

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 26, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank of Commerce
Charter Number 14109

1127 Tower Avenue
Box 99

Superior, Wisconsin

Office of the Comptroller of the Currency
Duluth Field Office
302 West Superior Street, Suite 307
Duluth, Minnesota 55802

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 **National Bank of Commerce** prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of January 26, 1998. 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 **Satisfactory**.

National Bank of Commerce is satisfactorily meeting the credit needs of its assessment area. Lending patterns reflect excellent loan origination levels to borrowers of all income levels, including those with low- and moderate-incomes, and businesses of various revenue levels. The bank's loan volume is high, especially considering the large volume of residential real estate loans that the bank originates and later sells. Loan originations are reasonably dispersed throughout the entire assessment area and the majority of all originations come from within the assessment area.

DESCRIPTION OF INSTITUTION

National Bank of Commerce is a \$177 million bank with its main office in the city of Superior, Wisconsin and two branch offices south of Superior in the rural communities of Poplar and Solon Springs. It is the largest independent bank in Superior and offers a variety of loan products and services for consumer and commercial borrowers. The bank has no financial or legal impediments that prevent it from servicing its local community. The bank was rated "outstanding" at its prior CRA examination dated March 31, 1995.

The bank's \$111 million loan portfolio represents 63% of its assets. As noted in the chart to the right, the majority of the bank's outstanding loans are to businesses. However, the bank also underwrites a significant volume of residential real estate loans, many of which are subsequently sold to other financial institutions. The bank originated almost \$17 million dollars of such loans since its last CRA examination. These sold loans are not captured on the chart. If they were, the amount of residential real estate loans would increase by approximately 10 to 15 percentage points.

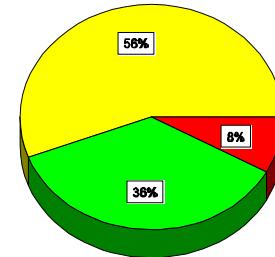
DESCRIPTION OF ASSESSMENT AREA (*Douglas County and Block Numbering Area 9501*)

In January 1996, the bank re-defined its assessment area (AA) to include all of Douglas County and block numbering area (BNA) #9501. This BNA borders southern Douglas County and spans across the northern portion of Washburn County. It includes all or part of Minong, Frog Creek, Gull Lake, and Stinnett townships. The bank's AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income census tracts or BNAs. In fact, it includes one low-income census tract, three moderate-income census tracts, one moderate-income BNA, and nine middle-income census tracts. The bank's main office is located in the only low-income census tract in the AA and the two branches are located in middle-income census tracts. The 1997 median family income for Douglas County is \$40,600 and \$39,600 for BNA #9501. Douglas County is included in metropolitan statistical area #2240 commonly known as Duluth/Superior MN-WI.

Based on 1990 census data, the AA has a population of 29 thousand. This census data also reports that the AA has approximately 11,776 families, of which, 22% have incomes meeting the definition of low-income, another 22% meeting the moderate-income definition. The area's economy is supported by shipping, lumber/paper, light manufacturing, and tourism. Significant employers in the area are in the retail trade, services, government, and manufacturing industries.

There are several competing banks and credit unions headquartered in the bank's AA. These

Outstanding Loan Mix



Commercial and Commercial Real Estate
Residential Real Estate
Consumer

competing institutions range from approximately \$25 million to \$110 million in total assets. Based on examiner knowledge of the area, community contacts, and previous CRA examinations, the primary credit needs in the AA are for residential real estate, other consumer, and small business lending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

National Bank of Commerce's lending patterns reflect excellent penetration to individuals of different income levels. Loan origination levels to families with low-incomes approach the demographics for the AA, while levels to families with moderate-, middle-, and upper-incomes reflect the demographics.

National Bank of Commerce's lending patterns also reflect reasonable penetration to businesses of different sizes. The bank's commercial lending is distributed between businesses of different sizes consistent with the business demographics of the AA.

Lending to Borrowers of Different Income Levels

National Bank of Commerce's lending pattern reflects excellent penetration to borrowers of different income levels. The bank began tracking borrower income levels in January 1996 for all loan originations. Examiners used this data to assess the bank's lending patterns. As of September 30, 1997, the bank's database included income information on 2,038 consumer borrowers.

As highlighted in the table below, the bank is lending to all income levels. More importantly, it is lending to low-income borrowers at a level approaching the AA's demographics and to moderate-income borrowers at a level reflective of the demographics. In doing so, it is helping to meet the credit needs of these income groups in a strong manner. The bank is also meeting the credit needs of middle- and upper-income borrowers as lending levels are also reflective of the demographics for these income levels. (The dollar volume of loans below is in thousands.)

<u>Income Level</u>	<u>Number of Loans</u>	<u>Demographics</u>	<u>Dollar Volume of Loans</u>
Low	355 or 18%	23%	\$2,082 or 5%
Moderate	455 or 22%	21%	\$6,279 or 16%
Middle	498 or 24%	24%	\$8,932 or 23%
Upper	730 or 36%	32%	\$21,655 or 56%

Residential Real Estate Market Share Data

Market share data derived from area banks' 1996 Home Mortgage Disclosure Act Statements also shows that National Bank of Commerce is doing an excellent job lending to individuals of low- and moderate-income levels. The Home Mortgage Disclosure Act Statements record residential real estate lending including applications and originations for home purchase, refinance, and improvement, frequently referred to as "HMDA loans".

The table below highlights that this bank's overall market share for HMDA loans is the highest in the AA. As the largest independent bank in the AA, this is expected. However, the data also highlights that National Bank of Commerce is originating loans for low- and moderate-income borrowers at levels which exceed its overall market share. This focus has resulted in the bank achieving the number one ranking of all HMDA reporting financial institutions in the AA. And this focus upon meeting the credit needs of these borrower groups further supports our conclusion that the bank has performed at a high level in this Performance Criteria. (In the table below, these abbreviations are used: "Origs" for originations; "Mod" for moderate; "Inc" for income; and "Mkt" for market.)

Overall Market Share and Ranking	Market Share of Low-Inc Originations	Market Share of Mod-Inc Originations	Total Low-Inc Origs to Total Origs in Mkt	Total Mod-Inc Origs to Total Origs in Mkt
19%	21%	20%	9%	19%
1st	1st	1st		

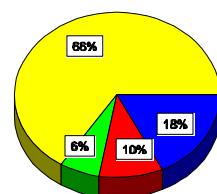
Lending to Businesses of Different Sizes

The bank's commercial lending is reasonably distributed between businesses of different sizes and consistent with the business demographics of the AA. As mentioned earlier, the bank began tracking income levels of its borrowers in January 1996 for all loan. As of September 30, 1997, bank management had compiled revenue data on 287 commercial borrowers with aggregate outstanding balances of almost \$24 million. Examiners compared this revenue data to the 1996 business demographic data compiled by Dunn and Bradstreet to assess the bank's commercial lending patterns.

Current (1996) information shows that there are approximately 1,350 businesses in the AA; most are small businesses. Of the 1,111 who have reported annual sales figures: 891 reported sales of under \$500 thousand; 83 reported sales of \$500-\$999 thousand; and, 137 businesses reported sales of over \$1 million. The chart to the right summarizes these figures.

The business revenue categories tracked by the bank do

Business Size Distribution



- █ Sales under \$500M
- █ Sales \$500M to \$999M
- █ Sales over \$1MM
- █ Did not report Sales

not exactly coincide with those detailed earlier; however, they are close enough for comparison purposes. As highlighted in the table below, a significant majority of the bank's commercial loans are to the smallest businesses. This lending pattern is consistent with the small business demographics discussed earlier and represents solid commercial lending performance to businesses of various sizes. (Note, the dollar volume below is in thousands.)

<u>Annual Sales Category</u>	<u>Number of Loans</u>	<u>Dollar Volume of Loans</u>	
Sales under \$400	132	46%	\$8,112
Sales \$400 and under \$700	54	19%	\$1,638
Sales \$700 and under \$1,000	20	7%	\$1,592
Sales over \$1,000	81	28%	\$12,266

Loan-to-Deposit Ratio

National Bank of Commerce underwrites a large volume of loans. Its loan-to-deposit ratio for outstanding loans is in line with other local financial institutions at 79%. (This percentage represents an average of the bank's quarterly loan-to-deposit ratios since its last CRA Public Evaluation dated March 31, 1995.) This ratio, however, does not reflect the large volume of residential real estate loans the bank originated and has sold to the secondary market. These originations have totaled almost \$17 million since March 31, 1995. As discussed earlier, this bank is the market leader in residential real estate HMDA lending in its AA.

There appears to be good lending opportunities in the bank's AA and several local financial institutions have high loan-to-deposit ratios. While these financial institutions are not truly peers of National Bank of Commerce, their ratios do provide a some degree of comparison in terms of loan volumes. Based on June 30, 1997 call report information, three other local institutions have ratios approaching 90%, another two are at 80%, and yet another at 45%.

Geographic Distribution of Loans

The distribution of the bank's loans reflects an overall reasonable dispersion throughout the AA consistent with its population dispersion. As mentioned before, the AA contains one low-income census tract, three moderate-income census tracts, one moderate-income BNA, and nine middle-income census tracts. There are no high-income census tracts or BNAs in the AA.

Bank management has tracked the locations of all loans currently outstanding, including residential real estate loans originated and sold to the secondary market and commercial loans participated to other financial institutions. Examiner analysis of this data relating to the outstanding balances of 3,706 loans (\$105 million) originated within the bank's AA shows the following loan penetration by number of loans, dollar volume, and percentages of population

residing in these areas.

Income Tract/BNA	Number of Loans and % of Total Loans by Number		Dollar Volume of Loans and % of Total Loans by Dollar Volume (\$ in thousands)		% of AA's Population Residing Within These tracts
1 Low-income tract	129	4%	\$8,845	8%	4%
4 Moderate-income tracts/BNAs	522	14%	\$20,434	20%	23%
9 Middle-income tracts	3,055	82%	\$75,593	72%	73%

As the table highlights, the bank's lending performance in the low-income tract is above the tract's population representation while lending to the moderate-income tracts is slightly below. Lending in the middle-income tracts is also above these tracts' population representation.

Geographic Distribution of HMDA-LAR Reported Residential Real Estate Loans

Examiner analysis of the bank's 1997 HMDA-LAR also determined a reasonable geographic distribution of HMDA loans throughout the bank's AA. Although there is a higher concentration of loans in the middle-income tracts, the bank's penetration in the low- and moderate-income tracts is reasonable. (There is significant commercial presence in these tracts and fewer residential owner-occupied housing units.)

Income Tract/BNA	Number of Loans and % of Total Loans by Number		Dollar Volume of Loans and % of Total Loans by Dollar Volume (\$ in thousands)		% of AA's Population residing within tract
1 Low-income tract	3	2%	\$57	1%	4%
4 Moderate-income tracts	31	17%	\$1,230	15%	23%
9 Middle-income tracts	148	81%	\$6,687	84%	73%

The bank's 1995 and 1996 HMDA-LAR show similar lending patterns within the bank's assessment area.

Lending in the Assessment Area

National Bank of Commerce originates the majority of its loans within its AA. As

discussed earlier, bank management has tracked the locations of all loans currently outstanding, residential real estate loans originated and sold to the secondary market, and commercial loans participated to other financial institutions. Examiner analysis of this data shows a solid percentage of originations by number and by dollar volume are from within the AA. The dollar volumes below are in millions.

Total Loans by Number	4,209	Inside AA	3,706	88%
Total Loans by Dollar Volume	\$144	Inside AA	\$104	72%

Response to Complaints

Neither the bank nor the Comptroller of the Currency have not received any CRA-related complaints.

Additional Services Provided

National Bank of Commerce also provides important loan services to its AA not assessed elsewhere in this Public Evaluation. In particular, the bank underwrites home and home improvement loans for two special programs. They include the Wisconsin Housing and Economic Development Authority (WHEDA) and the City of Superior Community Development's Home Ownership Opportunity Program (HOOP). The WHEDA program focuses on making loans available to low- and moderate-income borrowers. The HOOP program focusses upon the same individuals and provides financing for down payment or closing costs. (As an underwriter, the bank does not fund these loans. Rather, the bank does the initial analysis, qualification, and documentation work.)

These efforts have resulted in a number of borrowers obtaining loan funds from these programs and clearly provide a benefit to the AA and its people. In 1996, for example, this bank's efforts resulted in 20 WHEDA loans totaling \$526,000. This amount represents 65%, by number, and 57%, by dollar, of all 1996 WHEDA loans made in the AA. In 1997, this bank made 24 WHEDA loans totaling \$1,062,000. This amount represents 56%, by number, and 59%, by dollar, of all 1997 WHEDA loans made in the AA. In these same two years, the bank originated 7 HOOP loans of the program's 36.

Fair Lending

This examination did not identify any substantive violations of antidiscrimination laws.