



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 12, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Hiawatha National Bank
Charter Number 15698**

**Highway 35 & 770th Street
N1555 770TH Street
P.O. Box 156
Hager City, WI 54014**

**Office of the Comptroller of the Currency
Eau Claire Duty Station
P.O. Box 8187
Eau Claire, Wisconsin 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 Hiawatha National Bank prepared by Office of the Comptroller of the Currency, the institution's supervisory agency, as of August 12, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25. This institution received a rating of Satisfactory Record of Meeting Community Credit Needs at the June 3, 1994 CRA examination.

INSTITUTION'S CRA RATING: This institution is rated Outstanding Record of Meeting Community Credit Needs.

Hiawatha National Bank has an excellent record of meeting the credit needs of low and moderate income individuals, small businesses, and small farms within its assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	HIAWATHA NATIONAL BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
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 CRA examination.		

DESCRIPTION OF INSTITUTION

Hiawatha National Bank (HNB) of Hager City is a \$17 million financial institution located in west-central Wisconsin along the Minnesota border. The main office and branch location are located in middle income geographies. The bank has no automated teller machines.

Hiawatha Bancshares, Inc., a one bank holding company, owns HNB. HNB offers a variety of conventional and government sponsored loan products which are well suited to community credit needs. The \$12 million loan portfolio is distributed among residential real estate (36%), commercial (32%) and agricultural (26%) loans. Consumer (6%) loans account for the balance. There are no financial, legal or other factors which impede the bank's ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREA

HNB's assessment area consists of all eight census tracts in Pierce County and both Block Numbering Areas (BNA's) in Pepin County. The assessment area meets regulatory requirements. Pierce County is part of the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). Based on 1990 census data, three census tracts are moderate income geographies. The remainder of the census tracts and BNA's are all middle income geographies. There are no low or high income geographies within the bank's assessment area.

The population of the bank's assessment area is 39,872 people. Of the 13,694 households in the assessment area, 28% are low income (11% are below the poverty level) and 19% are moderate income. The Department of Housing and Urban Development's 1996 estimate of median family income is \$54,600 for the Minneapolis/St. Paul MSA and \$37,700 for the State of Wisconsin nonmetropolitan areas. The assessment area's median housing value is \$60,500.

The assessment area's economy is stable and primarily dependent upon the manufacturing, service and retail industries. Agriculture is predominant in the central and southern portions of the assessment area around the bank offices. Area unemployment levels vary, and are strongly influenced based on the proximity to the twin cities of Minneapolis and St. Paul. Unemployment levels in the western-most portions of Pierce County are below both state and national averages, while unemployment levels in the remainder of Pierce County and in Pepin County tend to be higher than state averages, but lower than national averages.

Population growth is similarly impacted by the Twin Cities. Between 1990 and 1995, Pierce County's population grew by 6%, while Pepin County grew by less than 1%. Major employers in the assessment area include Meyer Manufacturing, University of Wisconsin - River Falls, and the local governments of Pepin and Pierce Counties. A significant portion of the local workforce commutes to destinations outside the assessment area for work. Common destinations include Red Wing, Hastings, Minneapolis and St. Paul, MN and Hudson, WI.

Competition among financial institutions in the area is moderate. HNB is the only financial institution in the village of Hager City. A number of local and regional financial institutions actively compete for commercial and agricultural credits. Area savings banks and credit unions provide additional competition for housing and consumer loans.

Community contacts performed by regulators within the last two years revealed no unmet credit needs. Community credit needs include affordable housing and small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

HNB’s loan to deposit ratio is good. This ratio is 76% as of March 31, 1996. The average quarterly loan to deposit ratio since the previous CRA examination is 73%. The bank compares favorably, reflecting a ratio above similarly situated banks. Comparable loan to deposit ratios for this date are:

Peer Description	Peer Average	Range within Peer
Similarly Situated (MN & WI banks - similar size & loan mix)	66%	32% - 109%
Local Competition (all banks in surrounding six county area)	71%	54% - 110%
National Peer	66%	

HNB’s loan to deposit ratio has increased steadily since the previous examination, due largely to the 20% increase in consumer loans.

A substantial majority of loan originations are within the assessment area. Bank management monitors the location of outstanding loans by township which reflect county boundaries of the assessment area. This is a reasonable proxy for the location of loan originations because HNB does not sell or purchase a significant volume of loans. Approximately 81% by number and 75% by dollar volume of loans are in townships within the bank’s assessment area. This compares favorably to the June 1994 CRA examination when the ratios equaled 77% by number and 74% by dollar volume of loans.

The distribution of credit among individuals and businesses of different income levels is excellent. Our analysis indicates HNB actively lends to low and moderate income individuals, and to small businesses and farms.

- Residential loans. Reports filed in 1994 under the Home Mortgage Disclosure Act (HMDA) show that a significant volume (35%) of bank home loan originations in the MSA portion of the assessment area are to low and moderate income borrowers. See the table below for a breakdown of loans to low and moderate income borrowers.

1994 Mortgage Originations in Pierce County (Census Tracts 9601 through 9608)				
Borrower Income Characteristics	Bank		Market Aggregate	
	#	%	#	%
Low Income	3	13%	43	5%
Moderate Income	5	22%	137	17%
Middle Income	12	52%	175	22%
High Income	3	13%	115	15%
Not Available	0	0%	324	41%
Total	23	100%	794	100%

There are no HMDA aggregate market numbers for comparative purposes for 1995 or year-to-date 1996. Bank HMDA records for 1995 and year-to-date 1996 show an even larger majority of home loan originations in Pierce County are to low and moderate income borrowers. 25% of home loan originations are to low income borrowers, and an additional 33% are to moderate income borrowers.

•Commercial and Agricultural loans. Of 40 commercial and agricultural loan relationships sampled, 88% were to small businesses or farms. Of the 35 small businesses or farms, 31 (89%) had annual gross revenues of less than \$250,000, and 20 (57%) had annual gross revenues of less than \$100,000.

Based on discussions with management and our knowledge of the loan portfolio, the vast majority of commercial and agricultural loan customers within the bank's assessment area are small businesses or farms (defined as businesses with revenues of less than \$1,000,000 and farms with revenues of less than \$500,000).

•Consumer loans. Of 50 consumer loans sampled: 28 loans (56%) were to low income borrowers; 9 loans (18%) were to moderate income borrowers; 6 loans (12%) were to middle income borrowers; and 7 loans (14%) were to high income borrowers.

Examiners also looked at loan size as a proxy for the bank's willingness to lend to low and moderate income borrowers and small businesses and farms. Over 65% of all outstanding commercial loans originated at amounts less than \$50,000, and more than 97% originated at amounts less than \$100,000. Over 78% of all outstanding farm loans originated at amounts less than \$50,000, and more than 93% originated at amounts less than \$100,000. Additionally, the vast majority of residential home loans (88%) originated at amounts less than the assessment area's median housing value of \$60,500.

The geographic distribution of credit reflects a reasonable dispersion throughout the assessment area. To determine this, we relied on bank reports that monitor outstanding loans by township. This is a reasonable proxy for the distribution of credit by census tract or BNA.

Geographic Distribution of Loans Throughout the Bank's Assessment Area				
	# of Loans	% of Total	\$ Volume	% of Total
Townships comprising middle income census tracts/BNA's:				
Trenton*	90	21.38	2,618,714	26.80
Pepin*	76	18.05	1,333,934	13.65
Isabelle	62	14.73	991,307	10.15
Trimbelle	19	4.51	613,149	6.28
Stockholm	14	3.33	537,096	5.50
Other Townships (12)	39	9.26	1,008,048	10.32
Townships comprising moderate income tracts/BNA's:				
Hartland	38	9.03	884,723	9.05
Ellsworth	38	9.03	852,721	8.73
Maiden Rock	22	5.23	574,450	5.88
Other Townships (5)	21	4.98	346,031	3.54

* The bank's main and branch offices are located in these townships

HNB's level of lending within each township is consistent with the distance from each of the bank's offices, location of competing institutions, amount of economic activity and distribution of the population base within the assessment area.

Examiners did not identify any instances of illegal discrimination or disparate treatment during the concurrent compliance examination.