



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

January 22, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank  
Charter Number: 21610

111 Jefferson Street  
Waupaca, WI 54981

Office of the Comptroller of the Currency

Milwaukee Field Office  
1200 North Mayfair Road, Suite 200  
Wauwatosa, WI 53226

**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 **Satisfactory**. In addition, the bank's CRA performance in the State of Texas and the State of Wisconsin is **Satisfactory**. The information contained in this performance evaluation pertains to performance in both states.

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

Major factors supporting this rating include:

- The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and credit needs of the Assessment Areas (AAs).
- The bank's level of loans originated within its AAs is adequate.
- The distribution of borrowers reflects reasonable penetration among individuals of different income and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the Texas AA.
- The bank's community development performance through community development loans, qualified investments, and services demonstrates excellent responsiveness to community development needs in its assessment areas.

## **Scope of Examination**

First National Bank's Community Reinvestment Act (CRA) performance was evaluated under the Intermediate Small Bank Lending and Community Development Tests. For the Lending Test, the bank's primary loan products, small business loans and home mortgage loans (including purchases and refinances) were chosen. The bank's two AAs were selected for full-scope evaluations.

The evaluation covers the period since the date of the previous CRA examination, March 17, 2004. The Lending Test evaluated small business and home mortgage loans originated or purchased between January 1, 2006 and December 31, 2007. The Community Development Test covered the community development loans, investments, and services during the entire evaluation period. A random sample of 30 loans for each of the bank's primary loan products (business and home mortgage loans) were taken in each of the bank's two AAs. Additionally, the most recent demographic data available was obtained for the Lending Test. The bank's community development loans, investments, and services were reviewed based on information provided by the bank. Only those items that met the regulatory definition of community development were considered in the Community Development Test.

## Description of Institution

FNB is a \$510 million financial institution with its main office located in downtown Waupaca, Wisconsin. The institution's primary owner is Waupaca Bancorporation, Inc., a one-bank holding company located in Waupaca, Wisconsin. The bank operates six branches in addition to the main office in Waupaca, Wisconsin. The Wisconsin branches are located in Iola, Chetek, and Weyauwega. The Texas branches are located in Pampa, Shamrock, and Childress. The bank opened no new branches and closed no branches during our evaluation period. The bank acquired Dairyman's State Bank just days prior to our review, and the acquisition is not reflected in this evaluation. The hours of operation as well as products and services offered at the branches are all similar. All locations have 24-hour Automated Teller Machines (ATMs).

The bank offers traditional community bank products and services. As of December 31, 2007, the loan portfolio represented 89.8% of total assets. The primary loan products are business (commercial real estate and commercial & industrial) loans and residential real estate. By dollar volume, the loan portfolio consists of commercial real estate (45.2%), residential real estate (21.3%), commercial & industrial (9.0%), agriculture (7.5%), construction & land development (5.2%), multi-family residential (3.8%) and all other loans (8.0%) as of 12/31/2007. The overwhelming majority of growth during the two-year period ending December 31, 2007 was in commercial real estate loans, which accounted for 94% of all loan growth. Tier 1 capital totaled \$42.8 million at December 31, 2007.

The bank's business strategy has historically been in general community banking, with a primary niche in business banking. More recently though, the bank has purchased many large participation loans originated outside of the bank's traditional lending area. Funding for these loans has come from non-traditional sources, and not local deposits.

There are no legal or financial impediments limiting the bank's ability to meet community credit needs. FNB's last CRA evaluation was on March 17, 2004, using the "CRA Large Bank" procedures. The bank received a "Satisfactory" rating.

## Description of Assessment Areas

FNB has two AAs, one in Wisconsin and one in Texas. Neither AA is located in a Metropolitan Statistical Area (MSA). The Wisconsin AA includes the whole counties of Waupaca and Barron. The Wisconsin AA has a total of 21 census tracts; 0 low- and moderate-income tracts, 20 middle-income tracts, and 1 upper-income tract. The Texas AA includes the whole counties of Gray, Wheeler, and Childress. The Texas AA has 11 census tracts; 0 low-income tracts, 2 moderate-income tracts, 8 middle-income tracts, and 1 upper-income tract. The Texas and Wisconsin AAs comply with regulatory requirements and do not arbitrarily exclude any low- or moderate-income geographies.

Two Census Tracts (CTs) in Childress County have been designated as "Distressed & Underserved Middle-Income Nonmetropolitan Tracts" due to poverty and being in a "Remote Rural" location. Four CTs in Gray County have been designated as

"Distressed" due to population loss. Two CTs in Wheeler County have been designated as "Distressed" and "Underserved" due to population loss and being in a "Remote Rural" location.

The Wisconsin AA has a population of 96,694, based on 2000 US Census data. The median family income (MFI) was \$46,286 according to 2000 census data and the 2007 updated Department of Housing and Urban Development (HUD) estimated MFI is \$54,700. A breakdown of family income levels in the Wisconsin AA shows 16.8% as low-income (4,445 families), 19.4% as moderate-income (5,132 families), 27.2% as middle-income (7,187 families) and 36.6% as upper-income (9,651 families). 5.3% or 1,408 families have income levels that fall below the poverty level in the Wisconsin AA.

The Texas AA has a population of 35,716, based on the 2000 US Census data. The median family income (MFI) was \$39,431 according to 2000 census data and the 2007 updated Department of Housing and Urban Development (HUD) estimated MFI is \$41,800. A breakdown of family income levels in the Texas AA shows 17.7% as low-income (1,633 families), 17.0% as moderate-income (1,577 families), 22.6% as middle-income (2,087 families), and 42.7% as upper-income (3,948 families). 11.7% or 1,085 families have income levels that fall below the poverty level in the Texas AA.

Community contacts in both AAs were interviewed to determine the state of the local economy and opportunities for financial institution participation in community development.

In the Wisconsin AA, a representative of the City of Waupaca was contacted. The interviewee stated the local economy is relatively stable. The Waupaca Foundry continues to be the main employer with about 1,500 employees in the Waupaca area. The area's industrial parks are doing well, with little to no vacancy. Overall, the credit needs of the community reflect those of a small community. Finally, the individual stated local financial institutions are doing a good job at meeting the credit needs of the community.

The community contact in Texas is a director of the Pampa Chamber of Commerce. The individual characterized the local economy as stable. There is a push to diversify the economy and become less dependent on the oil industry as a source of employment. The credit needs of the area are typical of that of a small, rural community; mostly small business loans and residential real estate. Overall, the interviewee believes the local financial institutions do a good job of meeting community credit needs.

Unemployment rates in Barron (5.5%) and Waupaca (5.0%) counties in Wisconsin were higher than the state average of 4.7% in 2006. The unemployment rate in Childress County (5.8%) exceeded the state average of 4.9% in 2006, while the rates in Gray (4.0%) and Wheeler (3.5%) counties in Texas were both lower than the state average.

Competition from other financial institutions is strong in the Wisconsin AA. 22 financial institutions, including FNB serve the two counties the bank operates in. As of June 30, 2007, FNB had a deposit market share of 14.5%, ranking first. Competition from other

financial institutions in the Texas AA is significant. Besides the bank, 11 other institutions serve the three counties in the AA. As of June 30, 2007, the bank had a deposit market share of 26.6%, ranking first among its competitors.

## **Conclusions with Respect to Performance Tests**

Small business lending is the bank's primary business line. Therefore, more weight was given to small business lending than home mortgage lending when evaluating lending performance under the performance criteria detailed below.

### **LENDING TEST**

#### **Loan-to-Deposit Ratio**

FNB's loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly LTD ratio averaged 103.6% over 19 quarters from March 31, 2003 to September 30, 2007. Two similarly situated commercial banks or state savings banks were identified for comparison within the Wisconsin AA. No similarly situated commercial banks or state savings banks chartered within the Texas AA were found for comparison. FNB ranks first out of the other two banks based on average LTD.

The average LTD ratio for all 10 domestic commercial banks and state savings banks chartered in the Wisconsin AA was 80.9%. The ratios ranged from 58.0% to 103.6%, with FNB ranking first. The average LTD ratio for all three domestic commercial banks and state savings banks charted in the Texas AA was 49.4%. The ratios ranged from 30.2% to 103.6%, with FNB ranking first.

<b>Financial Institution</b>	<b>Total Assets (September 30, 2007)</b>	<b>Average quarterly loan-to-deposit ratio (1Q03 – 3Q07)</b>
First National Bank	\$510,476	103.6%
First State Bank, New London, WI	\$329,093	91.8%
Dairy State Bank, Rice Lake, WI	\$255,737	58.9%

Source: Bank Call Report Information

#### **Lending in Assessment Area**

The bank's level of loan originations in its AAs is reasonable.

First National Bank originates a majority of the number of its loans to borrowers located within its defined assessment areas and approximately half of its loan by dollar volume. 61 business and 60 home mortgage loans originated during the evaluation period were reviewed. These are the bank's primary loan products.

The majority of the sampled business loans by dollar amount were outside of the assessment area. However, in light of the bank's strong performance with home

mortgage loans and considering the credit needs of the bank's AAs, the bank still has a reasonable penetration of loans within its AAs. As stated earlier, the bank's strategy has been to purchase many large participation loans originated outside its traditional lending area during the past year. In addition, the bank has business relationships with several larger small-businesses in Portage County, which is just outside of the Wisconsin AA. Six large dollar volume loans to Portage County borrowers represented 27% of the dollar amount of Wisconsin business loans sampled.

<b>TOTAL LOANS REVIEWED</b>								
Loan Type and AA	In Assessment Areas				Out of Assessment Areas			
	Number	% of Number	Dollars (000s)	% of Amount	Number	% of Number	Dollars (000s)	% of Amount
Business – Wisconsin	20	64.5%	\$1,506	25.2%	11	35.5%	\$4,470	74.8%
Business – Texas	23	76.7%	\$967	33.3%	7	23.3%	\$1,935	66.7%
Home Mortgage – Wisconsin	24	80.0%	\$2,497	89.8%	6	20.0%	\$284	10.2%
Home Mortgage – Texas	29	96.7%	\$1,677	91.7%	1	3.3%	\$151	8.3%
<b>Total</b>	<b>96</b>	<b>79.3%</b>	<b>\$6,647</b>	<b>49.3%</b>	<b>25</b>	<b>20.7%</b>	<b>\$6,840</b>	<b>50.7%</b>

Source: Bank records (verified by examiners)

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

As shown in the following two tables, the distribution of loans to businesses of various revenue sizes is adequate. In both AAs, the number of bank loans to business with revenues under \$1 million exceeds the area demographics. By dollar volume, the percentage of loans to businesses with revenues under \$1 million is lower in the Wisconsin AA primarily due to one large borrower in the loan sample. The borrower has revenues in excess of \$1 million, and the particular loan amount was 10% of the total sample amount for Wisconsin AA businesses.

<b>Borrower Distribution of Loans to Businesses in the Wisconsin AA</b>			
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown
% of AA Businesses	53.0%	3.7%	43.3%
% of Bank Loans in AA by #	70.0%	15.0%	15.0%
% of Bank Loans in AA by \$	42.6%	53.4%	4.0%

Source: Sample of 20 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic data.

### **Borrower Distribution of Loans to Businesses in the Texas AA**

Business Revenues (or Sales)	$\leq \$1,000,000$	$> \$1,000,000$	Unavailable/Unknown
% of AA Businesses	60.2%	3.6%	36.2%
% of Bank Loans in AA by #	69.6%	17.4%	13.0%
% of Bank Loans in AA by \$	63.5%	29.7%	6.8%

Source: Sample of 21 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic data.

The distribution of home mortgages to borrowers of various income levels is reasonable for both AAs. The bank's percentage of loans to low-income borrowers is somewhat lower than the percentage of low-income families in the area. However, consideration is given to the percentage of families living below the poverty level (5.3% in the Wisconsin AA, and 11.7% in the Texas AA). The bank's lending to moderate income borrowers exceeds the demographics in both the Wisconsin and Texas AAs.

<b>Borrower Distribution of Home Mortgage Loans in the Wisconsin AA</b>								
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
% of Total	16.8%	16.7%	19.4%	33.3%	27.2%	16.7%	36.6%	33.3%

Source: Sample of 24 bank records and U.S. Census Demographic Data.

<b>Borrower Distribution of Home Mortgage Loans in the Texas AA</b>								
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
% of Total	17.7%	10.4%	17.0%	17.2%	22.6%	20.7%	42.7%	51.7%

Source: Sample of 29 bank records and U.S. Census Demographic Data.

## Geographic Distribution of Loans

Geographic distribution analysis was only performed on the Texas AA. The Wisconsin AA does not have any low- or moderate-income CTs, and therefore, an analysis would not be meaningful.

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the Texas AA. The percentage of bank loans in each CT, by income level, is similar to that of the demographic data.

<b>Geographic Distribution of Business Loans in the Texas AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
% of Total	0%	0%	10.6%	13.0%	81.1%	74.0%	8.3%	13.0%

Source: Sample of 23 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic data

<b>Geographic Distribution of Home Mortgage Loans in the Texas AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
% of Total	0%	0%	11.4%	10.3%	73.0%	69.0%	15.6%	20.7%

Source: Sample of 29 bank records (verified by examiners) and U.S. Census Demographic Data

## COMMUNITY DEVELOPMENT TEST

FNB performance under the Community Development Test is rated outstanding.

In particular, the community development lending activities reflect excellent responsiveness to community development needs of its AAs in relation to the bank's capacity and assessment area opportunities. The bank also generated an adequate level of qualified investments and community development services.

Retail banking services are very accessible to individuals of all income levels.

### Community Development Loans

FNB provided an excellent level of community development (CD) lending in both its Wisconsin and Texas AAs. The bank originated 5 qualifying CD loans totaling \$9 million in its AAs and one qualifying CD loan for \$3.7 million out of its lending area. These included:

- A loan for \$1.5 million in July 2007 to build a Residential Care Apartment Complex in the Wisconsin AA that is specifically targeted to low- and moderate-income (LMI) individuals. By making this loan, the bank helped the borrower provide affordable housing to low- and moderate-income senior residents.
- A loan for \$1 million in July 2007 to a car dealer in its Texas AA. The CT where this business is located is designated a Distressed Middle-Income Non-metropolitan Tract due to population loss. The loan allowed the borrower to remove a vacant building in a distressed neighborhood and build an attractive new building. The property the borrower previously owned was sold to another business that built a new facility and created approximately 4 new jobs that benefit low- and moderate-

income individuals.

- A \$3.8 million loan in October 2006 to refinance and expand a hotel in its Texas AA. The CT where the business is located is designated a Distressed Middle-Income Non-metropolitan Tract due to population loss. By making the loan, the bank helped the borrower add an additional 6 jobs for LMI individuals.
- A \$1.4 million loan in July 2006 to refinance the construction of a hotel in its Texas AA. The CT where the business is located is designated a Distressed Middle-Income Non-metropolitan Tract due to the poverty level and being in a remote rural area. By making the loan, the bank helped the borrower retain jobs for approximately 5 LMI individuals and to encourage economic development in the area by supporting tourism.
- A \$1.4 million loan in May 2007 to finance a new cattle conditioning pen business. The CT where the business is located is designated a Distressed Middle-Income Non-metropolitan Tract due to population loss and being in a remote rural area. By making this loan, the bank allowed the borrower to expand his business and create 5 new jobs for moderate-income individuals.
- A \$3.7 million loan in November 2006 to fund a real estate development project. The loan proceeds were used to revitalize and stabilize a distressed/low-income area in downtown Milwaukee, Wisconsin. Although this loan did not benefit either of the bank's AAs, positive consideration is given because the bank has adequately met the needs of its own AA.

In addition to the qualified CD loans noted above, FNB originated 5 commercial loans totaling \$401,843 that have as their purpose community development, but which are otherwise considered small business loans. These loans resulted in, among other things, stabilization and job retention in moderate-income tracts and support for a nonprofit organization that provides health services predominantly for individuals with incomes below the poverty level.

#### Community Development Investments

The bank made a reasonable amount of qualified investments and grants in its assessment areas.

The bank made 39 donations in its Texas AA totaling \$24,090 and 46 donations in its Wisconsin AA totaling \$59,328. These grants and donations benefited approximately 40 different organizations that serve the bank's AAs. These donations supported social services, job skills training for low- and moderate-income individuals, small business development, affordable housing, and benefited LMI individuals hurt by natural disasters.

#### Community Development Services

FNB provides a good level of community development services.

Retail services are very accessible to individuals of different income levels. The bank's branch in Pampa, Texas is adjacent to a moderate income CT. The bank offers a full range of consumer and commercial banking products and services at all of its branches.

In addition to its full-service branch and ATM locations, the bank also offers internet banking and telephone banking for added accessibility to the bank's products.

Small Business Administration (SBA) loans are available in both AAs for businesses that may not qualify for conventional loan terms. The bank also participates in the Wisconsin Housing and Economic Development Authority (WHEDA) Home Program. This program is a first-time home buyer program that provides below-market fixed interest rates and allows for a lower down payment than conventional mortgage programs. This program primarily benefits LMI borrowers.

During the evaluation period, FNB's employees provided technical assistance and financial expertise to approximately seventeen different community development organizations. These organizations address AA needs for affordable housing, economic development, and social services to low- and moderate-income individuals.

The following examples illustrate some of the services provided:

- The bank president serves on the Waupaca Industrial Development Committee, which serves small businesses and promotes economic development.
- A loan officer in Wisconsin serves as a board member on the East Gateway Economic Development Strategic Planning Committee, which promotes small businesses and economic development.
- A loan officer in Texas serves on the Childress Economic Development Committee. This organization that promotes small businesses in the Texas AA.
- Many bank officers serve on boards and in other capacities for non-profit organizations that provide a wide range of social services, including affordable housing services to low- and moderate-income families, disaster assistance, and services for LMI women and children.

## **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**

There was no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet the needs of the community.