



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 04, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Hiawatha National Bank
Charter Number 15698**

**N1555 770th St. & Hwy 35
Hager City, WI 54014**

**Comptroller of the Currency
ADC - South Minneapolis
1310 West Clairemont Avenue Suite 100
Eau Claire, WI 54702**

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 Outstanding.

This rating is supported by the following:

- Bank lending activity is responsive to assessment area credit needs.
- A substantial majority of bank lending activity is inside its assessment area.
- The overall distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- The bank has not been the subject of any CRA complaints over the evaluation period.

DESCRIPTION OF INSTITUTION

Hiawatha National Bank (HNB) is a \$57 million intrastate, community bank chartered in Hager City, Wisconsin. Hager City is located in West Central Wisconsin along the Minnesota border. HNB is owned by Hiawatha Bancshares, Inc., a one-bank holding company also located in Hager City.

HNB has four full-service branches in addition to its main office in Hager City. The branch facilities are located in Glenwood City, Maiden Rock, Spring Valley and Pepin. In addition, the bank operates five cash-dispensing automated teller machines--two in Hager City, one in Bay City, one in Glenwood City and one in Pepin.

The bank increased in size and operations when it merged with First National Bank of Glenwood in March 1998. The two banks had already been affiliated through common ownership. The bank's operations expanded into the eastern edge of St. Croix County with the merger.

HNB is a full-service bank offering a variety of loan and deposit products. Loans and leases account for \$40 million or 70% of total bank assets as of December 31, 2001. The loan portfolio consists of residential real estate loans (41%), commercial loans (33%), agricultural loans (17%), consumer loans (8%), and other loans (1%).

The bank's lending focus is residential real estate, commercial and agricultural loans as evidenced by the distribution of outstanding loans and the distribution of loan originations considered in this review. According to an internally-generated report, residential real estate, commercial and agricultural loans respectively account for 41%, 29% and 20% of all loan originations over the evaluation period (by dollar).

The bank's primary residential real estate product is home refinance loans. This product represents 77% by number (and 74% by dollar) of all reported home mortgage originations for the previous two calendar years.

There are no financial, legal or other factors that impede the bank's ability to meet its CRA obligations. HNB was rated "Outstanding" at its last CRA evaluation dated August 12, 1996.

DESCRIPTION OF HIAWATHA ASSESSMENT AREA

HNB's assessment area consists of all eight census tracts in Pierce County, two census tracts in St. Croix County (#1207 & #1208), and one block numbering area in Pepin County (#9502). The assessment area complies with regulatory requirements and does not arbitrarily exclude any low- or moderate-income geographies. Based on 1990 census data, five geographies in the assessment area are moderate-income and six are middle-income.

Pierce and St. Croix Counties comprise the Wisconsin portion of the Minneapolis-St. Paul Metropolitan Statistical Area (MSA). The economy of the Minneapolis-St. Paul MSA, which is the fifteenth largest metropolitan area in the United States, is strong and diverse. It is a center for high-tech electronics, medical instruments, health care, finance, insurance, entertainment/arts, printing/publishing, as well as for processing/transportation of agricultural products. The area is home to seventeen Fortune 500 companies and several of the world's largest private companies.

HNB operates on the easternmost edge of this MSA. This portion of the MSA is largely rural and agricultural; however, it is experiencing population growth, industrial development, and increased demand for housing due to its proximity to Minneapolis and St. Paul.

The following table recaps pertinent demographic information for the Hiawatha assessment area.

Hiawatha Assessment Area Demographics					
	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/Block Numbering Areas)	11	N/A	45.45	54.55	N/A
Population by Geography	45,362	N/A	43.39	56.61	N/A
Owner-Occupied Housing by Geography	11,274	N/A	46.74	53.26	N/A
Business by Geography	1,907	N/A	50.13	49.87	N/A
Farms by Geography	780	N/A	59.10	40.90	N/A
Family Distribution by Income Level	11,452	24.90	24.48	27.44	23.19
Distribution of Low and Moderate Income Families throughout AA Geographies	5,654	N/A	53.36	46.64	N/A
1990 Median Family Income: \$43,063 in Pierce & St. Croix Counties; \$30,290 in Pepin County 2001 HUD Adjusted Median Family Income: \$74,700 in Pierce & St. Croix Counties; \$48,400 in Pepin County Families Below Poverty Level: 798 (or 6.97%) Unemployment Rate (January 2002): Pierce County 5.6%; St. Croix County 7.0%; Pepin County 9.1%					

Source: 1990 US Census, 2001 HUD updated MFI, and the Wisconsin Department of Workforce Development

Bank competition is healthy. There are approximately twelve financial institutions with offices in the Hiawatha assessment area. Competition includes three large regional banking companies and several smaller locally-owned banks. Of this group of banks, HNB ranks seventh with a 7% share of deposits attributable to offices in the Hiawatha assessment area.

Examiners contacted a local nonprofit community action group during this examination. We also reviewed two recent contacts with economic development corporations and a recent contact with a government official. Contacts mentioned the increased demand for housing and the need for first-time home-buyer programs. Start-up business financing was also cited as a need. Contacts generally felt that local banks met area credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

HNB's loan-to-deposit ratio is reasonable. Since the previous CRA examination, the bank's average quarterly loan-to-deposit ratio was 77%. This ratio exceeds the average quarterly loan-to-deposit ratio of 74% over the same time period for four similarly situated banks. Individually, the similarly situated banks' ratios ranged from 56% to 92%.

In our analysis, similarly situated banks included all community banks with an office in the Hiawatha assessment area, that have total assets less than \$150 million, and that derive a substantial majority of their deposits (>80%) from this area.

Lending in Assessment Area

Our analysis of lending inside the assessment area is based on internal bank geo-distribution reports. We sampled 60 of the bank's primary loan types (home refinance loans, commercial and agricultural loans) to test the data and found it reliable.

A substantial majority of the bank's loan originations over the evaluation period is inside its assessment area--78% by number and 84% by dollar.

The percentage of loan originations inside the assessment area, calculated by product, is similarly strong. The percentage of residential real estate originations in the assessment area is 84% by number and 90% by dollar. The percentage of commercial loans in the assessment area is 80% by both number and dollar. And for agricultural loans, the percentage is 88% by both number and dollar.

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

Our conclusions regarding commercial and agricultural loans are based on loan samples. We sampled 20 loans of each type from originations inside the bank's assessment area over the previous two calendar years.

Our conclusions regarding home mortgage refinance loans are based on information reported under the Home Mortgage Disclosure Act for the previous two calendar years. We sampled 20 home refinance loans to test the data and found it to be reliable.

The distribution of home refinance loans to borrowers of different income levels is excellent. The percentage of home refinance loans to low- and moderate-income borrowers (31% and 29% by number respectively) significantly exceed assessment area demographics (25% of the families are low-income and 24% are moderate-income).

The distribution of loans to small businesses (i.e. businesses with annual gross revenues less than \$1 million) is excellent, especially in light of the identified need for start-up business financing. Ninety percent of the sampled loans (by number) were made to small businesses. This ratio exceeds the percentage of businesses in the assessment area that are small (88%).

The distribution of loans to small farms (i.e. farms with annual gross revenues less than \$1 million) is good. Ninety-five percent of the sampled loans (by number) were made to small farms. This ratio is near the percentage of farms in the assessment area that are small (98%).

Geographic Distribution of Loans

As previously mentioned our conclusions regarding commercial and agricultural loans are based on loan samples. And our conclusions regarding home mortgage refinance loans are based on information reported under the Home Mortgage Disclosure Act.

The distribution of loans to moderate-income geographies is excellent across all product lines. There are no low-income geographies in the bank's assessment area.

- The percentage of home refinance loans in moderate-income geographies (59% by number and 58% by dollar) significantly exceeds the percentage of owner-occupied housing units located there (47%).
- The percentage of business loans in moderate-income geographies (60% by number and 67% by dollar) significantly exceeds the percentage of businesses located there (50%).
- The percentage of farm loans in moderate-income geographies by number (85%) significantly exceeds the percentage of farms located there (59%). The percentage of farm loans in moderate-income geographies by dollar (49%) approximates the demographic comparator.

The bank's geographic distribution of loans reflects penetration in most of the assessment area's geographies. The only areas of low/no penetration are two middle-income tracts in the City of River Falls. These tracts are some distance from the bank's offices and are closer to several competing institutions. There are no lending gaps in moderate-income areas.

Responses to Complaints

HNB has not been the subject of any CRA complaints over the evaluation period.

Fair Lending Review

The bank was randomly selected for a comprehensive fair lending examination as part of the OCC's risk based fair lending approach. Examiners conducted a comparative analysis between the approvals and denials for unsecured, consumer loan requests using gender as the prohibited basis.

HNB is in compliance with all substantive provisions of anti-discrimination laws and regulations. There is no evidence of illegal discrimination or discouragement.