



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 2, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of Commerce in Duluth
Charter Number 14109**

**1314 East Superior Street
Duluth, Minnesota 55805**

**Comptroller of the Currency
Minneapolis North Field Office
302 West Superior Street, Suite 307
Duluth, Minnesota 55802**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

- National Bank of Commerce in Duluth's (NBC) loan-to-deposit ratio is strong in comparison to other local lending institutions.
- NBC's performance of lending within its assessment area is reasonable given that all business loans sampled and a substantial majority of the residential real estate loans were originated in the assessment area.
- NBC has a reasonable distribution of loans to businesses of different revenue sizes and reasonable distribution of business loans throughout the assessment area.

DESCRIPTION OF INSTITUTION

NBC has total assets of \$54 million. The main office is in the city of Duluth, Minnesota. The bank has no branches. The bank operates one deposit-taking automated teller machine (ATM) located within the assessment area.

Both NBC and affiliate National Bank of Commerce in Superior are wholly-owned subsidiaries of Natcom Bancshares, Inc. Natcom Bancshares, Inc. is a two-bank holding company located in Superior, WI. Effective January 1, 2000, the holding company chartered a new bank in Superior, Wisconsin. At that time, the assets and liabilities of the former National Bank of Commerce in Superior (Charter No. 14109) were divided between the existing charter, which was relocated to Duluth, Minnesota, and a new charter in Superior based on the geographic location of customers. Due to the significant change in the bank's assessment area following the division of assets and relocation to Minnesota, this CRA evaluation only includes data since January 1, 2000 as reflective of the bank's current lending operations in Duluth, Minnesota. This evaluation does not consider any lending activities of its affiliate, National Bank of Commerce in Superior (Charter No. 23941). Effective January 1, 2003, National Bank of Commerce in Duluth and National Bank of Commerce in Superior were merged. This bank is the surviving institution. Its main office was relocated from Duluth, Minnesota to Superior, Wisconsin.

As of September 30, 2002, NBC's \$39 million loan portfolio was composed of \$29.6 million in commercial and commercial real estate loans (76.4% of total loans), \$8.6 million in residential real estate loans (22.1%), and \$0.6 million in consumer and other loans (1.4%). Net loans and leases comprise 70% of NBC's total assets. Based on portfolio growth since January 1, 2000, the primary product lines are commercial and commercial real estate loans. Residential real estate lending represents a secondary product line. Given the limited volume of residential real estate loans originated since January 1, 2000, this evaluation only utilized residential lending to verify and support general lending patterns.

There are no legal impediments or other factors, including the financial condition of the bank, which limit NBC's ability to meet the credit needs of its assessment area. This is the first CRA

evaluation of this charter since its relocation to Minnesota and the division of the assets and liabilities of the former National Bank of Commerce in Superior into two separate charters.

DESCRIPTION OF ASSESSMENT AREA

NBC's assessment area (AA) is primarily the Duluth, Minnesota portion of the Duluth-Superior Metropolitan Statistical Area (MSA) #2240. The bank's AA consists of 43 census tracts in St. Louis County. The AA includes the cities of Duluth, Proctor, and Hermantown and the townships of Midway, Rice Lake, Duluth, Lakewood, Canosia, Fredenberg, Gnesen, Normanna, North Star, Alden, and Pequaywan. The AA includes the following census tracts: 1-38 and 101-106. The AA includes the geographies of the bank's office and deposit-taking ATM as well as surrounding geographies in which the bank originated most of its loans. The AA consists of whole census tracts. The AA does not arbitrarily exclude any low- or moderate-income areas considering the limited bank's size, single office, and the large, rural demographics of St. Louis County. The bank's AA meets regulatory requirements. The AA includes six low-income census tracts, ten moderate-income census tracts, sixteen middle-income census tracts, nine upper-income census tracts, and two undefined census tracts. The bank's main office is located in a low-income census tract.

Based on 1990 census data, the population of the AA is approximately 108,024. 1990 Census data also reported that the AA has approximately 27,200 families and that 18.09% and 17.35% of those families were low- and moderate-income, respectively. The percentage of families reporting income below the poverty level is 14.99%. Based on 1990 census data, 64.6% of the AA's 45,500 total housing units are owner-occupied. Shipping, lumber/paper, light manufacturing, and tourism support the area's economy. Significant employers in the area are in the retail trade, services, government, and manufacturing industries.

There are several competing banks, thrifts, and credit unions located or offering services in the bank's AA. These competing institutions include a small community bank of \$14 million in total assets to branches of large regional banks with total assets in excess of \$1 billion.

One community contact, a private economic development foundation, was interviewed as part of this evaluation to better assess the credit needs of the AA. Based on the community contact, the primary credit needs in the AA are business and residential real estate improvement lending. New and small business lending were the specific credit needs mentioned throughout the interview. Also, per the contact, the large number of independent financial institutions, branches of larger financial institutions, credit unions, and mortgage companies located in the Duluth market support the area's residential real estate lending needs. New entrants into the residential real estate market are at a disadvantage due to the established market share of existing companies.

Table 1. shows the assessment area composition by income level based on 1990 census data. Table 2. shows the assessment area family income demographics based on 1990 census data. HUD's 2002 updated MSA median family income is \$50,800. Table 3. shows the assessment area business demographics by census tract based on 1990 census data.

Table 1.

Assessment Area by Income Level	Number of Geographies	Percent of Geographies
Low-Income	6	13.95%
Moderate-Income	10	23.26%
Middle-Income	16	37.21%
Upper-Income	9	20.93%
Undefined	2	4.65%

Table 2.

Family Income Level *	Percent of AA Families
Low-Income (<50% of median family income)	18.09%
Moderate-Income (50% to <80% of median family income)	17.35%
Middle-Income (80% to <120% of median family income)	22.46%
Upper-Income (at least 120% of median family income)	42.10%

* Table 2. reflects the assessment area family income demographics based on 1990 Census data.

Table 3.

Tract income level	Percent of AA Businesses
Low-Income (<50% of median family income)	30.38%
Moderate-Income (50% to <80% of median family income)	10.28%
Middle-Income (80% to <120% of median family income)	40.09%
Upper-Income (at least 120% of median family income)	19.25%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending in Assessment Area

NBC originates a substantial majority of its loans in its AA. Examiners randomly sampled 20 business purpose loans from all originations since January 1, 2000. All 20 of the randomly sampled business loans were originated within the AA. Examiners reviewed Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) data as secondary support for the bank's lending patterns. An analysis of the bank's January 1, 2000 through September 30, 2002 Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR)* data showed 95 loans originated in the assessment area (totaling \$10.1 million), which represents 75.4% by number and 72.4% by dollar of the total residential real estate loans reported. Internally generated CRA reports confirm these levels of lending in the AA.

* A review for compliance with the Home Mortgage Disclosure Act (HMDA) was completed during the last consumer compliance examination dated January 2000. NBC accurately reported HMDA data at that time. We sampled HMDA-LAR entries made since that time to ensure the continued accuracy of HMDA-LAR data. No material errors were identified.

Loan-to-Deposit Ratio

NBC's loan-to-deposit ratio performance is strong. The bank's average quarterly loan-to-deposit ratio for the eleven quarters beginning March 31, 2000 is 115%. NBC's quarterly loan-to-deposit ratio ranged from 151% to 88% during this period. The bank's average quarterly loan-to-deposit ratio is highest among a comparable group of four other community banks with similar lending ability in the assessment area. The other four institutions in the MSA have total assets between \$73 million and \$159 million and an average quarterly loan-to-deposit ratio of 76% during this period. Their average quarterly loan-to-deposit ratios ranged from 69% to 83%.

Lending to Businesses of Different Revenue Sizes

NBC's distribution of loans in the assessment area to businesses of different revenue sizes is reasonable. A significant portion of originated business loans, compared to area demographics, is made to businesses with annual revenues of more than \$1 million. Bank-generated CRA reports indicate similar business lending patterns. While NBC's lending pattern does not meet the demographic of businesses with annual revenues of less than \$500 thousand, the overall distribution is still considered reasonable. NBC's capital base and affiliate relationship enable the bank to lend funds to larger businesses than the numerous smaller banks in the assessment area. In addition, community contacts did not specifically indicate a lack of small business lending.

A random sample of 20 business loans, all located in the bank's assessment area, shows the following distribution of business loans to different-sized businesses:

Gross Annual Revenues (000s)	Number of Loans		Dollar Volume of Loans (000s)		Number of Total Business in AA*	
Revenues < \$100	4	20.0%	\$880	18.1%		
Revenues \$100 - \$250	6	30.0%	\$795	16.3%		
Revenues \$250 - \$500	2	10.0%	\$206	4.2%		
Total Revenues < \$500	12	60.0%	\$1,881	38.6%	3,697	83.9%
Revenues \$500 - \$1,000	3	15.0%	\$808	16.6%	313	7.1%
Revenues > \$1,000	5	25.0%	\$2,178	44.8%	398	9.0%
Total	20	100.0%	\$4,867	100.0%	4408	100.0%

* Represents number of businesses that reported revenue. Four percent of businesses within the AA did not report revenues and are excluded from this distribution.

Geographic Distribution of Loans

NBC's geographic distribution of commercial loans reflects a reasonable distribution throughout all census tracts. NBC's distribution of business loans within low-income census tracts is below tract demographics and NBC's distribution of business loans within moderate-income census tracts exceeds demographics based on the percentage of businesses located in the census tracts. The overall distribution reflects reasonable distribution given the small sample of loans and the distribution of loans to businesses in middle- and upper-income census tracts similar to tract demographics.

An analysis of the commercial loan sample showed the following distribution:

Tract Income Category	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Total Tracts	Percentage of AA Businesses
Low-Income	4	20.0%	\$656	13.5%	14.0%	30.4%
Moderate-Income	4	20.0%	\$1,331	27.4%	23.3%	10.3%
Middle-Income	8	40.0%	\$1,791	36.8%	37.2%	40.1%
Upper-Income	4	20.0%	\$1,083	22.3%	20.9%	19.2%
Total	20	100%	\$4,867	100%	95.4%*	100%

* Total does not equal 100% as census tracts with undefined income are not included.

Responses to Complaints

There have been no CRA-related complaints against the bank.

Fair Lending Review

An analysis of 2000 through November 2002 HMDA data, public comments, and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.