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Comptroller of the Currency  
Administrator of National Banks

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## PUBLIC DISCLOSURE

September 10, 1996

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peoples National Bank  
Charter Number 12644

301 North Iowa Avenue  
Hayward, WI 54843

Office of the Comptroller of the Currency  
Eau Claire Duty Station  
1310 West Clairemont Avenue, Suite 100  
P.O. Box 8187  
Eau Claire, WI 54702-8187

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 Community Reinvestment Act (CRA) performance of Peoples National Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, between May 21, 1993, and September 10, 1996. The bank's CRA performance was rated Satisfactory in 1993. 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 Outstanding Record of Meeting Community Credit Needs.

Peoples National Bank is rated Outstanding based on the bank's excellent loan to deposit ratio and strong record of lending to businesses of different revenue levels.

The following table indicates the performance level of Peoples National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Peoples National Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performanc e	Meets Standards for Satisfactory Performanc e	Does not meet Standards for Satisfactory Performanc e
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

## DESCRIPTION OF INSTITUTION

Peoples National Bank (PNB) is a \$92 million financial institution located in a small rural community in Northwest Wisconsin. Its main office and automated teller machine are located in a middle income geography in Sawyer County. The bank also has one limited service (only loans originated) branch office in the City of Eau Claire. The branch opened during August of 1995 and is located in an upper income geography in Eau Claire County. The facility is scheduled to become a full-service branch in early September of this year. Due to the distance between the main office and the branch, the bank has two assessment areas. PNB offers a wide range of conventional and government-sponsored loan products well suited to community credit needs. Its \$74 million dollar loan portfolio consists primarily of commercial (47%) and residential (43%) loans. Consumer loans (10%) account for the balance of the portfolio. There are no financial, legal, or other factors which impede the bank's ability to meet its CRA obligations.

## DESCRIPTION OF THE HAYWARD ASSESSMENT AREA

PNB's Hayward assessment area consists of all of Sawyer County and portions of Bayfield and Washburn counties. The assessment area includes 12 block numbering areas (BNAs) and complies with regulatory requirements. Based on 1990 census data, ten geographies in the assessment area are moderate income and two are middle income. Of the 5,545 families in the assessment area, 31% are low income, 24% are moderate income, 22% are middle income and 23% are upper income. The Department of Housing and Urban Development's 1996 estimate of median family income is \$37,700 for the State of Wisconsin non-metropolitan areas.

The population of the assessment area is 19,316. About 26% of the population resides in the two middle income geographies. The assessment area also includes the Lac Courte Oreilles (LCO) Indian Reservation. About 11% of the population in the assessment area is Native American. Sawyer County is the only area county whose growth rate exceeds state and national averages.

The local economy is stable and primarily dependent on the tourism and timber industries. The area is recognized as a popular tourist destination with over 200 lakes and streams. And over 75% of the region is covered by forest. A large share of the economy is supported by individuals with second or recreational homes in the area. Over 50% of the area workforce is employed in the retail trade and service occupations. The preservation of natural resources has prohibited the introduction of heavy manufacturing. Major employers in the area include the LCO Casino and Tribal Government, Hayward Community School District, Louisiana Pacific, Northern Lakes Coop and the Hayward Area Memorial Hospital.

Competition among financial institutions in the assessment area is moderate. Six financial institutions serve the financial needs of the Hayward area. Other banks, savings and loans and credit unions serve the financial needs of communities from the surrounding area. First Federal and Heritage State Bank are the primary competitors for residential and commercial

loans, respectively. The Hayward Community Credit Union also competes for consumer loans.

Community contacts performed by regulators within the last two years include a government official and a member of the LCO Tribal Government. Community credit needs include small business startup loans and affordable housing.

#### DESCRIPTION OF THE EAU CLAIRE ASSESSMENT AREA

PNB's Eau Claire assessment area consists of all of Eau Claire County and includes 16 census tracts (CTs). Eau Claire County is a portion of the Eau Claire Metropolitan Statistical Area (MSA). Based on 1990 census data, three geographies in the assessment area are moderate income, eleven are middle income and six are upper income. The population of the assessment area is 85,183. Of the 20,866 families in the assessment area, 18% are low income, 17% are moderate income, 25% are middle income and 40% are upper income. The Department of Housing and Urban Development's 1996 estimate of median family income is \$38,700 for the Eau Claire MSA.

The local economy is strong and diverse. Eau Claire serves as a major center for health and professional services, education, retail trade and other industry for west central Wisconsin. Agriculture and tourism also contribute significantly to the local economy. Major employers include the University of Wisconsin - Eau Claire, Menards, Hutchinson Technology and local municipalities and school districts.

Competition among financial institutions is strong. PNB's main competition is Charter Bank for commercial loans and First Federal for residential loans.

Community contacts conducted by regulators within the past two years include a government official, a representative of a public utility, an economic development specialist and an employee of a private non-profit agency designed to assist members of the Hmong community. Community credit needs include affordable housing and small business loans.

#### CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

PNB's loan to deposit ratio is strong and rising. The current loan to deposit ratio of 98% is reflective of significant loan growth in the commercial and consumer loan portfolios in the last few years. Since June 30, 1994, the commercial and consumer real estate loan portfolios have grown at an annual rate of 27% and 24%, respectively. PNB's loan to deposit ratio and growth figures do not include \$8.3 million in loans sold on the secondary market since May 31, 1993.

Loan Type	6-30-95 Balance (000's omitted)	Annual Growth	6-30-96 Balance (000's omitted)	Annual Growth
Consumer Real Estate	\$23,131	11%	\$31,818	38%
Commercial	\$28,095	31%	\$34,574	23%

Other Consumer	\$6,063	40%	\$7,278	20%
Gross Loans	\$57,302	20%	\$73,687	29%

PNB's average quarterly loan to deposit ratio since the previous CRA examination (May 1993) was 81%. This compares to an average quarterly loan to deposit ratio of 74% for ten similarly situated banks during the same period. The average quarterly loan to deposit ratio for the ten banks ranged from 54% to 88%. We define similarly situated banks as all banks in Wisconsin similar in size and loan mix. PNB's ratio also compares favorably to the average quarterly loan to deposit ratio of 67% for 25 banks in a surrounding seven county area, also during the same time period. The average quarterly loan to deposit ratio for the 25 banks ranged from 44% to 88%.

A substantial majority of loan originations is within PNB's assessment areas. Management tracks lending inside the assessment areas via an outstanding loan report by township or census tract. We verified the accuracy of this report. This is a reasonable proxy for the location of loan originations because PNB does not sell or purchase a significant volume of loans. We also sampled 142 consumer real estate loans and 40 commercial loans to complete our analysis. The following table demonstrates the volume of PNB's lending within its assessment areas.

Lending Within Assessment Area		
Type of Analysis	Percentage	
	Number	Dollar
All Outstanding Loans	90%	75%
Consumer Real Estate Loan Sample	78%	73%
Commercial Loan Sample	90%	83%

The geographic distribution of credit reflects reasonable dispersion throughout the assessment areas. To reach this conclusion, we relied on management reports that track the location of outstanding loans by BNAs or CTs. PNB's level of lending is consistent with the distance from the bank's offices, location of competing financial institutions, amount of economic activity and distribution of the population base within the assessment areas.

Geographic Distribution of Credit Within the Assessment Areas						
	Hayward AA		Eau Claire AA		Combined AA	
	Number	Dollar	Number	Dollar	Number	Dollar
Moderate Income BNAs/CTs:	54%	51%	12%	9%	53%	48%
Middle Income BNAs/CTs	46%	49%	36%	26%	46%	48%
Upper Income BNAs/CTs	-	-	52%	65%	1%	4%

The distribution of credit among businesses of different incomes is strong. We sampled 36 commercial loans to businesses inside the assessment area to arrive at this conclusion. Over 70% of commercial loans were to businesses with revenues less than \$500 thousand.

Distribution of Credit by Business Revenue Levels		
Business Revenue Characteristics	Commercial Loan Sample	
	Hayward AA	
Number	Dollar	
Less than \$100,000	14%	14%
\$100,000 - \$249,999	33%	28%
\$250,000 - \$499,999	25%	23%
\$500,000 - \$999,999	8%	10%
Greater than \$1,000,000	19%	25%

As of this CRA evaluation, all commercial loans were originated at the Hayward office.

The distribution of credit by borrower income levels is reasonable. We based our determination on a sample of 84 consumer real estate loans secured by a primary residence inside PNB's assessment areas.

Distribution of Credit by Borrower Income Levels						
Borrower Income Characteristics	Consumer Real Estate Loan Sample					
	Hayward AA		Eau Claire AA		Combined AA	
Number	Dollar	Number	Dollar	Number	Dollar	
Low Income	10%	4%	-	-	7%	2%
Moderate Income	22%	13%	4%	4%	17%	10%
Middle Income	32%	33%	46%	44%	36%	37%
Upper Income	37%	50%	50%	53%	41%	51%

It should be noted the proportion of lending to low and moderate income individuals does not reflect the income demographics of the Hayward assessment area as PNB's performance is influenced by changes in the Sawyer County residential real estate market. Population expansion in Sawyer County is primarily attributable to people relocating into the area. Many of those moving into the area are higher income individuals purchasing waterfront homes.

Examiners also viewed loan size as a proxy for PNB's willingness to lend to low and moderate income individuals and small businesses of varying revenues. These numbers

shown in the table on the following page also support PNB's satisfactory performance under this factor. More than 60% of the bank's consumer real estate loans by number originated at balances less than the assessment area's median housing value of about \$50 thousand. And over 75% of commercial loans originated at balances less than \$100 thousand.

Consumer Real Estate Loan Portfolio			Commercial Loan Portfolio		
Loan Size at Origination	Percentage		Loan Size at Origination	Percentage	
	Number	Dollar		Number	Dollar
Less than \$25,000	34%	12%	Less than \$100,000	76%	24%
\$25,000 - \$39,999	26%	19%	\$100,000 - \$249,999	17%	26%
\$40,000 - \$54,999	14%	15%	\$250,000 - \$499,999	3%	12%
\$55,000 - \$69,999	8%	11%	\$500,000 - \$999,999	2%	16%
Greater than \$70,000	17%	43%	Greater than \$1,000,000	1%	22%

There are other factors that support PNB's commitment to assist low and moderate income borrowers with their credit needs, including:

- PNB is the leading Wisconsin Housing & Development Authority (WHEDA) home loan lender in Sawyer County. WHEDA loan programs are tailored to qualify lower income borrowers. Since January 1, 1995, PNB originated 9 of the 17 WHEDA home purchase loans and two of three WHEDA home improvement loans in Sawyer County. WHEDA home loans are funded by WHEDA and are not reflected in PNB's loan to deposit ratio.
- PNB qualified two commercial loans within the assessment area for the Federal Home Loan Banks Community Investment Program (CIP). The CIP features below market advances designed to finance commercial and economic development projects that benefit low and moderate income households and/or neighborhoods.

We did not identify any instances of illegal discrimination or discouragement of credit during the concurrent compliance review.