



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**February 3, 2002**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**National Bank of Commerce in Superior  
Charter Number 23941**

**1127 Tower Avenue  
Superior, WI 54880**

**Comptroller of the Currency  
Minneapolis North Field Office  
920 Second Avenue South, 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.**

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## **INSTITUTION'S CRA RATING**

**This institution is rated Satisfactory.**

National Bank of Commerce in Superior's (NBC) performance of lending within its assessment area is strong as all business loans sampled and a substantial majority of the residential real estate loans were originated in the assessment area. The bank's average quarterly loan-to-deposit ratio is reasonable in comparison to other similarly situated banks. NBC has a reasonable distribution of loans to businesses of different revenue sizes and to individuals of different income levels. Loans to individuals and businesses are reasonably distributed throughout the assessment area's geographic boundaries.

## **DESCRIPTION OF INSTITUTION**

NBC has total assets of \$210.4 million. The main office is in the city of Superior, Wisconsin and two branch offices are located in the small, rural communities of Poplar and Solon Springs, Wisconsin. The bank operates five deposit-taking automated teller machines (ATM) located within the assessment area.

In January 2000, the former National Bank of Commerce in Superior's assets and liabilities became divided between two separate charters, NBC and National Bank of Commerce in Duluth. Due to this division of assets, NBC's CRA examination only includes data since January 1, 2000. This date coincides with the date that the OCC granted a national bank charter to NBC. Both NBC and National Bank of Commerce in Duluth are wholly-owned subsidiaries of Natcom Bancshares, Inc. Natcom Bancshares, Inc. is a two-bank holding company located in Superior, WI.

As of December 31, 2001, NBC's \$135 million loan portfolio was composed of \$95.7 million in commercial and commercial real estate loans (70.8% of total loans), \$29.6 million in residential real estate loans (21.9%), \$6.6 million in consumer loans (4.9%), and \$3.1 million in other loans (2.4%). Net loans and leases comprise 63% of NBC's total assets. Based on portfolio growth since January 1, 2000, the primary product line is commercial real estate loans. Since residential real estate lending is also a significant product line, it was also considered, but to a lesser degree, in evaluating NBC's performance.

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. Due to the division of the former National Bank of Commerce in Superior into two separate charters, this is the first CRA examination for this charter.

## **DESCRIPTION OF ASSESSMENT AREA**

NBC's assessment area (AA) is primarily the Wisconsin portion of the Duluth-Superior

Metropolitan Statistical Area (MSA) #2240. The bank's AA consists of thirteen census tracts in Douglas County and one block numbering area (BNA). BNA 9501 consists of the northern portion of Washburn County. It includes all or part of Minong, Frog Creek, Gull Lake, Stinnett, and Brook townships. The bank's AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income census tracts or BNAs. The AA includes one low-income census tract, three moderate-income census tracts, nine middle-income census tracts, and one moderate-income BNA. The bank's main office is located in a moderate-income census tract. The two branches are located in middle-income census tracts.

Based on 1990 census data, the population of Douglas County is approximately 41,800 with 27,100 residents of the city of Superior. The population of BNA 9501 is approximately 1,700. 1990 Census data also reported that the assessment area has approximately 11,776 families and that 22.64% and 21.47% of those families were low- and moderate-income, respectively. The percentage of families reporting income below the poverty level is 11.4%. Based on 1990 census data, only 53% of the AA's 22,500 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. The average unemployment rate for Douglas County was 5.1% and 4.6% for 2001 and 2000, respectively.

There are several competing banks and credit unions located in the bank's AA. These competing institutions range from approximately \$25 million to \$125 million in total assets. However, NBC is the largest independent bank in the Metropolitan Statistical Area.

Based on community contacts, the primary credit need in the AA is residential real estate lending. Two community contacts were completed to better assess credit needs of the AA. Affordable housing was the primary credit need consistently mentioned. However, community contacts indicated no lack of financing opportunities for qualified applicants. Contacts cited limited quality housing stock, increasing home and lot prices, an abundance of rental housing units, and limited incomes to support the purchase and upkeep of homes as the primary problems facing homebuyers in the assessment area.

Table 1. shows the assessment area composition by income level based on 1990 census data. Table 2. shows assessment area family income demographics based on 1990 census data. HUD's 2001 updated MSA median family income is \$49,800.

**Table 1.**

<b>Assessment Area by Income Level</b>	<b>Number of Geographies</b>	<b>Percent of Geographies</b>
Low-Income	1	7.14%
Moderate-Income	4	28.57%
Middle-Income	9	64.29%
Upper-Income	0	0.00%

**Table 2.**

<b>Family Income Level *</b>	<b>Percent of Families</b>
Low-Income (<50% of median family income)	22.64%
Moderate-Income (50% to <80% of median family income)	21.47%
Middle-Income (80% to <120% of median family income)	23.84%
Upper-Income (at least 120% of median family income)	32.05%

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

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending in Assessment Area**

NBC's record of lending within its AA is strong. The bank originates a substantial majority of its loans within its AA. All 30 of the randomly sampled business loans were originated within the AA. An analysis of the bank's 2000 and 2001 Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR)\* data showed the total number of loans originated within the AA is 729 totaling \$42.5 million, which represents 95.5% by number and 93.8% by dollar of the total loans reported. Internally-generated CRA reports confirm strong levels of lending within the AA.

\* A review for compliance with the Home Mortgage Disclosure Act was completed during the last consumer compliance examination dated January 2000. NBC accurately reported Home Mortgage Disclosure Act data. No change in the bank's reporting practice was noted during this evaluation; therefore, no file review was completed to determine the accuracy of HMDA-LAR data.

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

NBC's loan-to-deposit ratio performance is reasonable. The bank's average quarterly loan-to-deposit ratio is 80.26% for the eight quarters beginning March 31, 2000. Compared to five other banks of similar asset size in the MSA, NBC's average quarterly loan-to-deposit ratio is slightly below the average but it ranks the bank third of the total six lenders. The other five institutions in the MSA have total assets between \$75 million and \$162 million and an average quarterly loan-to-deposit ratio of 84.63% over the same time period. However, NBC sells a significant volume of residential real estate loans in the secondary market. NBC sold approximately \$36 million of loans in 2000 and 2001. If all of these loans had been held in the bank's loan portfolio, the bank's loan-to-deposit ratio would increase to approximately 97%.

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

NBC's distribution of loans in the assessment area to businesses of different revenue sizes and to individuals of different income levels is reasonable.

### Lending to Businesses of Different Sizes

NBC's commercial lending pattern is reasonably distributed between businesses of different sizes. A random sample of 30 business loans, all located in the bank's assessment area, shows a reasonable distribution of business loans to different-sized businesses.

Gross Annual Revenues (000s)	# of Loans		\$ Volume of Loans (000s)		# of total business within AA*	
Revenues <\$100	5	16.7%	\$472	10.1%		
Revenues \$100-\$250	9	30.0%	\$2,186	47.0%		
Revenues \$250-\$500	4	13.3%	\$265	5.7%		
Total Revenues <\$500	18	60.0%	\$2,923	62.8%	1364	83.6%
Revenues \$500-\$1,000	2	6.7%	\$207	4.5%	110	6.8%
Revenues >\$1,000	10	33.3%	\$1,522	32.7%	157	9.6%
Total	30	100.0%	\$4,652	100.0%	1631	100.0%

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

A significant portion of originated business loans 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 enables the bank to lend funds to larger businesses than the numerous smaller banks in the assessment area. Also the number of businesses that did not report revenue is high at 17%, so potential errors in the business demographics may be significant. In addition, community contacts did not specifically indicate a lack of small business lending.

### Lending to Borrowers of Different Incomes

Analysis of the bank's HMDA-LAR for residential real estate loans originated in 2000 and 2001 shows a reasonable penetration to families in all income levels. Our analysis shows penetration into low- and moderate-income tracts is below demographics primarily due to the lack of affordable housing in Douglas County, particularly in the city of Superior. Based on two community contacts approximately half of the residential housing in Superior is at least 50 years old and in need of repair. In many cases, these units are not considered safe to occupy due to lead paint, plumbing, electrical, and structural problems. Contacts also stated that home and lot prices are increasing due to individuals from large metropolitan cities purchasing summer homes and driving up prices. In addition, the contacts stated that the city of Superior has an abundance of affordable housing units for rent that are not available for purchase.

In 2000 and 2001, the bank originated 708 home purchase, home refinance, and home improvement loans totaling approximately \$41 million within the AA. The following analysis is based on the three categories of loans reported on the HMDA-LAR with origination activity compared to the percentage of families by income level.

### Home Purchase Loans

Income Category	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Families
Low Income	9	6.6%	\$284	2.8%	22.64%
Moderate Income	22	16.2%	\$1,295	12.7%	21.47%
Middle Income	45	33.1%	\$3,247	31.8%	23.84%
Upper Income	60	44.1%	\$5,378	52.7%	32.06%
Total	136	100.0%	\$10,204	100.0%	100.00%

### Home Improvement Loans

Income Category	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Families
Low Income	12	11.1%	\$115	4.6%	22.6%
Moderate Income	19	17.6%	\$386	15.4%	21.5%
Middle Income	41	38.0%	\$875	34.9%	23.8%
Upper Income	36	33.3%	\$1,132	45.1%	32.1%
Total	108	100.0%	\$2,508	100.0%	100.0%

### Refinancing Loans

Income Category	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Families
Low Income	41	8.9%	\$1,099	3.9%	22.6%
Moderate Income	105	22.6%	\$4,311	15.4%	21.5%
Middle Income	123	26.5%	\$6,902	24.6%	23.8%
Upper Income	195	42.0%	\$15,753	56.1%	32.1%
Total	464	100.0%	\$28,065	100.0%	100.0%

The penetration of loans to families with low- and moderate-incomes is below demographics due to high poverty levels (11.4% of all families reported income that is below the poverty level as of the 1990 Census), a low owner-occupancy rate of 53%, and limited affordable housing stock. In an effort to actively reach out to qualified borrowers, NBC works closely with organizations such as the Wisconsin Housing and Economic Development Authority (WHEDA) and Northwest Wisconsin Community Services Agency (NWCSA) that cater to low- and moderate-income areas and families. Please refer to the CD Services section of this Evaluation.

### Geographic Distribution of Loans

NBC's overall geographic distribution of loans reflects a reasonable distribution. Commercial lending patterns indicate a good distribution among the geographies. Residential real estate lending is satisfactorily distributed among the various geographies of the AA.

### **Geographic Distribution of Commercial Loans**

NBC's geographic distribution of commercial loans is reasonable. Analysis of the commercial loan sample showed the following distribution. We focused our analysis on the number of loans as being reflective of lending patterns.

Tract Income Category	Number of Loans/		Dollar Volume of Loans (000s)		Percentage of Total Tracts
Low Income	1	3.3%	\$12	.3%	7.1%
Moderate Income	9	30.0%	\$1,602	33.3%	28.6%
Middle Income	20	66.7%	\$3,203	65.4%	64.3%
Total	30	100.0%	\$4,817	100.0%	100.0%

NBC's lending pattern exceeded the demographic for moderate-income geographies. NBC was slightly below the demographic for the one low-income tract. Analysis by dollar volume indicates greater disparity in the low-income tract. However, the loan originated within the low-income tract was to a large business with several larger preexisting loans originated prior to our sample timeframes. Therefore, dollar volume of lending does not provide a sound proxy for commercial lending distribution.

### Geographic Distribution of Residential Real Estate Loans

Analysis of the bank's 2000 and 2001 HMDA-LAR indicated a reasonable geographic distribution of residential real estate loans throughout the bank's assessment area. The analysis is based on the three categories of loans reported on the HMDA-LAR with origination activity compared to the percentage of owner-occupied housing units.

#### Home Purchase Loans

Income Tract/BNA	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Owner Occupied Units
Low Income (1)	2	1.4%	\$115	1.1%	2.4%
Moderate Income (4)	17	12.1%	\$1,054	10.1%	18.3%
Middle Income (9)	121	86.4%	\$9,284	88.8%	79.3%
Total	140	100.0%	\$10,204	100.0%	100.0%

#### Home Improvement Loans

Income Tract/BNA	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Owner Occupied Units
Low Income (1)	0	0.0%	\$0	0.0%	2.4%
Moderate Income (4)	11	10.0%	\$167	6.6%	18.3%
Middle Income (9)	99	90.0%	\$2,365	93.4%	79.3%
Total	110	100.0%	\$2,532	100.0%	100.0%

#### Refinancing Loans

Income Tract/BNA	Number of Loans		Dollar Volume of Loans (000s)		Percentage of Owner Occupied Units
Low Income (1)	2	0.4%	\$54	0.2%	2.4%
Moderate Income (4)	45	9.4%	\$2,055	7.2%	18.3%
Middle Income (9)	431	90.2%	\$26,571	92.6%	79.3%
Total	478	100.0%	\$28,680	100.0%	100.0%

The limited penetration in the low-income tract is primarily due to minimal lending opportunity, based on the small number of residential owner-occupied housing units. The below demographic penetration in moderate-income tracts is attributed to a significant commercial presence located within these tracts.

### **Record of Compliance with Anti-discrimination Laws**

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

### **Qualified Investments and CD Services**

National Bank of Commerce in Superior offers several lending services tailored to assist low- and moderate-income individuals and families. NBC assists qualified individuals in applying for special home purchase loans offered and funded by the Wisconsin Housing and Economic Development Authority (WHEDA). To qualify for a WHEDA home purchase loan, individuals must be first-time homebuyers, have good credit, steady income, and gross annual income less than the WHEDA limit for the county where the home is purchased. This program offers low- and moderate-income individuals and families down payment assistance, below market interest rates, and reduced closing costs. During 2000 and 2001, a total of 93 loans totaling \$4.7 million were funded by WHEDA in Douglas County. National Bank of Commerce in Superior assisted 15 low- and moderate-income applicants apply and obtain home loans totaling \$840M under the WHEDA program.

### **Responses to Complaints**

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