owners have a significant housing cost burden, with 70.3 percent and 62.1 percent, respectively. Fewer moderate-income renters are housing cost burdened in the assessment area at only 14.2 percent. Those in owner-occupied housing have a higher cost burden than moderate-income renters, at 28.5 percent, which is aligned with the percentage of homeowners that meet the cost burden criteria across the state of Wisconsin. Based on 2023 FFIEC data, median housing values and rents in the assessment area are \$152,389 and \$709, respectively. Waupaca County’s median housing value and median gross rents of \$154,000 and \$713, respectively, exceed Waushara County’s housing and rental costs of \$149,300 and \$690, respectively.

Community representatives indicated that the biggest challenge with housing is the lack of affordability and availability. There is a lack of adequate multifamily and single-family housing, regardless of income levels, for both owner-occupied and rental units. The community representatives also stated that there is some income capped housing available in the assessment area, and that there are market rate and some affordable housing projects happening in several communities that may free up older housing for low- and moderate-income individuals as older residents downsize.

Housing Cost Burden						
Area	Cost Burden – Renters			Cost Burden – Owners		
	Low Income	Moderate Income	All Renters	Low Income	Moderate Income	All Owners
Assessment Area	70.3	14.2	32.9	62.1	28.5	17.9
Waupaca County	73.8	15.5	33.2	61.0	31.0	16.8
Waushara County	61.1	9.4	32.1	63.8	23.9	20.1
Non-MSA Wisconsin	66.4	19.1	34.0	60.0	26.0	18.2
State of Wisconsin	74.5	21.7	39.0	63.9	28.2	17.6
<i>Cost Burden is housing cost that equals 30 percent or more of household income</i>						
<i>Source: U.S. Department of Housing and Urban Development (HUD), 2016-2020 Comprehensive Housing Affordability Strategy</i>						

Employment Conditions

The following table presents the unemployment trends for the assessment area, individual counties that makeup the assessment area, the entire Non-MSA Wisconsin, and the state of Wisconsin. Unemployment trends across all areas remained stable until 2020, when overall rates increased due to the COVID-19 pandemic. Following the pandemic, the 2022 unemployment rates for each area decreased to pre-pandemic levels, with Waupaca and Waushara County seeing a decrease in the unemployment rate to 3.0 and 3.4 percent, respectively. This decrease is consistent with the rates of Non-MSA Wisconsin, and the state of Wisconsin at 3.1 percent and 2.9 percent, respectively.

A community representative stated that although there has been no significant loss of employment in the area, a business recently relocated resulting in the loss of approximately 50 jobs at that time. Further, other employers have implemented a hiring freeze due to supply chain issues but did not conduct layoffs. A community representative also indicated that the workforce is experiencing an increase in retirement which is creating a shortage of skilled laborers and entry-level workers. Local businesses are having difficulties filling positions, including restaurants and small businesses in tourism-oriented communities. However, as noted by a community representative, a ride-share initiative for Waupaca County residents and workers provides transportation for employees that would otherwise experience transportation barriers; this program has benefited both assessment area residents and employers.

Unemployment Rates (%)					
Area	2018	2019	2020	2021	2022
Assessment Area	3.1	3.3	5.8	3.8	3.1
Waupaca County	2.9	3.1	5.6	3.6	3.0
Waushara County	3.5	3.9	6.4	4.3	3.4
Non-MSA Wisconsin	3.2	3.4	6.4	3.9	3.1
State of Wisconsin	3.0	3.2	6.4	3.8	2.9

Source: Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

Industry Conditions

According to the U.S. Bureau of Labor Statistics, the assessment area contains a diverse employment base and is most heavily impacted by the following industries: manufacturing, retail trade, healthcare and social assistance, and accommodation and food services. A community representative discussed the heavy presence of the agricultural and manufacturing industries in the area. The agricultural jobs include seasonal employment. Manufacturing jobs in the assessment area complement the farming jobs, but also include a significant amount of more diverse manufacturers, such as a foundry in Waupaca County and a company specializing in human and animal nutrition, among other things.

Community Representatives

Two community representatives were contacted during the evaluation to provide information regarding local economic and demographic conditions and affordable housing efforts within the assessment area. The representatives provided information on housing, employment, and economic development needs within the assessment area. Each representative stated that there are challenges within their respective areas in which local financial institutions can assist. Community representatives stated the most significant needs of the assessment area are housing across income levels, the support of small businesses including for leadership and business-related financial training and basic financial literacy, including for first-time homebuyers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Farmers State Bank of Waupaca’s performance relative to the lending test is Satisfactory. Overall, the bank is meeting the credit needs of its assessment area based on an analysis of the bank’s lending activities. The loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and assessment area needs. A majority of loans were originated in the delineated assessment area. The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area and the distribution reflects excellent penetration among individuals of different income levels, including low- and moderate-income, and businesses of different sizes. Small business loans are weighted more heavily than residential real estate loans since they comprised 59.4 percent of the sample of loans originated within the assessment area. Neither Farmers State Bank of Waupaca nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

Loan-to-Deposit Ratio

Farmers State Bank of Waupaca’s LTD ratio is considered reasonable given the bank's size, financial condition, and credit needs of its assessment area. As of December 31, 2023, the bank’s 18-quarter average LTD ratio was 65.4 percent, which was below the peer average of local competitors (72.0 percent). However, this ratio represents only a slight decrease since the previous evaluation, where the bank’s LTD ratio was 68.5 percent. Bank management stated the area is host to various competitors; making it difficult to serve areas without physical branch locations. As previously mentioned, the top three institutions in the assessment area collectively hold 60.5 percent of the market share for deposits, which supports the conclusion that the bank operates in a highly competitive market. The following table compares the bank’s LTD ratio to its local competitors. Similarly situated competitors were selected based on their asset size, branching locations, and market share within the bank's assessment area.

Comparative Loan-to-Deposit Ratios as of December 31, 2023	
Institution	Loan-to-Deposit Ratio (%)
	18 – Quarter Average
Farmers State Bank of Waupaca	65.4
Local Competitor Average	72.0
Competitors	
Wolf River Community Bank	81.5
Premier Community Bank	71.1
Portage City Bank	67.9
First State Bank	67.3

Assessment Area Concentration

Farmers State Bank of Waupaca originated a majority of its loans and other lending-related activities in the bank’s assessment area. During the evaluation period, the bank originated 80.8 percent of the bank’s loans by number and 73.1 percent by dollar amount inside the assessment area. Residential real estate and small business lending patterns were relatively similar, with loans by number in the assessment area at 83.7 percent and 78.9 percent, respectively. When evaluating loans by dollar amount, 71.9 percent of residential real estate loans and 74.1 percent of small business were originated within the assessment area. Overall, the percentage of residential real estate and small business loans originated within the assessment area indicates the bank is actively serving the credit needs of the local community.

The following table summarizes the bank’s lending inside and outside its assessment area through a sample of residential real estate and small business loans originated from January 1, 2023, through December 31, 2023.

Lending Inside and Outside the Assessment Area								
Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Residential Real Estate	41	83.7	6,052	71.9	8	16.3	2,365	28.1
Small Business	60	78.9	6,921	74.1	16	21.1	2,417	25.9
Total Loans	101	80.8	12,973	73.1	24	19.2	4,782	26.9

Geographic Distribution of Loans

Farmers State Bank of Waupaca demonstrates reasonable geographic distribution of loans given the bank’s assessment area. An analysis of the geographic distribution of samples of residential real estate and small business loans was conducted to determine the dispersion of loans among the census tract designations within the assessment area, particularly moderate-income census tracts, given the bank’s assessment area does not include low-income census tracts. Although there was no lending in the bank’s Waupaca County moderate-income census tract, the bank’s absence of a physical presence and competition from banks in the area make it difficult for the bank to penetrate the lending market in that area. As a result, the bank’s residential real estate and small business loan comparisons for lending in moderate-income census tracts are lower than the respective demographic measures, although still reasonable.

Residential Real Estate Lending

The geographic distribution of residential real estate loans reflects reasonable dispersion of lending throughout the assessment area. During the review period, 4.9 percent of residential real estate loans were originated within the bank’s moderate-income census tracts, which was below the 10.8

percent of owner-occupied housing units located in moderate-income census tracts. The majority (87.8 percent) of the bank’s residential real estate loans were originated in middle-income census tracts, which is slightly greater than the percentage of owner-occupied units (82.0 percent) in the assessment area. Finally, the bank originated 7.3 percent of residential real estate loans in upper-income census tracts, which is comparable to the owner-occupied units (7.2 percent) located in upper-income census tracts.

The following table summarizes the bank’s 2023 residential real estate lending by income level of the geographies within the assessment area.

Distribution of 2023 Residential Lending By Income Level of Geography					
Assessment Area: WI Non MSA					
Geographic Income Level	Bank Loans				Owner Occupied Units %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	2	4.9	348	5.8	10.8
Middle	36	87.8	5,501	90.9	82.0
Upper	3	7.3	203	3.4	7.2
Unknown	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0	0.0	
Total	41	100.0	6,052	100.0	100.0

Source: 2023 FFIEC Census Data
 2016-2020 U.S. Census Bureau: American Community Survey
 Note: Percentages may not total 100.0 percent due to rounding.

Small Business Loans

The geographic distribution of small business loans reflects a reasonable dispersion throughout the assessment area. Within the sample of small business loans reviewed, Farmers State Bank of Waupaca originated 6.7 percent of small business loans in moderate-income census tracts, below the percentage of total businesses located in moderate-income census tracts at 13.6 percent. A majority (83.3 percent) of the bank’s small business loans were originated in middle-income tracts, which is comparable to the percentage of total businesses located in those geographies at 81.3 percent. The bank originated 10.0 percent of its small business loans in upper-income census tracts, which is greater than the percentage of total businesses located in those geographies at 5.0 percent.

The following table summarizes the bank’s 2023 small business lending by income level of the geographies within the assessment area.

Distribution of 2023 Small Business Lending By Income Level of Geography					
Assessment Area: WI Non MSA					
Geographic Income Level	Bank Loans				Total Businesses %
	#	%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	4	6.7	279	4.0	13.6
Middle	50	83.3	5,889	85.1	81.3
Upper	6	10.0	753	10.9	5.0
Unknown	0	0.0	0	0.0	0.0
Tract-Unk	0	0.0	0	0.0	
Total	60	100.0	6,921	100.0	100.0

Source: 2023 FFIEC Census Data
 2023 Dun & Bradstreet Data
 2016-2020 U.S. Census Bureau: American Community Survey
 Note: Percentages may not total 100.0 percent due to rounding.

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

Farmers State Bank of Waupaca’s loan distribution reflects excellent penetration among individuals of different income levels, including low- and moderate-income, and to businesses of different sizes. During the COVID-19 pandemic, the bank supplemented its regular small business lending with Small Business Administration Paycheck Protection Program (PPP) Loans. A total of 217 PPP loans were originated by the bank during the evaluation period.

Residential Real Estate Loans

Residential real estate lending reflects a reasonable penetration among borrowers of different income levels. Thirty seven percent of low-income families in the assessment area have incomes below the poverty level and therefore are less likely to afford an owner-occupied home. Despite this, in 2023, Farmers State Bank of Waupaca originated 9.8 percent of residential real estate loans to low-income borrowers, which was below the assessment area’s demographic of 17.7 percent within the assessment area. Among moderate-income borrowers, the bank originated 22.0 percent of residential real estate loans, comparable to the 20.6 percent of moderate-income families within the assessment area. The bank originated 22.0 percent of its residential real estate loans to middle-income borrowers, comparable to the percentage of middle-income families within the assessment area at 22.6 percent. Finally, the bank originated 46.3 percent of its residential real estate loans to upper-income borrowers, above the percentage of upper-income families within the assessment area at 39.0 percent. Overall, these figures indicate the bank is appropriately serving the credit needs of low- and moderate-income borrowers within the assessment area.

The following table summarizes the bank’s 2023 residential real estate lending in the assessment area.

Distribution of 2023 Residential Lending By Borrower Income Level					
Assessment Area: WI Non MSA					
Borrower Income Level	Bank Loans				Families by Family Income %
	#	#%	\$(000)	%	
Low	4	9.8	385	6.4	17.7
Moderate	9	22.0	715	11.8	20.6
Middle	9	22.0	916	15.1	22.6
Upper	19	46.3	4,036	66.7	39.0
Unknown	0	0.0	0	0.0	0.0
Total	41	100.0	6,052	100.0	100.0

*Source: 2023 FFIEC Census Data
 2016-2020 U.S. Census Bureau: American Community Survey
 Note: Percentages may not total 100.0 percent due to rounding.*

Small Business Loans

The distribution of small business loans reflects an excellent penetration among businesses of different revenue sizes. A sample of small business loans originated in 2023 were reviewed, of which 86.7 percent by number were to businesses with gross revenues equal to or less than \$1 million. The bank’s performance was comparable to the presence of total small businesses operating in the assessment area at 90.7 percent. Additionally, 73.1 percent of the bank’s loans originated to businesses with annual revenues of \$1 million or less, were in the amounts of \$100,000 or less. Further, 70.0 percent of all small business loans were equal to \$100,000 or less. These loans are considered the most beneficial to small businesses and demonstrates the bank’s willingness to meet the credit needs of small businesses.

During the evaluation period, the bank was particularly responsive to the credit needs of its assessment area as it pertains to small business lending. This was evidenced in the bank’s response to the COVID-19 pandemic and active participation in SBA PPP lending. During the evaluation period, the bank originated 217 PPP loans totaling approximately \$9.1 million. Further, 88.9 percent of loans were in amounts less than \$100,000; including 76.5 percent that were in loan amounts of \$50,000 or less. As PPP loans were in direct response to the COVID-19 pandemic and were specifically designed to benefit small businesses and retain jobs during the pandemic, these loans are considered particularly responsive.

The following table presents the bank’s borrower distribution of small business loans in 2023.

Distribution of 2023 Small Business Lending By Revenue Size of Businesses					
Assessment Area: WI Non MSA					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	\$%	
By Revenue					
\$1 Million or Less	52	86.7	5,272	76.2	90.7
Over \$1 Million	8	13.3	1,649	23.8	6.6
Revenue Unknown	0	0.0	0	0.0	2.7
Total	60	100.0	6,921	100.0	100.0
By Loan Size					
\$100,000 or Less	42	70.0	1,932	27.9	
\$100,001 - \$250,000	11	18.3	1,742	25.2	
\$250,001 - \$1 Million	7	11.7	3,246	46.9	
Total	60	100.0	6,921	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	38	73.1	1,657	31.4	
\$100,001 - \$250,000	10	19.2	1,614	30.6	
\$250,001 - \$1 Million	4	7.7	2,001	38.0	
Total	52	100.0	5,272	100.0	
<i>Source: 2023 FFIEC Census Data 2023 Dun & Bradstreet Data 2016-2020 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

Response to Complaints

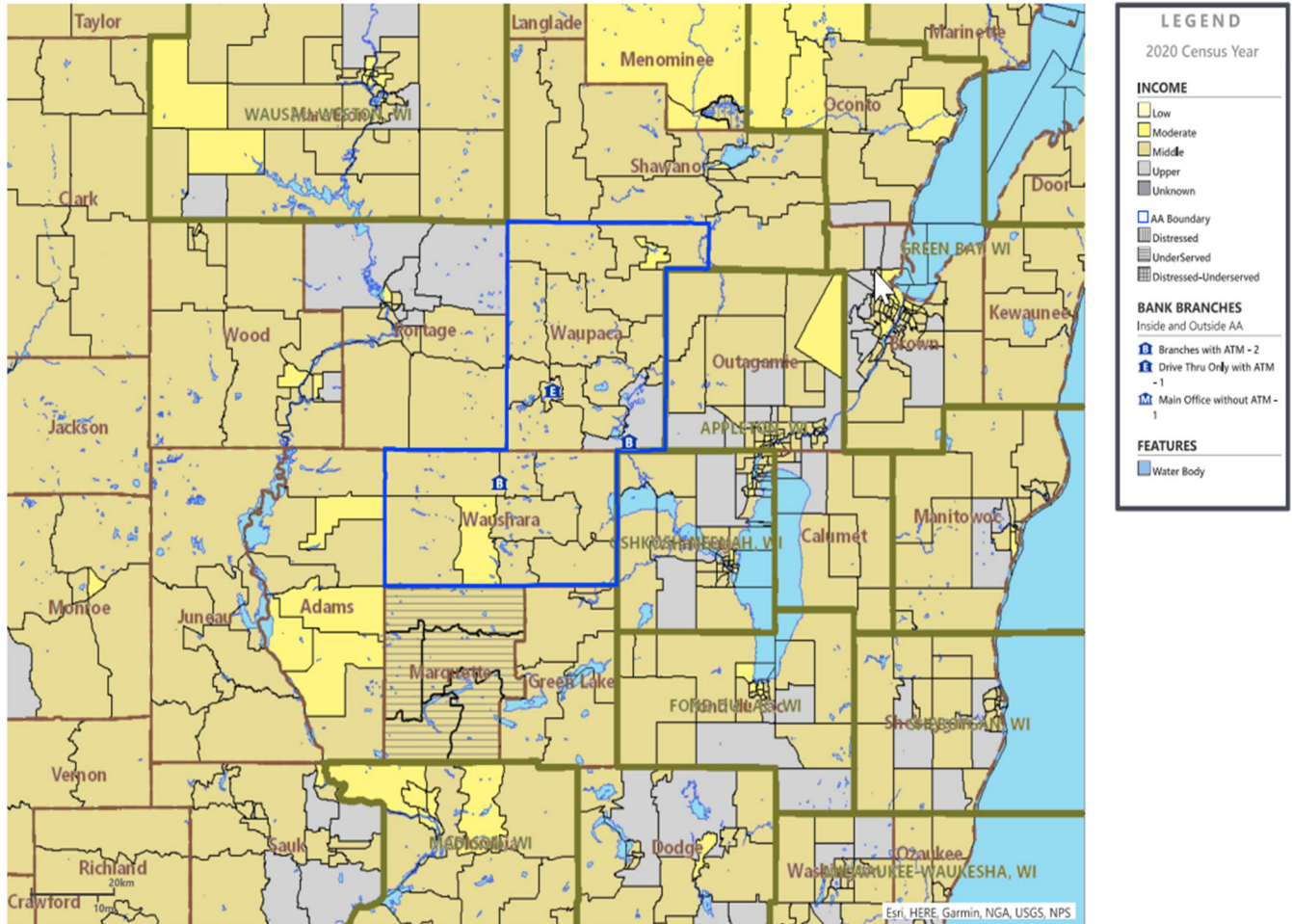
Neither the bank nor this Reserve Bank have received any CRA-related complaints since the previous examination.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

APPENDIX A – Map of Assessment Area

The Farmers State Bank of Waupaca 879747
WI Non MSA



APPENDIX B – Scope of Examination

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED		Loan-to-deposit: September 30, 2019, through December 31, 2023 Residential real estate loans: January 1, 2023, through December 31, 2023 Small business loans originated from January 1, 2023, through December 31, 2023	
FINANCIAL INSTITUTION Farmers State Bank of Waupaca		PRODUCTS REVIEWED Residential Real Estate Loans, sample Small Business Loans, sample	
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED	
None			
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Non-MSA Wisconsin contiguous Waupaca and Waushara counties	Full scope	None	N/A

APPENDIX C – Glossary

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Affordability ratio: To determine housing affordability, the affordability ratio is calculated by dividing median household income by median housing value. This ratio allows the comparison of housing affordability across assessment areas and/or communities. An area with a high ratio generally has more affordable housing than an area with a low ratio.

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

American Community Survey Data (ACS): The American Community Survey (ACS) data is based on a nationwide survey designed to provide local communities with reliable and timely demographic, social, economic, and housing data each year. The Census Bureau first released data for geographies of all sizes in 2010. This data is known as the “five-year estimate data.” The five-year estimate data is used by the FFIEC as the base file for data used in conjunction with consumer compliance and CRA examinations.²

Area Median Income (AMI): AMI means –

1. The median family income for the MSA, if a person or geography is located in an MSA, or for the metropolitan division, if a person or geography is located in an MSA that has been subdivided into metropolitan divisions; or
2. The statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment area: Assessment area means a geographic area delineated in accordance with section 228.41.

Automated teller machine (ATM): An automated teller machine means an automated, unstaffed banking facility owned or operated by, or operated exclusively for, the bank at which deposits are received, cash dispersed or money lent.

Bank: Bank means a state member as that term is defined in section 3(d)(2) of the Federal Deposit Insurance Act (12 USC 1813(d)(2)), except as provided in section 228.11(c)(3), and includes an

² Source: FFIEC press release dated October 19, 2011.

uninsured state branch (other than a limited branch) of a foreign bank described in section 228.11(c)(2).

Branch: Branch refers to a staffed banking facility approved as a branch, whether shared or unshared, including, for example, a mini-branch in a grocery store or a branch operated in conjunction with any other local business or nonprofit organization.

Census tract: Small subdivisions 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. They 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.

Combined Statistical Area (CSAs): Adjacent metropolitan statistical areas/metropolitan divisions (MSA/MDs) and micropolitan statistical areas may be combined into larger Combined Statistical Areas based on social and economic ties as well as commuting patterns. The ties used as the basis for CSAs are not as strong as the ties used to support MSA/MD and micropolitan statistical area designations; however, they do bind the larger area together and may be particularly useful for regional planning authorities and the private sector. Under Regulation BB, assessment areas may be presented under a Combined Statistical Area heading; however, all analysis is conducted on the basis of median income figures for MSA/MDs and the applicable state-wide non metropolitan median income figure.

Community Development: The financial supervisory agencies have adopted the following definition for community development:

1. Affordable housing, including for multi-family housing, for low- and moderate-income households;
2. Community services tailored to meet the needs of low- and moderate-income individuals;
3. 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
4. Activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definitions of community development. Activities that revitalize or stabilize:

- 1) Low- or moderate-income geographies;
- 2) Designated disaster areas; or
- 3) Distressed or underserved nonmetropolitan middle-income geographies

designated by the Board, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency based on:

- a. Rates of poverty, unemployment or population loss; or
- b. Population size, density and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density and dispersion if they help to meet essential community services including the needs of low- and moderate-income individuals.

Community Development Loan: A community development loan means a loan that:

- 1) Has as its primary purpose community development; and
- 2) Except in the case of a wholesale or limited purpose bank –
 - a. Has not been reported or collected by the bank or an affiliate for consideration in the bank’s assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family housing loan (as described in the regulation implementing the Home Mortgage Disclosure Act); and
 - b. Benefits the bank’s assessment area(s) or a broader statewide or regional area that includes the bank’s assessment area(s).

Community Development Service: A community development service means a service that:

- 1) Has as its primary purpose community development; and
- 2) Is related to the provision of financial services.

Consumer loan: 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 of loans: motor vehicle, credit card, other consumer secured loan, includes loans for home improvement purposes not secured by a dwelling, and other consumer unsecured loan, includes loans for home improvement purposes not secured.

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 non-relatives 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).

Fair market rent: Fair market rents (FMRs) are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. HUD sets FMRs to assure that a sufficient supply of rental housing is available to their program participants. To accomplish this objective, FMRs must be both high enough to

permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). HUD is required to ensure that FMRs exclude non-market rental housing in their computation. Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD's program databases as likely to be either assisted housing or otherwise at a below-market rent, and units less than two years old.

Full review: Performance under the Lending, Investment and Service Tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and amount of qualified investments) and qualitative factors (for example, innovativeness, complexity and responsiveness).

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

Home Mortgage Disclosure Act: The statute that requires certain mortgage lenders that do business or have banking offices in metropolitan statistical areas to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender and income of the applicant(s) and the disposition of the application(s) (for example, approved, denied, and withdrawn).

Home mortgage loans: Are defined in conformance with the definitions of home mortgage activity under the Home Mortgage Disclosure Act and include closed end mortgage loans secured by a dwelling and open-end lines of credit secured by a dwelling. This includes loans for home purchase, refinancing and loans for multi-family housing. It does not include loans for home improvement purposes that are not secured by a dwelling.

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.

Income Level: Income level means:

- 1) Low-income – an 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 census tract;
- 2) Moderate-income – an 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 census tract;

- 3) Middle-income – an 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 census tract; and
- 4) Upper-income – an individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent in the case of a census tract.

Additional Guidance: .12(m) Income Level: The median family income levels (MFI) for census tracts are calculated using the income data from the United States Census Bureau's American Community Survey and geographic definitions from the Office of Management and Budget (OMB) and are updated approximately every five years (.12(m) Income Level).

Limited-purpose bank: This term refers to a bank that offers only a narrow product line such as credit card or motor vehicle loans to a regional or broader market and for which a designation as a limited-purpose bank is in effect, in accordance with section 228.25(b).

Limited review: Performance under the Lending, Investment and Services test is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, amount of investments and branch office distribution).

Loan location: Under this definition, a loan is located as follows:

- 1) Consumer loan is located in the census tract where the borrower resides;
- 2) Home mortgage loan is located in the census tract where the property to which the loan relates is located;
- 3) Small business and small farm loan is located in the census tract where the main business facility or farm is located or where the loan proceeds have been applied as indicated by the borrower.

Loan production office: This term refers to a staffed facility, other than a branch, that is open to the public and that provides lending-related services, such as loan information and applications.

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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development (HUD) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area: 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 single core population of at least 2.5 million may be divided into MDs. A metropolitan statistical area that crosses into two or more bordering states is called a multistate metropolitan statistical area.

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

Nonmetropolitan area: This term refers to any area that is not located in a metropolitan statistical area or metropolitan division. Micropolitan statistical areas are included in the definition of a nonmetropolitan area; a micropolitan statistical area has an urban core population of at least 10,000 but less than 50,000.

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: This term refers to any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: This term refers to a state or multistate metropolitan area. For institutions with domestic branch offices in one state only, the institution's CRA rating is the state's rating. If the institution maintains domestic branch offices in more than one state, the institution will receive a rating for each state in which those branch offices are located. If the institution maintains domestic branch offices in at least two states in a multistate metropolitan statistical area, the institution will receive a rating for the multistate metropolitan area.

Small Bank: This term refers to a bank that as of December 31 of either of the prior two calendar years, had assets of less than \$1.252 billion. Intermediate small bank means a small bank with assets of at least \$313 million as of December 31 of both of the prior two calendar years and less than \$1.252 billion as of December 31 of either of the prior two calendar years.

Annual Adjustment: The dollar figures in paragraph (u)(1) of this section shall be adjusted annually and published by the Board, based on the year-to-year change in the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for each 12-month period ending in November, with rounding to the nearest million.

Small Business Loan: This term refers to a loan that is included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. The loans have original amounts of \$1 million or less and are either secured nonfarm, nonresidential properties or are classified as commercial and industrial loans.

Small Farm: This term refers to a loan that is included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income. These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Wholesale Bank: This term refers to a bank that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers, and for which a designation as a wholesale bank is in effect, in accordance with section 228.25(b).