



PUBLIC DISCLOSURE

September 22, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ladysmith FS & LA
Charter Number 702722

119 West 4th Street North
Ladysmith, WI 54848

Office of the Comptroller of the Currency

Campbell Mithun Tower
222 South Ninth Street
Suite 800
Minneapolis, MN 55402-3393

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.

The major factors supporting this rating include:

- The institutions average loan-to-deposit ratio is more than reasonable.
- The institution originates a majority of loans within its designated assessment area.
- The institution has reasonable penetration of loans to individuals of different income levels.
- The institution has a reasonable dispersion of loans throughout the assessment area given the performance context information.
- Community development responsiveness is excellent.

SCOPE OF EXAMINATION

We evaluated Ladysmith Federal Savings and Loan Association’s (Ladysmith FSLA) Community Reinvestment Act (CRA) performance using full-scope examination procedures. The evaluation period covered November 4, 2008 to September 22, 2014. We assessed the bank’s lending performance in its designated assessment area (AA). We identified the bank’s primary products as residential real estate and consumer loans based on the number and dollar volume of loans originated and purchased between January 1, 2012 and December 31, 2013. We selected a random sample of 60 loans from each of the bank’s primary products to evaluate the bank’s lending performance. The table below shows the bank’s primary products as determined by loan originations and purchases.

Loan Originations and Purchases in 2012 and 2013		
<i>Loan Type</i>	<i>Volume by #</i>	<i>Volume by \$</i>
Residential Real Estate	38.75%	72.78%
Consumer	52.08%	13.13%
Commercial	9.17%	14.09%
Agricultural	0.00%	0.00%

Source: Bank Loan Origination Report for 2012 and 2013

DESCRIPTION OF INSTITUTION

Ladysmith FSLA is a \$48 million intrastate federal savings association headquartered in Ladysmith, Wisconsin in northwestern Wisconsin. Ladysmith FSLA operates one full-service branch with normal operating hours of 8:30 a.m. to 4:30 p.m. and one branch at the Ladysmith High School, which is only open for one hour per week and only offers checking, savings, and loan payment services. They have not opened or

closed any branches within the past two years. Ladysmith FSLA has one non-deposit taking automated teller machine (ATM) located in the parking lot of the main bank branch. There is no bank holding company as they are a mutual thrift.

The bank offers a wide range of products designed to meet the needs of the community. The most recent call report dated June 30, 2014 indicated the loan portfolio consists of residential real estate (66 percent), commercial (23 percent), and consumer loans (11 percent). Ladysmith FSLA's total loans and leases account for 53 percent of total assets. The business strategy remains to service Rusk County and there is no intent to significantly alter the product mix. As of June 30, 2014, Ladysmith FSLA's tier one capital equaled 10.27 percent.

There are no known financial or legal impediments that would affect Ladysmith FSLA's ability to meet the credit needs of its communities. Ladysmith FSLA received an "Outstanding" rating at its November 3, 2008 CRA evaluation.

DESCRIPTION OF ASSESSMENT AREA

Ladysmith FSLA considers its general service area to be all of Rusk County, which is located in a Non-Metropolitan statistical (Non-MSA) area of Wisconsin. The AA consists of one moderate-income census tract and four middle-income census tracts. The AA meets regulatory requirements and does not arbitrarily exclude any low- or moderate-income areas.

Economic conditions in the AA are unfavorable when compared to the State of Wisconsin overall. According to the US Bureau of Labor Statistics, the Rusk County unemployment rate was 8.6 percent in 2013, compared to 6.7 percent statewide. The major industry segments within the AA are industrial, manufacturing, trade, transportation, utilities, education and health, and public administration. Per the Rusk County Economic Development Corporation, the largest employers include Weather Shield Mfg, Inc., Jeld-Wen Windows & Doors, and the County of Rusk.

Competition among financial institutions within the AA is moderate. Ladysmith FSLA ranked third out of six financial institutions in market share per the FDIC Deposit Market Share Report. As of June 30, 2013, Ladysmith FSLA has 16.62 percent of the AA's deposit market share, whereas Pioneer Bank of Wisconsin and Chippewa Valley Bank have 24.14 percent and 22.93 percent, respectively.

We contacted an economic development organization in the AA to gain a better understanding of the local economy and to assess area credit needs and the involvement of local financial institutions. The representative indicated that funding small businesses and local development projects are the primary credit needs within the community. The contact indicated that local financial institutions are favorably meeting the credit needs of the community. The contact specifically mentioned Ladysmith FSLA for their involvement and willingness to participate in local economic development projects.

The following table shows demographic information for the Rusk County AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE RUSK COUNTY AA	
Population	
Number of Families	4,383
Number of Households	6,660
% of Low-Income Families	26.06%
% of Moderate-Income Families	21.45%
% of Middle-Income Families	23.98%
% of Upper-Income Families	28.52%
Geographies	
Number of Census Tracts	5
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	20.00%
% Middle-Income Census Tracts	80.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$57,384
2013 HUD-Adjusted MFI	\$58,600
Economic Indicators	
2013 Unemployment Rate	8.60%
2010 Median Housing Value	\$110,997
% of Households Below Poverty Level	14.40%

Source: 2010 U.S. Census Data with updated information when available

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The institutions performance under the lending test is satisfactory. The loan-to-deposit ratio is more than reasonable, and the majority of loans originated were inside the bank's AA. Geographic distribution of consumer and residential real estate loans reflect reasonable dispersion throughout the institutions geographies. The distribution of loans reflects reasonable penetration among borrowers of different income levels.

Loan-to-Deposit Ratio

Ladysmith FSLA's loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and the credit needs of the AA. The LTD ratio averaged 65.61 percent over the 23 quarters since the previous evaluation. Due to heightened sensitivity to market risk, management sold \$21.7 million of long-term, in-house originated loans during the last three years and retained the servicing rights. Including the serviced loans that were sold, the LTD ratio as of June 30, 2014 totaled approximately 110 percent. This compares to similarly situated banks that had quarterly average LTD ratios ranging from 38.96 percent to 75.91 percent over the same period.

Similarly situated banks are those banks that have a presence in Rusk County and are similar in asset sizes.

Institution (Headquarters)	Assets as of 6/30/14 (\$000s)	Average LTD Ratio (%)
Dairyland State Bank (Bruce, WI)	\$81,570	75.91%
Ladysmith FS & LA (Ladysmith, WI)	\$47,814	65.61%
Pioneer Bank of Wisconsin (Ladysmith, WI)	\$64,108	38.96%

Source: Call Report Data as of June 30, 2014

Lending in Assessment Area

Ladysmith FSLA originates a majority of its loans to borrowers inside its AA. Based on our sample of residential real estate and consumer loans, Ladysmith FSLA originated 82 percent of loans by number and by dollar amount within their AA. The table below shows loan originations inside and outside of Ladysmith FSLA’s AA by number and dollar volume:

Lending in the Rusk County AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	17	85.00	3	15.00	20	\$1,297	82.01	\$284	17.99	\$1,581
Consumer	16	80.00	4	20.00	20	\$235	83.49	\$47	16.51	\$282
Totals	33	82.50	7	17.50	40	\$1,532	82.23	\$331	17.77	\$1,863

Source: Residential Real Estate and Consumer Loan Samples

Lending to Borrowers of Different Incomes

Ladysmith FSLA’s lending to borrowers of different income levels reflects reasonable penetration in the AA.

Consumer Loans

The distribution of consumer loans reflects reasonable penetration among individuals of different income levels when compared to the AA’s demographics. The bank’s lending to low-income borrowers exceeds the demographic comparative for consumer loans and is near the demographic comparative for moderate-income borrowers. The following table compares the institution’s consumer lending activity to demographics within the AA:

Borrower Distribution of Consumer Loans in the Rusk County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	29.29	30.00	20.36	20.00	18.90	25.00	31.44	25.00

Source: Loan Sample; 2010 US Census Data

Residential Real Estate Loans

The distribution of residential real estate loans reflects reasonable penetration to low- and moderate- income individuals. Our random sample of 20 residential real estate loans indicated that 15 percent of loans by number were to low-income borrowers, which exceeds the performance of aggregate lenders. Lending to moderate-income borrowers fell below aggregate lending performance at 10 percent. The following table shows Ladysmith FSLA’s residential real estate lending performance based on our sample compared to the demographics of the AA:

2012-2013 Borrower Distribution of Home Loans in the Rusk County AA			
Borrower Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Families
Low	15.00	10.15	26.06
Moderate	10.00	18.02	21.45
Middle	40.00	23.86	23.98
Upper	35.00	39.85	28.52

Source: Loan Sample Data; 2013 Aggregate Lending Data; 2010 Demographic Data

*Note that 8.12% of aggregate lenders income data was not available.

Geographic Distribution of Loans

Ladysmith FSLA’s distribution of loans in the AA reflects reasonable dispersion throughout census tracts of different income levels. There are no low-income census tracts in the AA. Therefore, our analysis focused on the bank’s performance in the moderate-income tract.

Consumer Loans

The geographic distribution of consumer loans reflects reasonable dispersion throughout the AA. Ladysmith FSLA’s lending in the moderate-income census tract does not meet the demographic comparator of AA households. However, this is considered reasonable given the large concentration of community-based financial institutions located in the moderate-income census tract. The nearest Ladysmith FSLA branch to the moderate-income census tract is ten miles, resulting in a competitive disadvantage. The following table shows the bank’s performance as compared to the percentage of households in each income level:

Geographic Distribution of Consumer Loans in the Rusk County AA								
Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00	0.00	16.85	8.33	83.15	91.67	0.00	0.00

Source: Loan Sample; 2010 US Census Data

Residential Real Estate Loans

The geographic distribution of residential real estate loans reflects reasonable dispersion throughout the AA. Ladysmith FSLA’s lending in the moderate-income census tract is less than the performance of aggregate lenders in the AA; however, this is considered reasonable given the high concentration of community-based financial institutions located in the moderate-income census tract. The nearest Ladysmith FSLA branch to the moderate-income census tract is ten miles, resulting in a competitive disadvantage. The following table shows the bank’s performance as compared to their peers in regard to lending in Rusk County:

2012-2013 Geographic Distribution of Home Loans in the Rusk County AA			
Tract Income Level	% of Number of Loans	% Aggregate Lenders	% of AA Owner Occupied Housing
Low	0.00	0.00	0.00
Moderate	6.67	28.43	16.53
Middle	93.33	71.57	83.47
Upper	0.00	0.00	0.00

Source: Loan Sample; 2013 Aggregate Lending Data; 2010 Demographic Data

Qualified Investments and CD Services

Ladysmith FSLA’s Community Development (CD) activities benefit the AA and contributed to the overall rating.

Ladysmith FSLA made 26 qualifying donations totaling approximately \$8 thousand during the evaluation period. The donations were to various community service organizations that assisted pregnant women in distress whom are frequently low- and moderate-income individuals, underprivileged youth, local food pantries and shelters, and post-secondary education scholarships to low- and moderate-income students.

Ladysmith FSLA actively volunteers to promote personal finance and financial literacy education throughout their AA and within the Ladysmith School District. The majority of students in the district qualify for free or reduced lunch. Senior management estimates they volunteered approximately 2,000 hours to educate high school students on banking

consumerism, balancing a check book, avoiding identify theft, real-life budgeting, and explaining the banking industry. Management received the Wisconsin Bankers Association State Bankers Promoting Financial Literacy Award in 2012-2013. In addition, the bank received the Wisconsin Bankers Association Bankers Promoting Financial Literacy award every year since 2005.

Responses to Complaints

Ladysmith FSLA has not received any CRA complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 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 AA 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.