



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 04, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The National Bank of Waupun
Charter Number 7898
210 E. Main Street
Waupun, WI 53963

Office of the Comptroller of the Currency
Milwaukee Field Office
1200 North Mayfair Road, Suite 200
Wauwatosa, WI 53226

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.

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

The major factors supporting the institution's rating include:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment areas (AAs).
- A majority of loan originations are made within the bank's AAs.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

SCOPE OF EXAMINATION

The National Bank of Waupun's (NBW) Community Reinvestment Act (CRA) performance was evaluated under the Small Bank Lending Tests. Data from NBW's primary loan products, small business loans, and home mortgage loans (including purchases and refinances) were used to evaluate the bank's lending performance.

The evaluation covered the period from the date of the previous CRA examination, September 24, 2002 through September 15, 2008. The Lending Test evaluated small business and home mortgage loans from January 1, 2006 to June 30, 2008. Prior to conducting this evaluation, the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) data for 2006 and 2007 was tested. The data was found to be substantially accurate and therefore all reported HMDA data for both years was used in evaluating home mortgage lending. To evaluate small business lending, data from the bank's loan trial balance as well as random samples of business loans from each of the bank's two assessment areas (AA) were used.

Both of NBW's assessment areas were selected for full scope review and the most recent available demographic data was used in our Lending Test evaluation.

DESCRIPTION OF INSTITUTION

NBW is a \$120 million bank with its main office located in downtown Waupun, Wisconsin approximately 80 miles northeast of Milwaukee, Wisconsin. The bank operates three full-service branches located in the towns of Brandon, Rosendale and Fairwater. The main office and the three branches are all located in middle-income Census Tracts (CTs). Two of the branches have opened since the last CRA examination in 2002. No branches or offices have closed during the same period. The institution provides seven ATMs throughout the AA. Availability of other alternative systems for delivering retail services includes bank-by-phone and Telebank, an online banking system. The bank is wholly owned by National Bankshares of Waupun, a one-bank holding company located in Waupun, Wisconsin.

NBW offers traditional community bank services with a loan portfolio representing

75.31% of total assets as of June 30, 2008. The bank is primarily a local residential real estate and small business lender. More recently though, the bank has purchased large participation loans originated outside of the bank's traditional lending area. The bank's loan portfolio, by dollar volume, consists of 42% commercial loans, 15% construction & development loans, 28% residential real estate, 9% agricultural loans, and 6% other consumer loans. Tier 1 capital totaled \$12 million as of June 30, 2008. Loan growth has been consistent for the two largest loan products during the previous two years. Commercial loans are stable, and residential real estate loans have grown by 14%.

The bank offers Farm Services Agency (FSA) loans and Wisconsin Housing and Economic Development Authority (WHEDA) loans. The WHEDA program is a first-time home buyer program that provides below-market fixed interest rates and allows for a lower down payment than conventional mortgage programs. This program primarily benefits LMI borrowers. During the assessment period, the bank originated and services approximately \$1.5 million in WHEDA loans. There were no substantial FSA loans originated during the period of evaluation.

There are no legal or financial impediments limiting the bank's ability to meet community credit needs. The previous CRA examination dated September 23, 2002 resulted in a satisfactory CRA rating.

DESCRIPTION OF ASSESSMENT AREAS

NBW has two assessment areas (AAs), including one AA in a Metropolitan Statistical Area (MSA). The MSA AA consists of Fond du Lac County, Wisconsin. The non-MSA AA includes Dodge County and Green Lake County in Wisconsin. The combined AA consists of 8 Census Tracts (CTs); 0 low-income tracts, 0 moderate-income tracts, 6 middle-income tracts, and 2 upper-income tracts. The AAs comply with regulatory requirements and do not arbitrarily exclude any low- or moderate-income geographies.

The population of the combined AA is 36,992, based on 2000 census data. The 2000 U.S. Census estimated median family income (MFI) is \$53,017 for the MSA AA and \$46,680 for the non-MSA AA. The 2007 updated Department of Housing and Urban Development (HUD) estimated MFI is \$62,500 for the MSA AA and \$58,750 for the non-MSA AA. A breakdown of family income levels in the MSA AA shows 11% low-income (440 families), 18% moderate-income (742 families), 33% as middle-income (1,368 families), and 38% as upper-income (1,530 families). A breakdown of family income levels in the non-MSA AA shows 11% as low-income (620 families), 16% as moderate income (833 families), 29% as middle-income (1,506 families) and 44% as upper-income (2,293 families). 3.95% of families in the MSA AA, and 6.59% of families in the non-MSA AA have incomes below the poverty level.

The local economy is characterized as stable, but declining some with recent increases in unemployment levels. Small metal manufacturing companies in the surrounding communities of Fond du Lac, Oshkosh, and Ripon employ local residents. The Department of Corrections is one of the largest employers in the AA with three correctional facilities employing 1,000. There are two dairy factories in the AA

employing about 2,500 individuals. There is a John Deere plant in the nearby community of Horicon. Many of the professional community residents work outside of the AA in some of the surrounding areas such as Madison and Beaver Dam. Local unemployment rates for 2007 in Dodge (5.1%) and Green Lake (5.5%) Counties were somewhat higher than the Wisconsin state average, which was 4.9% in 2007. The unemployment rate in Fond du Lac County is slightly less than the state average at 4.8%. However, unemployment is on the rise throughout Wisconsin and the country as a whole.

Competition from other financial institutions is strong. 16 institutions, including NBW serve the three Wisconsin counties the bank operates in. As of June 30, 2008, NBW had deposit market share of 6.48% which ranks sixth. The top five institutions command approximately 69% of the overall market share.

In conducting the assessment of the bank's performance, we contacted a representative of the Chamber of Commerce of Waupun. The individual stated that local financial institutions are meeting the credit needs of the community. Additionally, the contact stated that NBW is a strong supporter of community lending needs. Primary needs include the ability to maintain the growth that has taken place over the last few years with businesses that appeal to the professional residents returning to the area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

NBW's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The average quarterly loan-to-deposit ratio from September 30, 2002 to June 30, 2008 was 84.53%. The average quarterly loan-to-deposit ratio for eleven other community banks located in the assessment area was 81.03% during the same period. The similarly situated banks had total assets that ranged from \$44 million to \$246 million. NBW has the sixth highest amount of total assets at \$120 million. The loan-to-deposit ratios ranged from 62.47% to 92.95%, placing NBW sixth among the twelve institutions.

Lending in Assessment Area

NBW originates a majority of its loans to borrowers located within its combined assessment areas. A review of the bank's primary loan products shows that 80.43% by number and 74.89% by dollar volume of loans were made to businesses and individuals located within the bank's assessment areas.

Table 1 - Lending in NBW's Combined AA's										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
RE - Home Purchase	37	77.08%	11	22.92%	48	\$3,498	62.62%	\$2,088	37.38%	\$5,586

RE - Home Refinance	116	81.69%	26	18.31%	142	\$5,829	76.31%	\$1,810	23.69%	\$7,639
Home Improvement	29	74.36%	10	25.64%	39	\$1,144	85.95%	\$187	14.05%	\$1,331
Commercial Loans	40	82.50%	7	17.50%	47	\$2,837	88.24%	\$378	11.76%	\$3,215
Totals	222	80.43%	54	19.57%	276	\$13,308	74.89%	\$4,463	25.11%	\$17,771

Source: 2006-2007 Home Mortgage Disclosure Act data and sampled commercial loans in bank records (verified by examiners)

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

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. The bank’s primary loan products, business and residential real estate mortgages, were used in the sample.

Lending to businesses with revenues of \$1 million or less is good; the bank exceeds the demographic in both the MSA and the non-MSA.

Borrower Distribution of Business Loans				
Gross Annual Revenue	MSA AA		Non-MSA AA	
	% of bank’s loans	% of AA Businesses	% of bank’s loans	% of AA Businesses
<=\$1 million	55.00%	50.00%	80.00%	53.24%
>\$1 million	10.00%	3.01%	10.00%	4.31%
Revenue unavailable	35.00%	46.99%	10.00%	42.45%
Totals	100%	100%	100%	100.00%

Source: Sample of 40 bank records (verified by examiners) and Dunn & Bradstreet Business Demographic Data

Home mortgage lending in the MSA AA is excellent. 28.97% of families in the AA are low- and moderate-income, while the bank originated 34.26% of its home mortgages to low- and moderate- income borrowers. In the non-MSA AA, home mortgage lending is also good. 27.67% of families are low- or moderate-income, and the bank originated 39.19% of its home mortgages to these borrowers. The bank has no low- or moderate-income census tracts in either AA; however, in the low-income borrower category the percentage of low-income borrowers is above the demographic in the MSA. The non-MSA demonstrates bank originations to low-income borrowers were slightly less than the percentage of families in the demographic. Consideration was given to the percentage of families living below the poverty level, which was 6.59%.

Borrower Distribution of Home Mortgage Loans		
Borrower	MSA AA	Non-MSA AA

Income Level	% of loans by bank AA	% of AA Families	% of loans by bank AA	% of AA Families
Low	12.96%	10.78%	10.81%	11.81%
Moderate	21.30%	18.19%	28.37%	15.86%
Middle	37.96%	33.53%	35.14%	28.67%
Upper	26.85%	37.50%	25.68%	43.66%
Not available	0.93%	0%	0%	0%
Totals	100%	100%	100%	100%

Source: 2006-2007 Home Mortgage Disclosure Act Data and U.S. Census Demographic Data

Geographic Distribution of Loans

NBW's assessment areas contain no low- or moderate-income CTs. Therefore, an analysis of geographic distribution will not provide meaningful information.

Responses to Complaints

The bank has not received any CRA-related complaints since the previous examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.