



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 9, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Hudson
Charter Number 95**

**307 Second Street
Hudson, Wisconsin 54016**

**Office of the Comptroller of the Currency
Eau Claire Field Office
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 **First National Bank of Hudson** prepared by **Office of the Comptroller of the Currency**, the institution's supervisory agency, between August 31, 1994, and October 9, 1997. 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 record of meeting community credit needs** based on its strong loan to deposit ratio and record of lending to small businesses.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	FIRST NATIONAL BANK OF HUDSON 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 examination.		

DESCRIPTION OF INSTITUTION

First National Bank of Hudson (FNB) is a \$121 million community bank located on the Wisconsin-Minnesota border. FNB offers a wide range of conventional and government-sponsored loan products which are suited to community credit needs. In January 1997, the bank opened a full-service facility in Woodbury, Minnesota and officially relocated its headquarters there. The Woodbury office also has an automated teller machine (ATM). It is located in an upper income geography. Since opening, the loan portfolio has grown to more than \$5 million. The composition of the portfolio is 52% commercial, 38% residential and 9% consumer.

The vast majority of FNB's business, however, continues to be in Wisconsin. FNB has five full-service branches in Wisconsin - the former main office (downtown Hudson), the Crestview branch (Hudson), as well as facilities in Baldwin, Hammond and Ellsworth. The bank also has a limited service branch at an elderly housing project in Hudson and five proprietary ATMs. The Ellsworth and Baldwin offices are located in moderate income geographies. The Hammond and Crestview branches are located in middle income geographies; and the Hudson facility is located in upper income geography. The \$86 million "Wisconsin" loan portfolio consists primarily of residential (44%) and commercial (31%) loans. Consumer (15%), agricultural (5%) and municipal (5%) loans comprise the rest of the portfolio.

There are no financial, legal, or other factors which impede FNB's ability to meet its CRA obligations.

DESCRIPTION OF ASSESSMENT AREAS

FNB has two separate assessment areas which comply with regulatory requirements. Both assessment areas are part of the larger Minneapolis/St. Paul metropolitan statistical area (MSA). The Department of Housing and Urban Development's 1997 estimate of median family income for the Minneapolis/St. Paul MSA is \$57,300.

The "Woodbury" assessment area consists of 6 census tracts in Minnesota. Based on 1990 census data, five geographies are upper income and one is middle income. The population of this area is 20,075. Of the 5,528 families in this assessment area, 7% are low income, 11% are moderate income, 26% are middle income and 57% are upper income. Of the 527 businesses in this area, 54% have annual sales less than \$1 million. The median housing value is \$114,924.

DESCRIPTION OF ASSESSMENT AREAS (Continued)

The “Hudson” assessment area consists of 14 census tracts (mostly in St. Croix and Pierce Counties, Wisconsin). Based on 1990 census data, five geographies are moderate income, eight are middle income and one is upper income. The population of this area is 61,012. Of the 16,349 families in this assessment area, 19% are low income, 21% are moderate income, 28% are middle income and 32% are upper income. Of the 2,148 businesses in this area, 79% have annual sales less than \$1 million. The median housing value is \$71,246.

The economies of both areas are strong and diverse due to the proximity to Minneapolis and St. Paul (Twin Cities). Unemployment typically falls below state and national averages. Much of the population commutes to the Twin Cities for employment.

Economic contrasts do exist, however, within the Hudson assessment area. The western half of St. Croix and Pierce Counties is prosperous, diversified and growing while the eastern-most portion is predominantly agricultural and economically stagnant. In St. Croix County, manufacturing comprises the largest portion of employment. The manufacturing base is diversified and consists of numerous small to medium-sized companies. In Pierce County, the government sector is the largest employer due to the presence of a state university. Dairy farming is the predominant farming activity.

Competition among financial institutions in both assessment areas is strong. More than 20 banks, savings institutions and credit unions operate in Pierce and St. Croix County. And 9 institutions operate in Woodbury.

Community contacts conducted by regulators within the last two years include a government official and a real estate broker. Community credit needs include affordable housing. The population expansion has significantly increased the demand for, and cost of, housing. Other community credit needs include small business loans. And, in the Hudson assessment area, there is a need for agricultural loans. Local financial institutions, including FNB, offer a variety of credit products to meet these needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB's loan to deposit ratio is strong. Since the previous CRA examination, dated August 31, 1994, Hudson's average quarterly loan to deposit ratio is 78%. Woodbury's average loan to deposit ratio (since opening the facility in January 1997) is 114%. These ratios favorably compare to the average loan to deposit ratio of 71% for 22 similarly situated banks.¹ Individually, the similarly situated banks' average quarterly loan to deposit ratios ranged from 41% to 89%. FNB's loan to deposit ratios don't include a significant volume (\$30 million) of residential mortgage loan originations sold on the secondary market since January 1, 1995.

FNB originates a substantial majority of its loans in its assessment areas. Bank management monitors the location of outstanding loans by census tract. Approximately 95% (by number) and 94% (by dollar volume) of outstanding loans were in the Hudson assessment area as of December 1996. This is a reasonable proxy for the location of loan originations because FNB does not sell or purchase a significant volume of loans (other than secondary market residential loan sales).

Annual reports filed under the Home Mortgage Disclosure Act (HMDA) captures information on all home loan originations, including loans subsequently sold on the secondary market. These reports also support bank performance in this area. In 1996, FNB originated 83% (by number) of its home loans inside the Hudson assessment area. In 1995, this ratio was 88%.

In the Woodbury assessment area, 67% (by number) of all commercial loan originations since the facility was opened (January 1997) are in the assessment area. And 47% (by number) of all home loan originations are in the assessment area.

The distribution of credit among businesses of different income levels is very good. Based on information supplied by bank management, 89% of all nonfarm commercial loans customers year-to-date were small businesses.² We also looked at loan size as a proxy of the bank's willingness to make loans to small businesses using June 30, 1997, call report information. Over 99% (by number) of outstanding commercial loans (operating and real estate) originated in amounts less than \$1 million. And 82% of outstanding commercial loans originated in amounts less than \$100,000. All outstanding agricultural loans originated in amounts less than \$100,000.

In the Woodbury assessment area, 78% (by number) of all commercial loan originations since the facility was opened (January 1997) are to small businesses. This compares favorably to market demographics. As previously mentioned, 54% of the businesses in this assessment area have revenues less than \$1 million.

¹Defined as national or state chartered banks with total assets less than \$250 million; residential real estate loans greater than 20% of total loans; commercial loans greater than 20% of total loans; and located in Pierce or St. Croix Counties, Wisconsin or Dakota or Washington Counties, Minnesota.

²Defined as non-farm businesses with revenues less than \$1 million and farms with revenues less than \$500,000.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

The bank's distribution of credit among borrowers of different income levels, based on HMDA data is weak. The HMDA information is summarized in the following table. FNB's lending to moderate income families roughly parallels the Hudson assessment area demographics. Lending to low income families is not comparable to market demographics. The lack of penetration in the low income sector, however, is partially attributable to the high cost of homes. The cost is prohibitive to low income families with limited resources. Bank performance, however, is less than peer and market aggregate performance in both the low and moderate income sectors.

1995 & 1996 HOME MORTGAGE ORIGINATIONS IN THE HUDSON ASSESSMENT AREA													
Borrower Income Character- istics	Assess- ment Area Demo- graphics	1995						1996					
		FNB		Peer ³		Market		FNB		Peer		Market	
		#	%	#	%	#	%	#	%	#	%	#	%
Low	19%	16	6%	97	12%	249	9%	18	8%	88	14%	261	10%
Moderate	21%	52	21%	233	28%	756	26%	47	20%	161	26%	631	25%
Middle	28%	106	42%	293	35%	1,082	38%	98	42%	216	35%	922	36%
Upper	32%	75	30%	199	24%	769	27%	73	31%	140	23%	711	28%
NA		1	1%	9	1%	32	1%	0		10	2%	53	2%
Total	100%	250		831		2,888		236		615		2,578	

In the Woodbury assessment area, 7% of the families are low income, 11% are moderate income, 26% are middle income and 57% are upper income. Of the home loans originated since the facility was opened, none were to low income families, 20% were to moderate, 20% were to middle, and 60% were to upper income families.

The geographic distribution of credit reflects a reasonable dispersion of lending throughout the Hudson assessment area. As previously mentioned, five of the 14 census tracts in the assessment area are moderate income, eight are middle income and one is upper income. As of December 1996, bank management reports show that 34% (by number) of all outstanding loans are in moderate income tracts, 53% are in middle income tracts and 13% are in upper income tracts.

HMDA information, shown in the table on the following page, also evidences the bank's performance in this area. In 1995, the bank had a larger percentage of home loan originations in moderate income tracts than did its peer or market aggregate. In 1996, FNB's performance was less than peer, but closer to market aggregate.

³Peer group is defined as a group of similarly situated banks. See footnote #1.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

1995 & 1996 HOME MORTGAGE ORIGINATIONS IN THE HUDSON ASSESSMENT AREA														
Tract Income	Assessment Area Demo- graphics		1995						1996					
			FNB		Peer ⁴		Market		FNB		Peer		Market	
	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Low	0	0%	not applicable						not applicable					
Moderate	5	36%	69	28%	196	24%	473	16%	50	21%	253	41%	635	24%
Middle	8	57%	133	53%	592	71%	1,769	61%	132	56%	325	53%	1,542	60%
Upper	1	7%	46	18%	23	3%	252	9%	54	23%	37	6%	401	16%
NA			2	1%	20	2%	394	14%	0		0		0	
Total	14		250		831		2,888		236		615		2,578	

The geographic distribution of credit is not a meaningful analysis for the Woodbury assessment area given its homogeneity.

Examiners did not identify any instances of illegal discrimination or discouragement during the concurrent compliance review.

⁴Peer group is defined as a group of similarly situated banks. See footnote #1.