



PUBLIC DISCLOSURE

October 12, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples National Bank
Charter Number 12644**

**310 North Iowa Avenue
Hayward, Wisconsin 54843**

**Comptroller of the Currency
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 **Peoples National Bank, Hayward, WI** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 12, 1999. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C. F. R. § Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Satisfactory**”.

Peoples National Bank (PNB) is assigned this rating primarily for the following reasons:

- T PNB has originated a high volume of loans as demonstrated by its high loan-to-deposit ratio;
- T Given the demographics of the Sawyer County assessment area, PNB’s distribution of loans to individuals of different income levels and businesses of various sizes is reasonable;
- T PNB has originated loans to individuals and businesses throughout its assessment areas and specifically PNB’s distribution within Sawyer County is reasonable; and
- T PNB has originated and/or purchased a majority of its loans from within its assessment areas.

For purposes of this evaluation period, the bank’s performance in the Sawyer County assessment area was weighted more heavily than its performance in the Eau Claire assessment area. As of June 30, 1998, 73% of the bank’s deposits were attributed to Sawyer County while 27% were attributed to Eau Claire County. Based on the bank’s lending activity since the last CRA evaluation, the majority of PNB’s loans have also been originated in the Sawyer County AA.

DESCRIPTION OF INSTITUTION

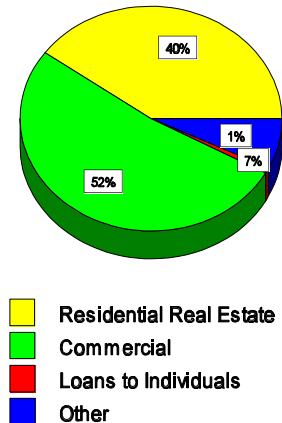
PNB is a \$146 million bank headquartered in Hayward, Wisconsin. PNB also has a branch located in Eau Claire, Wisconsin that has been in operation for three years. PNB's one automated teller machine is located at its Hayward office. Each location offers full banking services. However, the Eau Claire branch focuses upon commercial lending and does not actively pursue retail loans or deposits. The Hayward office is located in a middle-income block numbering area (BNA) and the Eau Claire office is located in an upper-income census tract (CT). Given the distance between the two locations, PNB has two assessment areas (AAs) for purposes of this CRA evaluation.

PNB is owned by a one-bank holding company, Hayward Bancshares, Inc.

There are no legal or financial constraints on the bank that inhibit its CRA performance. PNB was rated "Outstanding" as of its last CRA evaluation dated September 10, 1996.

PNB's primary lending products are residential real estate, including both year-round homes and seasonal/second dwellings and commercial loans. Other types of lending volumes are low. The chart to the right reveals the breakdown of the bank's \$120 million loan portfolio as of September 30, 1999. This loan volume represents 82% of the bank's total assets.

Loan Mix



DESCRIPTION OF THE ASSESSMENT AREAS

PNB has two AAs. The **Sawyer County AA** includes thirteen block numbering areas (BNAs) surrounding its Hayward office. This area includes all eight BNAs in Sawyer County and five adjacent BNAs in Bayfield and Washburn Counties. The updated 1999 median family income level for this non-metropolitan statistical area is \$44,400. The AA includes eleven (85%) moderate-income BNAs and two (15%) middle-income BNAs. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income BNAs.

The population of the Sawyer County AA is approximately 22,000. A high percentage of this population (19% of households) reports income below the poverty level. Census data reports that 31% of the AA's families are defined as low-income, 25% moderate-income, 22% middle-income, and 22% upper-income. Within the eight BNAs of Sawyer County, the median housing value is \$51,982 and housing units total 13,025 with 32% of those units owner-occupied and 57% vacant.

The local economy is characterized as rural, non-farm, and reliant upon the timber and tourism industries. A large share of the economy is supported by nonresident individuals who own second/lakeshore homes in the area. The AA also includes the La Courte Oreilles (LCO) Indian

Reservation. Major employers in the area include the LCO Casino and Tribal Government, local school districts, wood products companies, and the local hospital. Financial service provider competition is moderate in the AA with six other local financial institutions providing credit services.

Examiners conducted community contacts to better understand the unique residential real estate market and credit needs of the AA. Examiners met with two local realtors during this CRA evaluation. Identified credit needs include home loans, second/lakeshore residence loans, small business loans, and general-purpose retail loans.

The **Eau Claire AA** includes all 20 census tracts (CTs) in Eau Claire County. The updated 1999 median family income level for the Eau Claire metropolitan statistical area is \$44,300. The AA includes 3 (15%) moderate-income, 11 (55%) middle-income, and 6 (30%) upper-income CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income CTs.

The population of the Eau Claire County AA is approximately 85,000. A moderate percentage of this population (14% of households) reports income below the poverty level. Census data reports that 18% of the AA's families are defined as low-income, 17% moderate-income, 25% middle-income, and 40% upper-income. The median housing value is \$53,204 with 32,741 total housing units in the AA and 62% of those units owner-occupied.

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. Financial service provider competition is high in the AA with eight commercial banks, three savings banks, and two credit unions providing credit services.

Community contacts conducted by regulators since PNB's last CRA evaluation include a government official, an economic development specialist, a business organization, and a non-profit organization which assists local minorities. Identified community credit needs include home loans, small business loans, and general-purpose retail loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

PNB's loan-to-deposit ratio is high and reflects its willingness to meet the credit needs of its AAs. Since its last CRA evaluation, PNB's average quarterly loan-to-deposit ratio has been 97%. In comparison, other banks of similar size operating within the AAs and several adjacent counties have an average of 79%. The peer group consisted of fourteen banks ranging from \$62 million to \$266 million

in total assets. PNB had the highest quarterly average loan-to-deposit ratio of this peer group. There is no material difference between the quarterly loan-to-deposit ratios of the banks located in Sawyer and Eau Claire Counties.

As of June 30, 1998, 73% of the bank's deposits were attributed to Sawyer County while 27% were attributed to Eau Claire County.

Lending to Borrowers of Different Income Levels and Businesses of Different Sizes

On a consolidated basis, PNB's distribution of loans to borrowers of different incomes and businesses of different sizes is reasonable. We relied primarily upon the bank's performance within the Sawyer County AA in determining the bank's overall borrower and business distribution performance for the reasons highlighted earlier in this evaluation. Within the Sawyer County AA, PNB originates loans to borrowers of different income levels and businesses of various sizes in a manner consistent with the demographics of the AA. The level of lending to small businesses in the Eau Claire AA showed weaker penetration to businesses reporting revenues less than \$500,000 relative to the business demographics of the area.

To analyze the bank's lending levels in the Sawyer County AA, examiners reviewed the bank's two primary product lines, home loans and commercial loans.

Within the Eau Claire AA, only loans to businesses were analyzed as they comprise 89% of the total loans outstanding in this AA. Loans to individuals are not considered a primary product line and were not analyzed. Only 20% of the bank's HMDA-LAR lending occurred in the Eau Claire AA.

To analyze home lending, examiners relied on 1997, 1998, and year-to-date 1999 HMDA-LAR data. All owner-occupied home purchase and refinance loans within the AAs were included in this analysis. Given that these loans are originated utilizing the same lending staff and very similar underwriting criteria and processing procedures, examiners did not separate these two loan types for analytical purposes. Non-owner-occupied home loans were excluded from this analysis as these homes are typically vacant at the time of the U.S. Census and are used by individuals as vacation and second homes. Home improvement loans were excluded as they comprise a very small portion of the bank's lending activity. The accuracy of the LAR data was reviewed and determined to be reasonably reliable for the purposes of this analysis. To analyze lending to businesses, examiners selected 30 originations from within each of the AAs and retrieved information from source documents. All of the loans reviewed were originated since PNB's last CRA evaluation. The loans were selected from all quarterly time periods subsequent to the last CRA evaluation.

Within the Sawyer County AA, PNB is originating loans to individual borrowers in a manner generally consistent with the demographics of the AA. Lending patterns closely match the demographics of the Sawyer County AA for loans to moderate-income individuals and small businesses. Lending to low-

income borrowers does not reflect the demographics of the AA; however, the median housing value, low ratio of owner-occupied housing, and the high poverty level partially explain the bank's lower penetration among low-income individuals. The following table highlights the bank's lending pattern within the Sawyer County AA.

Sawyer County AA - Lending to Individuals by Income Levels			
Owner-Occupied Home Purchase and Refinance Loans			
	% of Loans by \$	% of Loans by #	% of AA Families within each Income Category*
Low-Income	6%	13%	31%
Moderate-Income	16%	25%	25%
Middle-Income	31%	31%	22%
Upper-Income	47%	31%	22%

*Source: 1990 Census

Within the Sawyer County AA, PNB's lending to businesses is consistent with demographics. The following table summarizes our findings regarding PNB's lending patterns to businesses of various revenue sizes.

Sawyer County AA - Lending by Business Revenue Levels			
Revenues (000's)	% of Loans by \$	% of Loans by #	Demographics*
\$0 to \$250	54%	63%	86%
\$250+ to \$500	26%	20%	
\$500+ to \$1,000	1%	4%	6%
\$1,000+	19%	13%	19%

*Source: Dun and Bradstreet

Small business lending performance within the Eau Claire AA reflects less favorable penetration to businesses reporting revenues less than \$500,000 than the performance reflected within the Sawyer County AA. Please refer to the table on the following page.

Eau Claire County AA - Lending by Business Revenue Levels			
Revenues (000's)	% of Loans by \$	% of Loans by #	Demographics*
\$0 to \$250	15%	30%	78%
\$250+ to \$500	13%	17%	
\$500+ to \$1,000	15%	10%	11%
\$1,000+	57%	43%	11%

* Source: Dun and Bradstreet.

Geographic Distribution of Loans

The bank's geographic distribution of loans is reasonable and reflects lending throughout its AAs. Within the Sawyer County AA, lending within the moderate- and middle-income geographies occurred at levels which are consistent with the demographics of the AA. We relied primarily upon the Sawyer County AA's performance in determining the overall geographic distribution performance. As discussed earlier in this evaluation, approximately 80% of the bank's HMDA-LAR lending occurred in the Sawyer County AA. Commercial lending activity has been more balanced between the two AAs since the last CRA evaluation. To analyze performance in this category, examiners used the same samples described earlier under the *Lending to Borrowers of Different Income Levels and Businesses of Different Sizes* section of this evaluation.

As highlighted in the following two tables, PNB's distribution of residential real estate loans and commercial loans throughout the Sawyer County AA is comparable to the demographics of the area. HMDA-LAR data also shows that PNB originated home loans in all but one of the 13 BNAs within the Sawyer County AA since its last CRA evaluation.

Geographic Distribution of Owner-Occupied Home Purchase and Refinance Loans Within the Sawyer County AA			
	% of Loans by \$	% of Loans by #	% of AA's Owner-Occupied Housing Stock*
Moderate-Income BNAs	77%	80%	79%
Middle-Income BNAs	23%	20%	21%

*Source: 1990 Census

Geographic Distribution of Commercial Loans within the Sawyer County AA			
	% of Loans by \$	% of Loans by #	% of AA Businesses*
Moderate-Income BNAs	60%	57%	55%
Middle-Income BNAs	40%	43%	45%

* Source: Dun and Bradstreet.

The lending distribution in the Eau Claire AA is concentrated within the upper-income CTs where the branch is located. Only modest activity is reflected in the moderate-income CTs.

Geographic Distribution of Commercial Loans within Eau Claire County AA			
	% of Loans by \$	% of Loans by #	% of AA Businesses*
Moderate-Income Tracts	10%	10%	21%
Middle-Income Tracts	34%	40%	48%
Upper-Income Tracts	56%	50%	31%

* Source: Dun and Bradstreet.

Lending Within the Assessment Area

The majority of PNB's loans are originated to borrowers within the respective AAs. Examiners used the same loan samples and evaluation methodology described earlier to make this determination. The tables below summarize our findings:

In/Out Ratios for Owner-Occupied Home Purchase and Refinance Loans by AAs			
	Sawyer County AA	Eau Claire AA	Out of AAs
% by \$	72%	18%	10%
% by #	73%	16%	11%

In/Out Ratios for Commercial Loans by AAs			
	Sawyer County AA	Eau Claire AA	Out of AAs
% by \$	28%	36%	36%

In/Out Ratios for Commercial Loans by AAs			
% by #	61%	20%	19%

Response to CRA Related Complaints

PNB has not received any CRA-related complaints since the last CRA evaluation.

Compliance with Antidiscrimination Laws

No violations of the substantive provisions of antidiscrimination laws and regulations were identified. To make this determination, examiners performed a comparative file review of five denied installment loan applications submitted by females to twenty approved installment loan applications submitted by males.