



Comptroller of the Currency
Administrator of National Banks

Small

Bank

Public Disclosure

May 17, 1999

Community Reinvestment Act Performance Evaluation

**First National Bank of Berlin
Charter Number: 4620
140 West Huron Street
Berlin, Wisconsin 54923**

**Office of the Comptroller of the Currency
Milwaukee Field Office
744 North 4th Street, Suite 626
Milwaukee, Wisconsin 53203**

Note: 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.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority, when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of the First National Bank of Berlin, Berlin, Wisconsin prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 17, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory Record of Meeting Community Credit Needs**.

- C The distribution of borrowers, given the demographics of the assessment area (AA), reflects reasonable penetration among borrowers of different income levels.
- C Taking into account the demographics of the area, First National Bank of Berlin (FNBB) has a satisfactory distribution of small loans to businesses.
- C FNBB's average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition and assessment area (AA) credit needs.
- C A substantial majority of FNBB's loans are originated within its AA.

DESCRIPTION OF INSTITUTION

FNBB is located in downtown Berlin, Wisconsin, approximately 90 miles northwest of Milwaukee. FNBB is 100% owned by First Berlin Bancorp, Incorporated, a one-bank holding company also located in Berlin. As of March 31, 1999, FNBB has total assets of \$83 million. Net loans comprise \$55.9 million, or 67.3%, of the bank's total assets. FNBB's loan portfolio is broken down as follows: \$30.1 million (53.0% of total loans) in residential-related real estate loans; \$18.0 million (31.7%) in commercial loans; \$5.5 million (9.7%) in consumer loans; \$2.9 million (5.1%) in agricultural-related loans; and, \$0.3 million (0.5%) in other loans. Management's focus has historically been on retail lending, particularly residential-related loans.

In addition to the main bank, FNBB also operates one branch in Poy Sippi, Wisconsin. The Poy Sippi branch is located in Waushara County, approximately 15 miles north of the main office. The branch opened in October of 1998 and provides essentially the same services and operates the same hours as the main bank.

There are no legal impediments that would hinder the bank in meeting the needs of its assessment area. The last Public Evaluation was issued by the Office of the Comptroller of the Currency on July 7, 1996. At that time FNBB was rated Satisfactory record of meeting community credit needs.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

FNBB's AA consists of 16 contiguous geographies¹ located in five counties surrounding and including the City of Berlin. The 5 counties in FNBB's AA are Green Lake, Waushara, Winnebago, Fond du Lac, and Marquette.² Geographies in Winnebago County are located in the Appleton-Oshkosh-Neenah Metropolitan Statistical Area (MSA). The remainder of the geographies in FNBB's AA are in non-MSA areas. There are no low-or moderate-income geographies in the bank's AA. Fifteen of the sixteen geographies are considered middle-income while the remaining geography, in Fond du Lac County, is considered high-income. Low-income tracts have income levels between 0% and 49% of the median family income (MFI) level for the area. Moderate-income tracts have income levels between 50% and 79% of the MFI level of the area; middle-income tracts have income levels between 80% and 119% of the MFI level of the area; and upper-income tracts have income levels of 120% or more of the MFI level of the area. Based on 1990 census data, the MFI level in state non-MSA areas is \$30,290. In the Appleton-Oshkosh-Neenah MSA, 1990 census data indicates a MFI level of \$37,202. Housing and Urban Development (HUD), however, estimates the MFI on an annual basis. Based on HUD estimates, the 1998 MFI of the non-MSA and MSA areas of the banks' AA was \$41,800 and \$50,500, respectively. FNBB's assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies.

Based on 1990 census data, the population of the AA is 51,277. The population consists of 14,304 families of which 2,562 (17.9% of all families in the AA) are low-income families, 3,035 (21.2%) are moderate-income families, 4,020 (28.1%) are middle-income families, and 4,687 (32.8%) are upper-income families. Of the 2,562 low-income families, 1,013, or 39.5% of them, have incomes below the poverty level. These families may have difficulties qualifying for housing-related products.

The weighted average median housing value in the non-MSA and MSA portions of the AA are \$49,975 and \$58,724, respectively. A local community contact stated that the median selling prices of existing homes in the area are approximately \$65,000 to \$75,000. New housing has been priced closer to \$100,000, although some

¹ A geography is either a census tract (CT) or block numbering area (BNA) and is a small, locally defined statistical area. Geographies are determined by the United States Census Bureau in an attempt to group homogenous populations.

² The following geographies are in FNBB's AA: Green Lake County: #'s 9801, 9802, 9803 and 9804; Waushara County: #'s 9601, 9602, 9605, 9606, 9607, and 9608; Winnebago County: #'s 20, 21, and 22; Fond du Lac County: #'s 415 and 416; Marquette County: # 9901.

newer homes have been priced lower.

The economy of the bank's AA has been stable. Recent studies, however, indicate that nearly half of all employed work outside the AA. Most of these commuters work in areas of Fond du Lac and Winnebago Counties outside of the bank's AA and Outagamie County where larger employers are located. The unemployment level of the AA, approximately 2.6%, compares favorably to the state unemployment rate of 3.4%. Some manufacturing, transportation and utility jobs have been lost in the area; however, service industry jobs have nearly doubled in a five year period. Health care services, metal and non-durable goods manufacturing, clothing manufacturing and retail services comprise the bulk of the employment base. In Waushara County, though, agriculture also represents a significant portion of the employment base even though relatively few farms are in the AA. Major employers in the AA include Berlin Memorial Hospital, Berlin Foundry, Ripon Award Jackets, Incorporated and Nelson Muffler.

There is strong competition among financial institutions in the area. In Green Lake County, where the bank's main office is located, there are 11 financial institutions with offices, not including credit unions or non-bank financial institutions. In the City of Berlin itself, there are several financial institutions. Throughout FNBB's AA, competitors include independent community banks, separately-chartered banks of larger holding companies, branches of larger, regional institutions, credit unions and non-bank financial institutions such as mortgage companies and loan brokers.

In an effort to assess community credit needs, we conducted a community contact in conjunction with this examination. In addition to our contact, we reviewed community contacts conducted by other regulatory agencies during 1997. Our contact was with a local government official. The most frequently cited credit need was first time home buyer loans and multi-unit housing for the disabled and elderly. Our community contact stated that the general condition of housing in the Berlin area was good. The community had received Community Development Block Grant (CDBG) funds in 1988, 1991 and 1996 targeted for housing rehabilitation programs. The total amount of CDBG funds received was approximately \$1.6 million. Our contact indicated that although new homes are selling fairly quickly, there has not been extensive pressure on the existing stock of available to housing to meet demand; including demand from low- to moderate-income families. Based on the cited need for first-time home buyer loans, and due to residential-related lending comprising a substantial portion of FNBB's loan portfolio, residential-related lending carried the most weight in assessing the bank's performance under the CRA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes:

C FNBB's overall distribution of residential-related loans to borrowers of different income levels is satisfactory. The bank's distribution of small loans to businesses is good.

Table 1 illustrates the bank's record of residential-related lending to borrowers of different income levels within its assessment area. The information is based on a sample of 42 residential-related loans originated by the bank in 1998. The sample included home purchase, refinance and construction loans.

Income Category	# Loans Extended	% Loans Extended	\$ Loans Extended*	% Loans Extended	% of Families by Income Level**	Ranges of Incomes in Category***
Low-income	2	4.8%	80	3.6%	17.9%	<\$20,900
Moderate-income	12	28.5%	435	19.8%	21.2%	\$20,900<\$33,440
Middle-income	16	38.1%	861	39.1%	28.1%	\$33,440<\$50,160
Upper-income	10	23.8%	781	35.4%	32.8%	\$50,160 & above
N/A****	2	4.8%	47	2.1%	N/A	N/A
Total	42	100%	2,204	100%	100%	

* Dollar amount in thousands

** Based on 1990 census data

*** Based on HUD estimate of 1998 Median Family Income in non-metropolitan areas of the State of Wisconsin

**** Income information not available

Table 1 indicates a distribution of residential-related loans that is satisfactory given the borrower characteristics of FNBB's assessment area. FNBB's lending to moderate-income borrowers exceeds the income characteristics of the AA. The percentage of loans to low-income borrowers is below the characteristics of the AA. However, given that nearly 40% of all low-income families in the AA have incomes below the poverty level, the bank's distribution of loans to low-income borrowers is considered reasonable. Also, the percentage of dollars loaned to low- and moderate-income individuals is indicative of the smaller dollar loans that are typically made in those income ranges.

FNBB's commitment to residential-related lending is also demonstrated by comparing FNBB's percent of residential-related loans as a percent of total loans to a local peer bank group. The local peer group used in this comparison consists of all banks in Green Lake, Waushara, Winnebago, Fond du Lac and Marquette Counties with total assets between \$50 million and \$150 million. The peer group consists of 12 banks, including FNBB. As of June 30, 1998, the most recent available peer information, FNBB's residential-related loan portfolio equaled 52.8% of average total loans. The residential-related loan portfolio of the local peer group averaged approximately 40% of average total loans. Conversely, the local peer group does, on average, have a higher percentage of their portfolio in commercial loans than FNBB.

Table 2 represents FNBB's distribution of small loans to businesses. The table illustrates the percentage of loans to businesses with revenues less than \$1 million compared to the percent of businesses in the AA with revenues less than \$1 million. The percentage of bank loans to businesses with revenues less than \$1 million is based on a sample of 20 business loans originated by the bank in 1998. Table 2 also illustrates the percent of small loans to businesses by origination amount. This portion of the table is based on new loan reports prepared by bank management in 1998 and includes letters of credit.

Businesses with Revenues of \$1 Million or Less		Percent of Loans by Original Amount Regardless of Business Size***		
% of Businesses*	% of Bank Loans**	\$100,000 or Less	> \$100,000 to \$250,000	>\$250,000 to \$1 Million
91.0%	90.0%	85.1%	11.9%	3.0%

* Based on 1990 census data

** Based on a sample of 20 business loans originated in 1998

*** Based on bank prepared new loan reports for 1998

Table 2 indicates that FNBB has a reasonable distribution of small loans to businesses. FNBB's percentage of loans to businesses with revenues less than \$1 million is commensurate with the demographics of the area.

Furthermore, the bank originates a substantial majority of its loans in smaller dollar amounts. Dollar size is used a proxy analysis for small business lending as loans under \$100,000 are typically extended to smaller businesses.

FNBB's agricultural loan portfolio comprise only 5% of total loans. New loan reports prepared by bank management indicate that the majority of FNBB's agricultural loans are in dollar amounts less than \$300,000. Based on 1990 census data, only 5% of total businesses in the AA are farms. Because there are relatively few farms in the AA, and agricultural loans comprise only a small portion of the bank's loan portfolio, less weight was placed on the bank's agricultural lending performance than on residential-related or non-farm commercial lending in assessing FNBB's performance under the Community Reinvestment Act.

Geographic Distribution of Loans:

C FNBB has a reasonable geographic distribution of both residential-related and commercial loans.

Our sample of residential-related and commercial loans indicated that FNBB is making loans throughout its assessment area. We did note fewer loans originated on the perimeter of the bank's AA, but this is to be expected as these areas are situated further away from FNBB offices. Furthermore, other financial institutions are located in those areas. Further analysis of the bank's geographic distribution of loans does not produce meaningful results as there are no low- or moderate-income geographies in the bank's AA.

Loan-to-Deposit Ratio:

C FNBB's average loan-to-deposit ratio is more than reasonable given the bank's size, financial condition and assessment area credit needs.

FNBB's average loan-to-deposit (LTD) ratio is 91.8%, based upon quarterly performance since its July 17, 1996 examination through December 30, 1998. The bank's average LTD during the rating period ranks 2nd among 12 banks in a local peer group. The range of LTD averages of the 12 bank peer group is 59.7% to 96.3%, with an overall average of 81.2%. FNBB's local peer group for this analysis is the same as discussed under the "Lending to Borrowers of Different Incomes and to Businesses of Different Sizes" above. Furthermore, FNBB has sold approximately \$8 million in the secondary market during 1997 and 1998. FNBB's LTD ratio would be higher had it not sold these loans.

Lending in Assessment Area:

C FNBB originates a substantial majority of its loans within its assessment area.

Table 3 illustrates the number and dollar volume of residential-related loans originated by the bank in and out of its assessment area. The table is based on a sample of 42 residential-related loans originated in 1998 and includes home purchase, refinance, and construction loans. Based on this sample, a significant majority of FNBB's loans are originated within the bank's AA.

TABLE 3 - LENDING WITHIN THE ASSESSMENT AREA					
Residential-Related					
Number In AA	Number Out AA	% In AA	\$ In AA*	\$ Out AA*	% In AA
39	3	92.9%	\$1,972	\$232	89.5%

Source: Sample of 42 residential-related loans originated by the bank in 1998

* Dollar Amount in Thousands

A sample of 20 commercial loans originated in 1998 was also chosen for this analysis. Based on the sample selected, Table 4 below indicates that a significant majority of commercial lending during this time period was

made within the bank's assessment area:

TABLE 4 - LENDING WITHIN THE ASSESSMENT AREA					
Commercial Loans					
# In	# Out	% In	\$ In*	\$ Out*	% In
18	2	90.0%	\$1,320	\$118	91.8%

Source: Sample of 20 commercial loans originated in 1998

* Dollar amount in thousands

Response to Consumer Complaints and Compliance with Fair Lending Laws and Regulations

The OCC conducted a fair lending examination of FNBB concurrently with its CRA examination. A comparative analysis between prohibited basis denials and a non-prohibited basis control group was not performed as there was an insufficient number of prohibited basis denials by product type to complete a meaningful analysis. Instead, we focused on reviewing the bank's loan policies and procedures during the credit origination process. Specifically, we selected a sample of 15 diverse applications to ascertain that applicants are being treated as explicitly required under the Equal Credit Opportunity Act (ECOA). The results of our review indicated that applicants are being treated as required under the ECOA.

The bank has not received any CRA-related complaints since its last CRA examination.