



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 20, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Hiawatha National Bank
Charter Number 15698

N1555 770th Street & Highway 35
Hager City, WI 54014-0000

Office of the Comptroller of the Currency

MINNEAPOLIS SOUTH
222 South Ninth Street Suite 800
Minneapolis, MN 55402

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 following summarizes the criteria considered in assessing the bank's performance:

- The bank's net loan-to-deposit ratio is reasonable and reflects satisfactory volume of lending given the bank's size, financial condition, and assessment of credit needs.
- The bank meets the credit needs of the community by originating a majority of loans inside the assessment area.
- The distribution of loans reflects excellent penetration of loans to businesses of different sizes and residential real estate borrowers of different income levels.
- The geographic distribution of loans reflects excellent dispersion throughout the Assessment Area (AA). The bank has an excellent distribution of business and home refinance loans to moderate-income geographies.

SCOPE OF EXAMINATION

We evaluated the bank's CRA-related activities in meeting the credit needs of its assessment area for the period beginning January 1, 2002 through June 30, 2008. In order to determine the bank's performance, we selected primary products based on number and dollar volume of originations for the period beginning January 1, 2006 and ending June 30, 2008. We determined that commercial and residential real estate loans are the bank's primary products. Within residential real estate, home refinance is the primary product and represents 54.7% of all reported home mortgage originations during the evaluation period. We selected a random sample of 20 loans for each of the primary products in order to evaluate the bank's lending performance.

DESCRIPTION OF INSTITUTION

Hiawatha National Bank (HNB) is a \$43 million intrastate community bank chartered in Hager City, WI. Hager City is located in West Central Wisconsin near the Minnesota border. The bank has two full-service branches in addition to its main office located in Hager City. The branch facilities are located in Glenwood City, Wisconsin and Maiden Rock, Wisconsin. The bank operates six cash-dispensing automated teller machines (ATMs), one each in Hager City, Maiden Rock, Bay City, Glenwood City, Pepin, and Spring Valley, all in Wisconsin.

The bank's primary business focus includes commercial and residential real estate lending. The bank also does agricultural and consumer lending. As of June 30, 2008, the bank reported the following outstanding loans by dollar volume: commercial (41.0%), residential real estate (37.2%), agricultural (14.7%), and consumer (7.1%). Net loans represent 60.5% of total assets.

The bank's ownership structure has not changed since the last CRA examination. HNB is 100% owned by Hiawatha Bancshares, Inc., a one-bank holding company headquartered in Hager City, Wisconsin.

The bank received an "Outstanding" rating at the March 4, 2002 CRA examination. There are no financial, legal, or other factors that impede the bank's ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA(S)

HNB's AA consists of all of Pierce County, two census tracts (CTs) in St. Croix County (1207 and 1208), and one CT in Pepin County (9502). Two of the census tracts in Pierce County (9601 and 9608) are moderate income and the remaining are middle income. The AA is located in the Minneapolis-St-Paul-Bloomington MN-WI Metropolitan Statistical Area (MSA). The bank's AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate-income CTs.

HNB operates on the eastern edge of the MSA. This portion of the MSA is largely rural and agricultural. However, the area has experienced population growth, industrial development, and housing growth due to its proximity to Minneapolis and St. Paul. For instance, the AA population has increased from 45,362 persons based on the 1990 US Census to 50,586 persons according to the 2000 Census data.

According to U.S Department of Housing and Urban Development statistics, the 2008 estimated median family income for the MSA is \$80,900. There are 12,877 families in the AA, of which 19.9% are low income, 23.4% are moderate income, 31.1% are middle income, and 25.6% are upper income families. Approximately 3.1% of families live below the poverty level.

Unemployment within the assessment area is slightly below the State of Wisconsin unemployment rate. According to the Department of Labor Bureau and Statistics, as of August 2008, unemployment rates in Pierce, St. Croix and Pepin counties were 3.6%, 4.0%, 3.8% respectively, compared to the Wisconsin rate of 5.1%. Major employers in the AA are in the education and government services including schools, government, and nursing homes. Largest private employers for people living in the AA include McMillan Electric, Redwing Shoe, and Heat & Glow.

The local economy is stable. The local agricultural economy has benefited from good crops and prices over the last few years. The local business economy is also relatively stable according to our conversation with bank management and our community contact.

Competition among financial institutions in the AA is strong. There are approximately 18 financial institutions with offices in the bank's market. According to the June 30, 2008 FDIC Summary of Deposits, HNB ranked 12th in total deposits and has a 2.59% deposit market share.

We contacted a representative of an Economic Development Corporation who indicated the credit needs of the local community are met by local financial institutions and these banks are active in working with local businesses. Primary financing opportunities in the AA include financing part-time and small businesses. The community contact stated there are a number of small part-time enterprises and a multitude of small rural businesses that look to area banks for financing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's net loan-to-deposit ratio has fluctuated during the evaluation period, mainly due to management's risk strategy and changes in commercial and residential real estate loan demand. The bank's quarterly net loan-to-deposit ratio averaged 70.8% over the 26 quarters from January 1, 2002 through June 30, 2008. This is comparable to a similarly situated bank in the AA which reported a 71.2% quarterly net LTD ratio over the same timeframe. Similarly situated banks are defined as those with total assets between \$34MM and \$75MM, with an office open in the AA during the entire evaluation period. The majority of banks with a presence in the AA are considerably larger institutions.

Lending in Assessment Area

HNB originates a majority of its loans to borrowers located within its AA. We sampled 40 loans originated from January 1, 2006 to June 30, 2008 and found 82.5% of loans by number, and 88.5% of loans by dollar volume were made to businesses and residential real estate borrowers located within the bank's AA. The following table summarizes loans originated inside and outside the AA by number and dollar volume:

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans ('000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	80.0%	4	20.0%	20	2,370	85.8%	393	14.2%	2,763
Residential RE	17	85.0%	3	15.0%	20	1,648	92.7%	129	7.3%	1,777
Totals	33	82.5%	7	17.5%	40	4,018	88.5%	522	%	4,540

Source: Bank records

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

Income distribution reflects excellent penetration among businesses of different sizes and borrowers of different incomes.

HNB has excellent penetration of loans to businesses of different sizes within the AA. Our sample test of 20 loans to businesses indicated the percentage by number and by dollar volume, exceeded the AA demographics. The following table compares the bank’s commercial lending activity by revenue size to AA demographics:

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	53.6%	3.4%	43.0%	100%
% of Bank Loans in AA by #	95.0%	5.0%	0.0%	100%
% of Bank Loans in AA by \$	78.1%	21.9%	0.0%	100%

Source: Loan sample and 2007 Business Geodemographic Data

The demographic data shows a large percentage (43.0%) of loans originated to businesses within the AA have unknown revenues. Our community contact indicated business owners in the AA are primarily sole proprietors with gross revenues of less than \$1 million. Therefore, it is possible that the AA percentage could be higher than the stated 53.6%; however, the bank’s performance is still considered excellent.

Lending to Residential borrowers

Home refinance is the primary product in the bank’s residential real estate portfolio. Home refinance accounted for 57.8% by number and 54.7% by dollar of loans originated during the evaluation period. Our sample test of 20 home refinance loans revealed excellent distribution to borrowers of different income levels. The percentage of home refinance loans to low- and moderate-income borrowers significantly exceeded AA demographics.

Borrower Distribution of Residential Real Estate Refinance Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home refinance	19.9%	55.0%	23.5%	35.0%	31.1%	10.0%	25.6%	0.0%

Source: Loan sample and 2000 US Census Information

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the AA. Our assessment focused on moderate-income CTs since there are no low-income geographies in the AA.

HNB has excellent distribution of business loans in moderate-income geographies based on our sample of 20 loans to businesses.

Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
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%	0.0%	14.3%	30.0%	85.7%	70.0%	0.0%	0.0%

Source: Loan sample and 2007 Business Geodemographic Data

HNB has an excellent distribution of home refinance loans in moderate-income geographies based on our sample of 20 loans of this type.

Geographic Distribution of Residential Real Estate Home Refinance in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Refinance	0.0%	0.0%	14.3%	50.0%	85.7%	50.0%	0.0%	0.0%

Source: Loan sample and 2000 US Census Information

RESPONSES TO COMPLAINTS

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

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

We found no evidence of discriminatory or other illegal credit practices that would inhibit the bank’s ability to meet community credit needs.