



PUBLIC DISCLOSURE

June 17, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Merrill FS & LA
Charter Number 704783

907 E Main St
Merrill, WI 54452-2502

Office of the Comptroller of the Currency

Milwaukee Field Office
1200 North Mayfair Road, Suite 200
Wauwatosa, WI 53226

NOTE: This document is an evaluation of this institution'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 institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

Major factors supporting the institution's rating are:

- The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and credit needs of its assessment area (AA).
- A substantial majority of loans originated are made within the institution's assessment area.
- The distribution of borrowers reflects excellent penetration among individuals of different income levels.

SCOPE OF EXAMINATION

We evaluated Merrill Federal Savings and Loan Association's (Merrill or institution) Community Reinvestment Act (CRA) performance under the Small Bank Lending Test. We reviewed data for the institution's primary loan products, home mortgage loans, to evaluate the institution's lending performance.

Our evaluation period covered CRA activities since the prior CRA performance evaluation, August 23, 2007 through June 17, 2013. Our lending test covered loans originated from January 1, 2011 through December 31, 2012 using the small bank examination procedures.

Merrill is not subject to the Home Mortgage Disclosure Act (HMDA). We selected a random sample of home mortgage loans from the institution's lending records of loans originated in 2011 and 2012.

DESCRIPTION OF INSTITUTION

Merrill is a \$45.2 million¹ federally chartered, mutual savings association. The institution operates one branch with a teller drive-up and is headquartered in the downtown area of the city of Merrill, Wisconsin. The institution does not have any deposit-taking automated teller machines (ATM). Merrill's primary business strategy is to serve its local community through the origination and servicing of residential mortgage, commercial and consumer loans, and to provide savings- and deposit-related banking services.

Merrill offers traditional mortgage loan products. Merrill also offers an in-house, first-time homebuyer adjustable rate mortgage (ARM) loan product. Adjustable rate loans are retained in portfolio for investment, and all fixed rate loans are sold.

¹ Financial data is as of year-to-date March 31, 2013.

As indicated in Table 1 below, as of March 31, 2013, Merrill has a total loan portfolio of \$42.0 million, representing 92.9 percent of total assets. The institution's loan portfolio is diverse with lending activities primarily in single-family residential mortgages (60 percent) and business loans (34.5 percent).

Loan Category	Amount (\$000's)	Percent of Total Loans	Percent of Total Assets
Residential Mortgage	\$25,203	60.0%	55.7%
Nonresidential Mortgage	9,646	23.0%	21.3%
Commercial Nonmortgage	4,826	11.5%	10.7%
Consumer	2,340	5.5%	5.2%
Total	\$42,015	100.0%	92.9%

Competition from other financial institutions is strong in the local market. The bank's competition includes state chartered banks, multi-state banks, and large federal chartered banks. There are no impediments limiting the institution's ability to help meet the credit needs of its local community.

Merrill's CRA performance was rated as "Satisfactory" at the prior evaluation dated August 23, 2007.

DESCRIPTION OF ASSESSMENT AREA

Merrill's assessment area, which is located in a non-metropolitan statistical area (non-MSA), is defined as Lincoln County, Wisconsin. The institution's only office is located in the southern portion of the county. The assessment area consists of 10 census tracts, nine of which are middle-income areas and one is designated upper-income based on 2010 U.S. Census data. Because of the timing and release of the 2010 Census data collection, we used 2000 U.S. Census data for our review of 2011 demographic data and the 2010 U.S. Census data for our review of 2012 demographic data. The demographic data are summarized at the end of this section under the corresponding year heading.

The city of Merrill is the largest municipality in Lincoln County. The only other major city in the county is the city of Tomahawk, located approximately 23 miles north of Merrill's main office. There are two towns in the county with a population greater than 2,000, the towns of Merrill and Bradley. Major employment in Lincoln County includes direct property and casualty insurers, state and local government institutions, and paper mills.

There are six other FDIC-insured financial institutions with offices in the assessment area. Merrill is the fifth largest in deposits and has a market share of 9 percent of the total deposits. Of the six, only two are similarly sized institutions with headquarters in Lincoln County.

We contacted two CRA-related community contacts during our evaluation. The contacts are local government and development officials. The contacts stated that the local financial institutions appear to be adequately meeting the credit needs of the local community. Both contacts indicated there is slight improvement in the local economy since the national economic downturn in 2008. However, there have been limited community development opportunities in which local financial institutions could participate.

2011 (2000 U.S. Census Data)

According to the 2000 U.S. Census data, the assessment area consists of 10 census tracts, all of which are middle-income tracts. The total population of the assessment area is 29,641. The average median family income is \$47,290 and the U.S. Department of Housing and Urban Development (HUD) updated MSA median family income is \$59,100. The percentage of households that have income below the poverty level is 8 percent. Owner-occupied units comprise 63 percent of total housing units. The 2011 annual unemployment rate for Lincoln County is 10 percent compared to the state annual unemployment rate of 8 percent.

The 2000 Census data in Table 2 below summarizes demographic data for the assessment area.

Table 2 - Demographic Data (2011) (Based on 2000 U.S. Census Data*)	
Demographic Data	2000 Census
Population	29,641
Total Families	8,288
1-4 Family Units	13,923
Multi-family Units	758
% Owner-Occupied Units	62.5%
% Rental-Occupied Units	17.4%
% Vacant Housing Units	20.1%
HUD Estimated Median Family Income	\$59,100

Table 3, below, summarizes the percentage of families by income level based on the total number of families from the 2000 Census data (Table 2 above). The percentage of families below the poverty level in Lincoln County is 4 percent.

Table 3 - Percentage of Families (2011) By Income Level (Based on 2000 U.S. Census Data*)		
Family Income Level	# of Families	% of Families
Low-Income	1,338	16.1
Moderate-Income	1,609	19.4
Middle-Income	2,209	26.7
Upper-Income	3,132	37.8
Total	8,288	100.0

2012 (2010 U.S. Census Data)

According to the 2010 U.S. Census data, the assessment area consists of 10 census tracts, nine of which are middle-income areas and one is designated upper-income. The total population of the assessment area is 28,743. The average median family income is \$59,415 and the HUD updated MSA median family income is \$59,900. The percentage of households that have income below the poverty level is 11 percent. Owner-occupied units comprise 59 percent of total housing units. The 2012 annual unemployment rate for Lincoln County is 10 percent compared to the state annual unemployment rate of 7 percent.

The 2010 Census data in Table 4 below summarizes demographic data for the assessment area.

Table 4 - Demographic Data (2012) (Based on 2010 U.S. Census Data*)	
Demographic Data	2010 Census
Population	28,743
Total Families	8,989
1-4 Family Units	15,188
Multi-family Units	1,300
% Owner-Occupied Units	59.4%
% Rental-Occupied Units	20.1%
% Vacant Housing Units	20.5%
HUD Estimated Median Family Income	\$59,900

Table 5, below, summarizes the percentage of families by income level based on the total number of families from the 2010 Census data (Table 4 above). The percentage of families below the poverty level in Lincoln County is 8 percent.

Table 5 - Percentage of Families (2012) By Income Level (Based on 2010 U.S. Census Data*)		
Family Income Level	# of Families	% of Families
Low-Income	1,570	17.5
Moderate-Income	1,703	18.9
Middle-Income	2,248	25.0
Upper-Income	3,468	38.6
Total	8,989	100.0

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Merrill's loan-to-deposit (LTD) ratio is more than reasonable given the institution's capacity to lend, the capacity of other similarly situated institutions to lend in the assessment area, demographic and economic factors present in the assessment area, and the lending opportunities available in the institution's assessment area.

Merrill's quarterly LTD ratio average is 112 percent for the 19 quarters ended March 31, 2013. This ratio is higher than the average LTD ratio for other institutions that serve primarily the Lincoln County area. This peer group consists of two other similarly situated institutions with assets ranging from \$58 million to \$80 million. The average LTD ratio for those institutions located in the assessment area over the same period ranges from 67 percent to 74 percent.

Lending in Assessment Area

A substantial majority of loans originated are made within the institution's assessment area. Our sample demonstrates that Merrill originated about 88 percent of the total number of loans sampled inside its assessment area, or about 92 percent of the total dollar volume of loans sampled.

Table 6 below depicts the number and dollar volume of home mortgage loans originated inside and outside of the institution's assessment area.

Table 6 - Lending in the Assessment Area (Home Mortgages) <i>(Dollars in thousands)</i>					
Period By Year	In Assessment Area		Outside Assessment Area		Total Loans Sampled
	#	%	#	%	#
2011	19	95.0%	1	5.0%	20
2012	16	80.0%	4	20.0%	20
Total	35	87.5%	5	12.5%	40
	\$ Amt	%	\$ Amt	%	\$ Amt
2011	1,676	98.2%	31	1.8%	1,707
2012	1,134	85.0%	200	15.0%	1,334
Total	2,810	92.4%	231	7.6%	3,041

Source: Bank records verified by examiner

Lending to Borrowers of Different Income Levels

The distribution of borrowers reflects excellent penetration among individuals of different income levels.

Paramount to the conclusions drawn for this component is the institution's lending to low- and moderate-income individuals (LMI individuals). Based on the data in Table 7 below, Merrill outperformed its peer (aggregate) as lending to low- and moderate-income individuals is about double its peer's performance for the review period. The institution's lending to low-income individuals is 14.3 percent of the total number of loans originated within the assessment area during our review period and compares favorably to peer lending of 6.6 percent. The institution's lending to moderate-income

individuals is 22.9 percent of the total number of loans originated within the assessment area during our review period and compares favorably to peer lending of 12.7 percent.

Table 7 - Distribution of Residential Mortgage Loans By Borrower Income Level in the Assessment Area (Dollars in thousands)							
Borrower Income Level	2011		2012		Review Period 1/1/2011 – 12/31/2012		Aggregate 2011
	#	%	#	%	#	%	% by #
By Number							
Low	2	10.5%	3	18.7%	5	14.3%	6.6%
Moderate	5	26.3%	3	18.7%	8	22.9%	12.7%
Middle	3	15.8%	3	18.8%	6	17.1%	17.2%
Upper	9	47.4%	7	43.8%	16	45.7%	53.7%
Income NA	0	0.0%	0	0.0%	0	0.0%	9.8%
Total	19	100.0%	16	100.0%	35	100.0%	100.0%
By \$ Amount	\$	%	\$	%	\$	%	% by \$
Low	129	7.7%	168	14.8%	297	10.6%	3.0%
Moderate	202	12.1%	156	13.7%	358	12.7%	7.4%
Middle	306	18.2%	190	16.8%	496	17.6%	13.3%
Upper	1,039	62.0%	621	54.7%	1,660	59.1%	58.6%
Income NA	0	0.0%	0	0.0%	0	0.0%	17.7%
Total	1,676	100.0%	1,135	100.0%	2,811	100.0%	100.0%

Source: Bank records verified by examiner and 2011 peer mortgage data (aggregate)

Geographic Distribution of Loans

Since the institution’s assessment area does not contain low- or moderate-income census tracts for our review period, a geographic distribution analysis would not provide meaningful information.

Responses to Complaints

Merrill did not receive any complaints regarding its CRA performance during our review period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 195.28(c), in determining a Federal savings association’s (FSA) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the FSA, or in any assessment area by an affiliate whose loans have been considered as part of the FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.