



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 19, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Eagle River
Charter Number: 12124**

**400 East Wall Street
Eagle River, WI 54521**

**Comptroller of the Currency
Iron Mountain Field Office
P.O. Box 666
Iron Mountain, MI 49801**

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.

- A majority of loans are originated inside the assessment area.
- The geographic distribution of loans reflects an adequate dispersion throughout the assessment area.
- The bank's loan-to-deposit ratio is reasonable.
- There is an adequate distribution of loans to individuals of different income levels, including low- and moderate-income levels, and businesses of different sizes.

DESCRIPTION OF THE INSTITUTION

The First National Bank of Eagle River (FNB-Eagle River) is a \$113 million community bank with \$9 million in tier one capital. Its main office is located in Eagle River, Wisconsin, a moderate-income block numbering area (BNA). The institution is majority owned by Ellis Bankshares, Inc., a one-bank holding company. The bank operates three full-service branches, in St. Germain, Phelps, and Three Lakes. All of these branches are located in middle-income BNAs. Additionally, 24-hour accessible depository ATMs are located at the main office and the three branches. The bank opened the Three Lakes branch in May 1999. No branches have been closed since the previous performance evaluation.

The bank offers traditional community bank services with a net loan portfolio representing 72% of total assets as of September 30, 2002. The bank is primarily a residential real estate and commercial loan lender. The dollar value of the loan portfolio consists of 66% residential real estate loans, 28% commercial loans, and 6% consumer loans.

The bank offers Small Business Association (SBA) loans to eligible small businesses. Additionally, the bank is involved with the Vilas County Community Development Block Grant Program (CDBG) and the City of Eagle River low-income housing program. Generally, both programs provide funds to low- and moderate-income borrowers that are purchasing a home or home site.

There are no financial or legal impediments that would hinder the bank's ability to help meet the credit needs of its assessment area. The previous CRA evaluation dated May 12, 1997, resulted in a satisfactory rating.

DESCRIPTION OF THE ASSESSMENT AREA

The bank's assessment area includes 25 BNAs in northeastern Wisconsin. The area includes all of Vilas county, the northern portion of Forest county, the eastern portion of Iron county, and the northern portion of Oneida county. The assessment area is comprised of one low- (4%), 10 moderate- (40%), and 14 middle-income (56%) BNAs. The low-income BNA is located in western Vilas County. The moderate-income BNAs are located in Iron, Forest, and Vilas

counties. The assessment area is considered legal and appropriate. It consists of only whole BNAs and does not arbitrarily exclude any low- or moderate-income geographies.

According to 1990 census data, the total population of the bank's assessment area is 36,773, which is comprised of 10,856 families. Income levels for these families are as follows: 2,487 low-income families (23%), 2,649 moderate-income families (25%), 2,646 middle-income families (24%), and 3,074 upper-income families (28%). Of the low-income families, 1,013 (40%) are below the poverty level. The HUD updated median family income for nonmetropolitan areas in Wisconsin was \$48,400 in 2001, \$46,700 in 2000, and \$44,400 in 1999. These figures were used in the borrower income distribution test. The 1990 census median family income for nonmetropolitan areas in Wisconsin is \$30,290. This figure was used in the geographic distribution test. The median housing value within the assessment area is \$57,800, with 31% of the total housing units being owner-occupied. Of the 38,181 total housing units, 23,451, or 61%, are classified as vacant. A majority of these units are secondary homes that are used only a few months out of the year.

The current local economy is characterized as stable, but has weakened somewhat with the downturn in the national economy and mild winters. The local economy is heavily dependent on tourism, both in the winter and summer months, with logging being secondary. Mild winters with minimal snow over the past several years have had a negative affect on the local economy. The major employers in the area include the following: Eagle River Hospital, Vilas County, Eagle River Newspaper, and Northland Pines School District. The average unemployment rate for January through October of 2002 for Wisconsin was 5.2%. The average unemployment rate for the bank's assessment area for the same time period was 6.5%. These figures are not seasonally adjusted.

Competition in the area is generally strong. The bank's competitors include branches of two multi-state banks, branches of two large Wisconsin state banks, the main office and branch of one Wisconsin community bank, branches of six other Wisconsin community state banks, several credit unions and mortgage companies. Based on the latest deposit market share information from June 30, 2002 compiled by the FDIC, FNB-Eagle River, with a market share of 8.71%, ranks fourth out of all FDIC-insured institutions with at least one branch located in Vilas, Oneida, Forest, or Iron counties. Two large Wisconsin state banks and one multi-state bank have market shares greater than FNB-Eagle River totaling 59%. The balance of the market share is divided among eight institutions with market shares ranging from 7.80% down to .81%.

In conducting this assessment of the bank's performance, we contacted the managing broker of a local real estate agency. The contact stated that local financial institutions are meeting the credit needs of the community and had only favorable comments concerning the bank's performance.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given its size, financial condition, and credit needs of the community. The average quarterly loan-to-deposit ratio for the bank since the last examination is 80%, which ranks second in their peer group of four similarly situated banks. The peer group consists of banks with assets less than \$150 million that are chartered within 50 miles of FNB-Eagle River. FNB-Eagle River has the largest level of average assets of these banks at \$114 million. The other banks' average assets ranged from \$49 million to \$94 million. The average loan-to-deposit ratios for the similarly situated banks ranged from 74% to 92%, over the same time period.

Lending in Assessment Area

The bank originates a substantial majority of loans inside its assessment area. This conclusion is based on an analysis of the original dollar amount and number of all commercial, residential real estate and consumer loans originated or refinanced by the bank between January 2000 and December 2002. A comparison of zip code and BNA boundaries indicated they are similar; therefore, the location of borrowers with loans in the selected time period was determined using their zip code as a proxy for the BNA address. A report sorted by zip code and loan type was generated to complete the analysis. The following table illustrates the level of lending inside the bank's assessment area:

Penetration of Lending Inside the Bank's Assessment Area January 2000 – December 2002 Loan Originations		
	% of Total Number of Loans Inside the Assessment Area	% of Total Dollar Amount of Loans Inside the Assessment Area
Commercial Loans	89%	90%
Consumer Loans	90%	90%
Residential Real Estate Mortgages	79%	76%
Total	84%	81%

As evidenced in the above table, the percentage of residential real estate mortgages both in number and dollar amount are below the commercial and consumer portfolio ratios. It should be noted that the bank records the borrower's primary address, which may be outside the bank's assessment area. However, in the majority of loans the funds are being used to purchase or refinance secondary residences within the bank's assessment area.

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

The bank's lending practices represent a reasonable penetration among individuals of different income levels, including low- and moderate-income borrowers, and businesses of different sizes. The bank's primary loan products were used in our sample and are depicted in the following tables. A sample of 30 randomly selected commercial customers located in the bank's assessment area indicates the following breakdown of annual revenues:

Lending Distribution Based on Revenue Size of Businesses January 2000 – December 2002			
Revenue Size of Businesses Sampled (000's)	Bank Lending Distribution by Number of Loans	Percent	Percentage of Businesses in Each Revenue Category (census information)
< \$100	11	37%	89%
\$100 - \$500	11	37%	
\$500 - \$1,000	3	10%	6%
> \$1,000	3	10%	5%
Revenue not Reported	2	6%	-
Totals:	30	100%	100%

The table above shows 90% of the businesses sampled have revenues less than \$1 million. Loans for businesses with unreported revenues include loans where no income information was evident in the loan file. These businesses are included in the less than \$1 million revenue category because it can be reasonably inferred from the type of business that gross revenues are under \$1 million.

The following table is based on an analysis of 30 residential first lien real estate mortgage loans containing income information for the borrower. These customers are located within the bank's assessment area and were randomly selected from all residential first lien real estate mortgages originated since January 1, 2000.

Lending Distribution Based on Income Level of Residential First Lien Real Estate Borrowers January 2000 – December 2002 Loan Originations			
Borrower Income Level	Bank Lending Distribution by Number of Loans	Bank Lending Distribution by Dollar Value of Loans	Percentage of Families in each Income Category (Census information)
Low	7%	4%	23%
Moderate	33%	34%	25%
Middle	37%	34%	24%
Upper	23%	28%	28%
Totals	100%	100%	100%

As indicated by the above table, 40% of the number and 38% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 48% of the assessment area's population. This represents an adequate distribution of lending to borrowers of different income levels. The lower percentage of dollars loaned to low-income borrowers is indicative of the smaller loans that are typically made to customers in this income range. In addition, 40% of the low-income families in the assessment area are below the poverty level. These families would not typically qualify for real estate mortgage loans.

Geographic Distribution of Loans

Our analysis of the commercial and first lien residential real estate mortgage loans sample above also indicates FNB-Eagle River has a reasonable dispersion of loans throughout its assessment area, with lending evident in a majority of the BNAs. This is illustrated in the following table:

Geographic Distribution Based on Number and Dollar Amount of Loans Made in Assessment Area January 2000 – December 2002 Loan Originations						
	% of Number Originated in the Low-income BNA	% of Dollar Amount Originated in the Low-income BNA	% of Number Originated in the Moderate-Income BNAs	% of Dollar Amount Originated in the Moderate-Income BNAs	% of Number Originated in the Middle-Income BNAs	% of Dollar Amount Originated in the Middle-Income BNAs
Commercial Loans	0%	0%	47%	37%	53%	63%
Percentage of Businesses in the Assessment Area (census information)	2%		39%		59%	
First Lien Real Estate Mortgages	0%	0%	47%	45%	53%	55%
Percentage of Owner-Occupied Housing in the Assessment Area (census information)	3%		33%		64%	
Total Loans	0%	0%	47%	40%	53%	60%

Our sample of 30 commercial and 30 first lien residential real estate loans showed no loans made in 12 of the BNAs in the bank's assessment area. Four of the BNAs are moderate-income and one is low-income. These areas are on the outer edge of the bank's assessment area and most are sparsely populated. Additionally, none of the bank's branches are located within these areas. Borrowers in these BNAs have access to several nearby financial institutions. As evidenced by the above table, the bank adequately lends in the other moderate-income areas as a larger percentage of loans are made to both commercial and residential real estate customers than the percentage of businesses and owner-occupied housing units in those areas.

Responses to Complaints

No complaints have been received by the bank or OCC relating to the bank's CRA performance since the previous evaluation.

Fair Lending Review

An analysis of 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on analysis of this information (or absence of information), the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in conjunction with the previous CRA evaluation in 1999.