



Notes of INTEREST

www.dairystatebank.com

The *latest merger* News

By Mike Bock, President

In our last newsletter, we announced our plans for merging Dairy State Bank with our sister bank, First Bank and Trust. Here is an update on the merger. We are currently targeting March 1, 2008 as our merger date, subject to many variables.

Product changes due to merger

In assessing the product and service differences between the two banks, we found our credit card programs to be different. After reviewing both, **we have decided to switch to a new credit card processing group, which will give you new options** in terms of mileage points and various specialty programs. This transition is being targeted for the first quarter of 2008. All of our current credit card holders will eventually be issued new credit cards and will receive more details of this change when we are closer to the conversion date.

Another area that we've made changes is to the deposit accounts and all customers have been notified of these changes. We're very excited with the changes, as we feel **the new products give us an excellent line of both personal and business checking accounts.**

A special thanks

Last but certainly not least, for the small number of checking account

Continued (*back page*)



New line of deposit Accounts

With the upcoming merger (See article at left), most of our personal and business deposit accounts have changed as of November 1st. Some accounts will change in name only but many will have different features — several for the better.

Highlights of improved features

One of the main improvements you'll see are **lower minimum balance requirements** on various checking products. The chart on the back page highlights those differences.

With the former Business NOW account, interest was earned on balances of \$1500 or more; the replacement account (**Small Business Checking**) **earns interest on balances of \$500 or more.**

Check cards are now also free for all personal checking accounts.

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Taking *the sting* out of Inflation

By Mike Martin
LPL Investment Representative
Located at: Dairy State Bank

Anyone who has paid for gasoline, health care or college tuition lately knows that even if the overall rate of inflation is modest, there are areas where costs are rising more dramatically. Earning returns that exceed the cost of living is important for all investors, and especially critical for those who depend on their portfolios as an income source.

What is inflation?

Inflation is the increase in the price of any good or service. The most commonly referenced measure of that increase is the Consumer Price Index (CPI), which is based on a monthly survey by the U.S. Bureau of Labor Statistics. The CPI compares current and past prices of a sample "market basket" of goods from a variety of categories, including housing, food and transportation.

Between 1900 and 1970, inflation averaged 2.5% annually. From 1970 to 1990, the average rate increased to around 6%, hitting a high of 13.3% in 1979.¹ Recently, rates have been closer to the 2% to 4% range, averaging 3.2% in 2006.

The Cost of the Future

Item	Price in 2006	Price in 2026
Stamp	\$0.39	\$0.85
Refrigerator	\$1,000	\$2,191
Automobile	\$23,000	\$50,396

Based on an average annual inflation rate of 4%.

What it means to you

A 4% inflation rate might not seem significant until you consider the long-term effect on your purchases and investments. For example, in 20 years, 4% inflation annually would drive the value of a dollar down to \$0.44. Inflation also works against your investments. When pursuing long-term financial goals — from college savings for your loved ones to your own retirement — it's important to consider the real rate of return, which is determined by figuring in the effects of inflation.

Investing to beat inflation

Over the long run (10 years or more), stocks may provide the best potential for returns that exceed inflation. While past performance is no guarantee of future results, stocks have historically provided higher returns than other asset classes. A Standard & Poor's analysis of holding periods between 1926 and 2006 found that the annual return for a portfolio comprised exclusively of stocks in the S&P 500 was 10.49% — well above the average inflation rate of 3.04% for the same period.² The average annual return for long-term government bonds, on the other hand, was only 4.86%.

A balancing act

Keep in mind that stocks do involve greater risk of short-term fluctuations than other types of investments. Unlike a bond, which guarantees a fixed return if you hold it until maturity,* a stock can rise or fall in value based on daily events in the stock market, trends in the economy or problems at the issuing company. But, if you have a long investment time frame, you may find that stocks offer the best chance to beat inflation.

The key is to consider your time frame,



your income needs and how much volatility you are willing to accept, and then construct a portfolio with a mix of stocks and other investments.

Whether you're a first-time investor or an experienced retiree, you need to keep inflation in your sights. Stocks may be your best weapon and there are many ways to include them. I invite you to my office for a no cost or obligation consultation to discuss your options for beating inflation's effects on you. Please contact me by calling (715) 234-0096 or by e-mail at michaelg.martin@lpl.com.

¹ Source: U.S. Bureau of Labor Statistics.

² Source: Standard & Poor's. Performance is for the period 12/31/1926 to 12/31/2006. Stocks are represented by the total return of the S&P 500 Index, bonds by long-term Treasuries (10+ years). Past performance cannot guarantee future results. Individuals cannot invest directly in any index. Results include reinvested dividends.

*Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

This article is not intended to provide specific investment or tax advice for any individual. Consult me, your financial adviser, or your tax adviser with any questions you might have.



Securities and insurance products offered through Linsco/Private Ledger.

Member NASD/SIPC. Not FDIC insured.

No bank guarantee. May lose value. Not a deposit.

Not insured by any Federal Government Agency.



Construction project Update

If you've driven by our Rice Lake office lately, you'll know the remodeling project is in full swing. In fact, by the time you read this article, the new drive-up should be completed and in full use, with the extra lane, the widened driving space and the added commercial service lane being enjoyed by all. As for the drive-up ATM, that has been positioned under the new canopy, increasing the likelihood of staying dry on a rainy day. We are very excited with what has been done so far.

Only the beginning

But, this is only the beginning of this four-phase project. From the drive-up, we'll move to the loan department, then to the bookkeeping area and, finally, to the main lobby.

The entire project is geared to updating the facility and to improving the overall customer experience at the bank. Once completed, there will be more space in the customer service areas, more privacy in the loan and bookkeeping departments, and an added rest room on the loan floor.

There are some great people working on this project and they are moving as quickly as possible to get it done. That being said, however, we will probably be in some type of construction mode going well into December.

We can not say enough how much we appreciate your continued patience during this major facility improvement project, which is designed to better serve you for years to come. ➤



(Mortgage) *market* Correction

By Todd Kobielush, Loan Officer

Have you managed to watch the news or read the paper lately without hearing about the troubled mortgage industry? Pretty tough, isn't it?

DON'T PANIC!

We've attempted to answer three questions that many people have been asking:

- 1) What went wrong?
- 2) What's being done about it?
- 3) How does it affect me?

What went wrong?

About four to five years ago, the housing market was booming. Home prices were climbing, interest rates were at 40-year lows and sales records were shattered. As rates eventually began to rise, buying power decreased and loan programs were created to adjust for the shifting market. These programs included interest-only loans, 40-year mortgages, 100% financing and "stated-income" loans, in which borrowers simply "state" their income instead of documenting their earnings. Rising rates, combined with a softening market, spelled trouble for many borrowers in these special programs. The result was higher delinquencies and over-valued properties. Housing inventory increased, along with marketing time, and the pendulum swung from a seller's market to a buyer's market.

What's being done about it?

In response to pressure from mortgage insurers and investors who purchase mortgage-backed securities, many mortgage lenders have tightened their credit standards. As delinquencies have

risen, Wall Street has demanded closer scrutiny of borrowers. Some of these measures include raising minimum credit scores and requiring more in-depth reviews of self-employed borrowers, credit histories and appraisals. In an attempt to determine whether "stated income" is reasonable, underwriters are now also considering the borrowers' time on the job, job location and income in relation to their assets, as well as comparing income to industry averages.

While these measures may seem inconvenient to some loan applicants, they basically signify a return to normal underwriting guidelines of a decade ago. The result should be fewer problem loans, reduced mortgage fraud, increased investor confidence, lower rates and liquidity for the housing market.

How does it affect me?

These changes, and others, will affect virtually everyone in the mortgage industry to some extent. At Dairy State Bank, we remain committed to providing you with a broad array of mortgage programs, competitively priced and delivered with our signature customer service. If you are interested in financing a new home or refinancing your present mortgage, please contact us for more information.

Thank you for your continued business. ➤





News *just for You*: Gift cards — a great, secure way to give and accepted anywhere Visa is.

Questions *and* Answers

Q If I lose my safe deposit box key or forget to bring it with me to enter my box, does the bank have a back-up key for it?

A No. It takes two keys to access a safe deposit box: yours and the bank's. The bank's key is called a "guard key." It alone will not open the box. Your key is needed, along with the guard key, to gain access to the safe deposit box.

Q I wrote a check for a bill but it wasn't listed with my checks on my statement. Instead, it was listed with the ACH items on the statement. Why?

A Some businesses will choose to convert your check into an ACH (electronic) entry. This is most commonly done by organizations that regularly receive a high volume of checks, such as insurance and utility payments. No written authorization is required for companies to convert these items to ACH items.



If you have a question for us, please direct it to any Dairy State Bank office and we will be glad to respond. ➤

The latest merger news *(continued)*

customers that had a common account number with a First Bank and Trust customer, we want to thank you, again, for your patience and understanding while we issued you a new account number. Our customer service staff has done a great job of working through these situations and, as of today, almost all of the changes have been made. Anyone subject to this change has already been contacted; so, if you haven't received a letter or phone call, your current account number is good and will not need changing.



As always, we thank all our customers for allowing us to be part of your banking relationship and look forward to serving you for years to come. ➤

New line of deposit accounts *(continued)*

A brochure describing our various product changes was mailed in early October to all customers. If you have questions as to how your account(s) will change, please don't hesitate to contact your favorite Dairy State Bank representative to discuss them. It is our goal to make this transition as smooth and as beneficial as possible for our customers. ➤

Changes in Minimum Balance Requirements (MBR) on Deposit Accounts, effective November 1, 2007			
Old Account	Old MBR	New Account	New MBR
NOW Account	\$900	Interest Checking	\$500
Investor Checking	\$10,000		
Money Market	\$2,500	Money Market	\$1,000
Business Checking	\$750	Small Business Checking*	\$500
Business NOW Account	1,500		
Business Money Market	\$5,000	Business Money Market	\$1,000

* For sole proprietors, not-for-profit organizations, governments or municipalities; interest is earned on balances of \$500 or more.