



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

September 07, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Merchants Bank, National Association
Charter Number 24301**

**3140 Market Place
Onalaska, WI 54650**

**Comptroller of the Currency
Minneapolis South
1310 West Clairemont Avenue Suite 100
Eau Claire, WI 54702**

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 Satisfactory.

- The bank's average loan-to-deposit ratio is reasonable.
- The bank originates a majority of its loans within the assessment area.
- The bank has reasonable distribution of credit among commercial borrowers of different sizes.
- The geographic distribution of commercial loans throughout the assessment area is excellent.

DESCRIPTION OF INSTITUTION

Merchants Bank, N.A. is a \$31.1 million financial institution located in west central Wisconsin. The bank is located in Onalaska, Wisconsin, a city of approximately 16,150 people. Merchants Bank is a full service bank and has one full-service ATM adjacent to the bank. Merchants Financial Group, Inc. (MFGI) is a five-bank holding company that has total assets of \$727 million as of September 30, 2006. The other Merchants Banks are located in Winona, Hampton, Caledonia, and La Crescent, Minnesota. Merchants Bank Onalaska was the original charter for Merchants Bank La Crescent. On October 1, 2003, MFGI moved the Merchants Bank La Crescent charter to Onalaska and established a new charter in La Crescent. However, Merchants Bank Onalaska is the new location and is recognized as the de novo charter. Therefore, no previous CRA rating was available.

Merchants Bank (MB) offers telephone and Internet banking services to their customers. These services provide customers with 24-hour access to deposit and loan account information. It also allows customers to make transfers between accounts. MB also offers their customers ATM usage at 14 full-service ATM's throughout the MFGI affiliates locations and 31 cash-only ATM's around MFGI's market area at no charge.

MB offers a variety of loan and deposit products designed to meet the community's needs. As of September 30, 2006, the bank's \$24.6 million loan portfolio consisted of 78% commercial loans, 11% residential real estate loans, 9% consumer loans and 2% agricultural loans. As of September 30, 2006, net loans made up 79% of total assets. The bank's primary lending focus is commercial loans.

There are no financial, legal or other factors that impede MB ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA

MB's assessment area (AA) consists of all of La Crosse County and includes the communities of Onalaska, La Crosse, Bangor, West Salem and Holmen. Based on the 2000 U.S. Census data, the assessment area includes three upper-income census tracts (12%), eighteen middle-income census tracts (72%) and four moderate-income census tracts (16%). There are no low-income census tracts in the bank's AA. The bank is located in the City of Onalaska in La Crosse County, Wisconsin. The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts.

According to 2000 U.S. Census data, the bank's AA has a total population of 107,120, with 16.24% of the families within this AA low-income, 19.83% moderate-income, 26.5% middle-income and 37.43% upper-income. Based on the Department of Housing and Urban Development's 2006 estimate, the updated median family income for the bank's AA is \$59,200.

Per 2000 U.S. Census information, the median value of owner-occupied housing units for the State of Wisconsin is \$109,900, compared with \$97,815 for the bank's AA. Sixty-two percent of the housing units in the State of Wisconsin are owner-occupied, the same as the bank's AA.

Demographic Information of the Assessment Area	
Total Population	107,120
Percentage of Families by Income Level:	
Low-Income	16%
Moderate-Income	20%
Middle-Income	27%
Upper-Income	37%
Families Below the Poverty Level	5%
Median Family Income (2006 est.)	\$59,200
Median Housing Value	\$97,815
Percentage of Total Housing Units:	
1-4 Family	83%
Multi-Family	17%
Median Gross Rent	\$470
Housing Units:	
Owner-Occupied Housing Units	62%
Rental Housing Units	33%
Vacant Housing Units	4%
Renters with costs greater than 30% of Income	33%

Source: 2000 U.S. Census

According to the Wisconsin Department of Workforce Development, unemployment levels in the State of Wisconsin in 2005 averaged 4.7%, compared to 4.0% in La Crosse County. The nationwide unemployment rate averaged 5.1% in 2005. The largest employers in the area include Gunderson Lutheran Administrative (physician offices), Franciscan Skemp Medical Center (general medical & surgical hospitals), American Standard (AC, refrigeration & forced air heating mfg) and Kwik Trip (convenience stores). The largest industries in the area are educational services and health services. According to 2005 Business Geodemographic Data, the bank's AA is comprised of 6,196 businesses, with 61% of these companies having gross annual revenues of \$1 million or less and 74% of the businesses in the bank's AA employ fewer than twenty employees.

Competition among financial institutions in the bank's AA is strong. There are thirteen other full-service financial institutions with a presence in the bank's AA. MB is ranked 12th in deposit

market share with 1.15% of the market share based on June 30, 2006 deposit information obtained from the Federal Deposit Insurance Corporation.

Our community contact indicated the local economy can be broken down into five major segments, which include manufacturing, retail/trade, tourism, administrative centers and healthcare. During the past couple of years, these segments have all experienced varying degrees of growth, with manufacturing, tourism and healthcare segments experiencing the most growth. He also described the La Crosse area as a vigorous and competitive banking environment, which serves consumers well.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition and local credit needs. The bank's quarterly average loan-to-deposit ratio for the twelve quarters since opening is 112.61%. MB de novo status has kept the average loan-to-deposit ratio high in comparison to other similarly situated banks in the AA. Since opening their doors on October 1, 2003, MB average loan-to-deposit ratio has consistently been higher due to high loan demand but minimal deposit growth. Local competition for deposits also contributes to the high loan-to-deposit ratio. Similarly situated banks with a presence in the AA are state and nationally chartered banks with total assets between \$30 and \$60 million. Quarterly average loan-to-deposit ratios for similarly situated banks range from 56.3% to 88% over the same time frame.

Institution	Assets (as of 9/30/06)	Average Loan-to-Deposit Ratio; 4Q03 – 3Q06
UNION STATE BANK OF WEST SALEM	\$51 million	56.30
CITIZENS STATE BANK OF CLAYTON	\$48 million	83.42
PARK BANK	\$42 million	88.00
MERCHANTS BANK	\$31 million	112.61

Lending in Assessment Area

When considering the bank's size, lending opportunities and market competition, lending performance inside the bank's AA is considered reasonable. Based on a random sample of 20 commercial loans originated between October 1, 2003 and September 30, 2006, MB originated 65% of loans by number and 59% of loans by dollar inside of their defined AA. The following table shows loans originated inside and outside their AA by number and dollar volume.

	Number of Loans				Dollar of Loans			
	Inside		Outside		Inside		Outside	
Loan Type	#	%	#	%	\$	%	#	%
Commercial	13	65%	7	35%	2,561,693	59%	1,776,101	41%
TOTALS:	13	65%	7	35%	2,561,693	59%	1,776,101	41%

Lending to Businesses of Different Sizes

MB distribution of credit among businesses of different sizes is satisfactory. Commercial borrowers have a wide diversity of annual gross revenues ranging from a few thousand to more than a million dollars. A random sample of 20 commercial files indicates the following breakdown of annual revenues.

Borrower Distribution of Loans to Businesses		
Business Revenues	< \$1,000,000	> \$1,000,000
% of AA Businesses*	61%	7%
% of Bank Loans in AA by #	60%	40%
% of Bank Loans in AA by \$	61%	39%

*2005 Business Geodemographic Data; 32% of businesses did not report revenues.

Geographic Distribution of Loans

MB geographical distribution of commercial loans is excellent. The bank originated 35% of its commercial loans to borrowers in the moderate-income census tracts (CT). This exceeds the demographic of 22%. The following table reflects the demographics of the area to the bank's actual lending, based on a random sample of 20 commercial loans originated between October 1, 2003 and September 30, 2006.

Geographic Distribution of Loans to Businesses in Assessment Area								
Census Tract Income Level	Low 0%		Moderate 16%		Middle 72%		Upper 12%	
Loan Type	% of AA Businesses*	% of Number of Loans	% of AA Businesses*	% of Number of Loans	% of AA Businesses*	% of Number of Loans	% of AA Businesses*	% of Number of Loans
Commercial	0%	0%	22%	35%	67%	50%	11%	15%

*2005 Business Geodemographic Data

Responses to Complaints

MB has not received any complaints about its performance in helping meet AA credit needs during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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