



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 6, 2003

COMMUNITY REINVESTMENT ACT (CRA) PERFORMANCE EVALUATION

**The First National Bank of Park Falls
Charter Number: 10489**

**110 North Division Street
Park Falls, WI 54552**

**Comptroller of the Currency
Iron Mountain Field Office
P.O. Box 666
Iron Mountain, MI 49801**

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.

- A substantial majority of loans are originated inside the bank's assessment area.
- The bank has an excellent distribution of loans to individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects an excellent dispersion throughout the assessment area.
- The loan-to-deposit ratio is reasonable.

DESCRIPTION OF INSTITUTION

The First National Bank of Park Falls (FNB-Park Falls) is a \$76 million bank with \$11 million in tier one capital. The main office is located in Park Falls, WI, in a middle-income census tract (CT). The bank operates one full-service branch on the south side of Park Falls, WI and another in Phillips, WI, both in middle-income CTs. The bank also maintains six cash dispensing ATMs, four in Park Falls (middle-income CTs), one in Phillips (middle-income CT), and one in Winter, WI (moderate-income CT). The Park Falls branch was opened in May 2000. The bank is 94% owned by Park Falls Agency, Inc., a one-bank holding company with \$78 million in total assets located in Park Falls, WI. All financial information is as of June 30, 2003.

The bank offers traditional community bank products and services with a net loan portfolio representing 55% of total assets as of June 30, 2003. The bank is primarily a residential real estate and commercial loan lender, with a loan portfolio that consists of (by dollar value) 48% residential real estate loans, 47% commercial loans, and 5% consumer loans.

There are no financial, legal or other impediments that would hinder the bank's ability to help meet the credit needs of its assessment area. The previous CRA evaluation dated July 2, 1997, resulted in an outstanding rating.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area (AA) includes 11 CTs in Wisconsin. This area includes all of Price County, the southern portions of Ashland and Iron Counties, and the eastern portion of Sawyer County. The AA is comprised of three moderate- (27%) and eight middle-income (73%) CTs. The AA is considered legal and appropriate. It consists of only whole CTs and does not arbitrarily exclude any low- or moderate-income geographies.

According to 1990 census data, the total population of the bank's AA is 22,096, which is comprised of 6,164 families. Income levels for these families are as follows: 1,385 low-income families (22%), 1,364 moderate-income families (22%), 1,635 middle-income families (27%), and 1,780 upper-income families (29%). Of the low-income families, 524 (38%) are below the poverty level. The Housing and Urban Development updated median family income for

nonmetropolitan areas in Wisconsin was \$50,800 in 2002 and \$48,400 in 2001. These figures were used in the borrower income distribution test. The 1990 census median family income for nonmetropolitan areas in Wisconsin is \$30,290. This figure was used in the geographic distribution test. The median housing value within the AA is \$40,771, with 46% of the total housing units being owner-occupied.

The current local economy is characterized as stable. Economic activity in the area is relatively diverse, with paper manufacturing and tourism being the primary economic activities. Major employers include: Fraser Papers, Weather Shield, and Flambeau Hospital. The average unemployment rate in August 2003 for the state of Wisconsin was 5.4%. The average unemployment rates for Price County, Ashland County, Iron County, and Sawyer County for the same time period were 5.7%, 6.9%, 6.6%, and 4.5%, respectively. These figures are not seasonally adjusted.

Competition from other financial institutions for FNB-Park Falls is relatively strong. The bank's competitors include branches of several large multi-state banks, community banks, and several local credit unions. In total deposits, FNB-Park Falls, with a market share of 23%, ranks second out of all FDIC-insured institutions with at least one branch located in the bank's AA. This is using FDIC market share data as of June 30, 2002. The balance of the market share is divided among seven institutions with market shares ranging from 25% down to 6%.

In conducting this assessment of the bank's performance, we contacted a member of the local government. The contact stated that local financial institutions are meeting the credit needs of the community and had only favorable comments concerning the bank's performance.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is satisfactory given its size, financial condition, and credit needs of the community. The average quarterly loan-to-deposit ratio for the bank since the last examination is 69%, which ranks fourth in a peer group of six similarly situated banks. The peer group consists of banks with assets less than \$250 million that are chartered within 50 miles of FNB-Park Falls. FNB-Park Falls has the third largest level of average assets of these banks at \$78 million. The other banks' average assets ranged from \$23 million to \$215 million. The average loan-to-deposit ratios for the similarly situated banks ranged from 52% to 100%, over the same time period.

Additionally, the bank originates residential real estate loans that are immediately sold on the secondary market. These loans are not used in the loan-to-deposit calculation. Year-to-date 2003 the bank has originated and sold \$17 million in secondary market loans. In 2002 and 2001 the bank originated and sold \$13 million and \$8 million, respectively.

Lending in the Bank's Assessment Area

The bank originates a substantial majority of its loans inside the assessment area. This conclusion is based on an analysis of the original dollar amount and number of 62 commercial loans and 62 residential real estate loans originated or refinanced by the bank between January 1, 2001 and December 31, 2002. The borrower's location was determined using their street address, city, state and zip code along with the Federal Financial Institution Examination Council geocoding website. The following table illustrates the level of lending inside the bank's assessment area:

| Penetration of Lending Inside the Bank's Assessment Area January 2001 – December 2002 Loan Originations | | |
|--|--|---|
| | % of Total Number of Loans Inside the Assessment Area | % of Total Dollar Amount of Loans Inside the Assessment Area |
| Commercial Loans | 97% | 97% |
| Residential Real Estate Mortgages | 98% | 98% |
| Total | 98% | 98% |

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

The bank's lending practices represent an excellent penetration among individuals of different income levels, including low- and moderate-income borrowers, and businesses of different sizes. The bank's primary loan products were used in our sample and are depicted in the following tables. Our sample of 25 business loan customers located in the bank's assessment area indicates the following breakdown of annual revenues:

| Lending Distribution Based on Revenue Size of Businesses January 2001 – December 2002 | | | |
|--|---|----------------|---|
| Revenue Size of Businesses Sampled (000's) | Bank Lending Distribution by Number of Loans | Percent | Percentage of Businesses in Each Revenue Category (census information) |
| < \$100 | 10 | 40% | 90% |
| \$100 - \$500 | 9 | 36% | |
| \$500 - \$1,000 | 4 | 16% | 5% |
| > \$1,000 | 2 | 8% | 5% |
| Totals: | 25 | 100% | 100% |

The table above shows 92% of the businesses sampled have revenues of \$1 million or less, which compares well to the demographics of the assessment area.

The following table is based on a sample of 25 residential real estate mortgage loans containing income information for the borrower. These customers are located within the bank's assessment area and the loans were originated between January 1, 2001 and December 31, 2002.

| Lending Distribution Based on Income Level of Residential Real Estate Borrowers January 2001 – December 2002 Loan Originations | | | |
|---|---|---|--|
| Borrower Income Level | Bank Lending Distribution by Number of Loans | Bank Lending Distribution by Dollar Value of Loans | Percentage of Families in each Income Category (Census information) |
| Low | 20% | 12% | 22% |
| Moderate | 32% | 23% | 22% |
| Middle | 32% | 39% | 27% |
| Upper | 16% | 26% | 29% |
| Totals | 100% | 100% | 100% |

As indicated by the table above, 52% of the number and 35% of the dollar value of loans were made to low- and moderate-income borrowers, who make up 44% of the assessment area's population. This represents a good distribution of lending to borrowers of different income levels. Both the number and dollar amount of residential real estate loans made to low-income borrowers were below the income characteristics of the AA. More than one-third (38%) of the low-income families in the assessment area are below the poverty level. These families would not typically qualify for real estate mortgage loans. The lower percentage in dollars loaned to low-income borrowers is indicative of the smaller loans that are typically made to customers in this income category.

Geographic Distribution of Loans

Our analysis of commercial and residential real estate mortgage loans indicates FNB-Park Falls has a good dispersion of loans throughout its assessment area, with lending evident in all census tracts. An analysis of 60 commercial loans and 61 residential real estate loans located in the bank's assessment area was performed. The following table illustrates the bank's performance:

| Geographic Distribution Based on Number and Dollar Amount of Loans Made in Assessment Area January 2001 – December 2002 Loan Originations | | | | |
|--|--|---|--|---|
| | % of Number Originated in the Moderate-income CTs | % of Dollar Amount Originated in the Moderate-income CTs | % of Number Originated in the Middle-Income CTs | % of Dollar Amount Originated in the Middle-Income CTs |
| Commercial Loans | 18% | 17% | 82% | 83% |
| Percentage of Businesses in the Assessment Area (census information) | 22% | | 78% | |
| Residential Real Estate Mortgages | 20% | 19% | 80% | 81% |
| Percentage of Owner-Occupied Housing in the Assessment Area (census information) | 23% | | 77% | |
| Total Loans | 19% | 18% | 81% | 82% |

FNB-Park Falls has three moderate-income census tracts in its AA. Our review indicated the bank's lending performance in two of the moderate-income tracts located in closer proximity to the bank exceeded the demographic characteristics of the areas. Lending performance in the remaining moderate-income tract was satisfactory. This tract is located on the outer edge of the bank's AA, where other financial institutions are nearby to serve the community's needs.

Responses to Complaints

No complaints have been received by the bank or OCC relating to the bank's CRA performance since the previous evaluation.

Fair Lending Review

An analysis of 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on analysis of this information (or absence of information), the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in conjunction with the previous CRA evaluation in 1997.