

**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 the 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 CRA performance of The Northwestern Bank, Chippewa Falls, Wisconsin, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of November 4, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

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

Several factors support the bank's satisfactory rating. First, the bank maintains a reasonable loan-to-deposit ratio. Second, the bank has made a significant number of its loans within its assessment area. Third, based on an analysis of the bank's loans, the bank lends to borrowers of many different income levels and to small businesses. Finally, the geographic distribution of the bank's loans among geographies of different income levels is reasonable.

The following table indicates the performance level of The Northwestern Bank, Chippewa Falls, Wisconsin, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	THE NORTHWESTERN BANK CHIPPEWA FALLS, WISCONSIN 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 Income Levels and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No CRA complaints were received since the previous evaluation.		

## **DESCRIPTION OF INSTITUTION**

Based on its size and financial condition, the bank effectively meets the credit needs of the assessment area. The bank operates full-service offices in Chippewa Falls, Cornell, and Thorp, Wisconsin. The bank also operates a paying and receiving station in Lafayette, Wisconsin. In addition, the bank has three automated teller machines ("ATM") in Chippewa Falls and ATMs in Lafayette, Thorp, Cadott, Eau Claire, and Cornell, Wisconsin. All the bank's ATMs have 24-hour access except the ATMs located at grocery stores in Lafayette and Cornell. These two ATMs are available for public use only while the grocery stores are open for business. The bank received a satisfactory rating at its last CRA evaluation.

According to its September 30, 1996, Report of Condition ("ROC"), the bank had total assets of approximately \$146.5 million. Since June 30, 1995, the bank's net loans and deposits have increased by approximately \$7.3 million and \$1 million, respectively. In addition, the bank's total assets increased by approximately \$1 million. The bank's average net loan-to-deposit ratio since June 1995 is about 62%. Its loan-to-deposit ratio as of September 30, 1996, has increased slightly since the last CRA evaluation. The bank's loan portfolio is composed of approximately 73% real estate (37% residential real estate), 13% commercial, 7% consumer, 6% agricultural, and 1% other loans. The composition of the bank's loan portfolio reflects the level of demand for specific types of loans by residents of the assessment area.

The bank offers a variety of loan products to help meet the credit needs of residents and businesses within its assessment area. It extends open- and closed-end consumer, residential real estate, agricultural, and commercial loans. In addition to offering these conventional loan products, the bank participates in Small Business Administration and Farm Service Agency government loan programs. The bank also offers Wisconsin Housing Economic Development Authority low-income, first-time homebuyer loans and participates in several local government loan and grant programs.

## **DESCRIPTION OF THE NORTHWESTERN BANK'S ASSESSMENT AREA**

The bank's assessment area is defined as Clark, Eau Claire, and Chippewa counties, Wisconsin. Clark County is composed of block numbering areas ("BNA") 9501 through 9508. The assessment area further includes the Eau Claire metropolitan statistical area ("MSA"), comprised of Eau Claire and Chippewa counties. The bank's Chippewa Falls, Cornell, and Lafayette offices are located in Chippewa County, while the bank's remaining office (Thorp) is located in Clark County. BNAs 9502 and 9508 are designated as moderate income, while the remaining six BNAs in Clark County are middle income.

Except for Eau Claire and Chippewa Falls, the MSA is rural and most of the census tracts are located in or near these two cities. There are 32 census tracts in the Eau Claire MSA. The tracts are as follows: 101, 102, 103, 104, 105, 106, 107, 108, 109, 110, 111, and 112, all located in Chippewa County; and tracts 1, 2, 3.01, 3.02, 4, 5.01, 5.02, 6, 7, 8, 8.01, 8.02, 9, 10, 11, 12, 13, 14, 15, and 16, which are located in Eau Claire County. The MSA includes 1 low-income census tract (106), 4 moderate-income (1, 6, 11, 109), 21 middle-income, and 6 upper-income census tracts (3.02, 8, 8.01, 8.02, 9, 10).

According to 1990 census data, the population for the assessment area is 169,190. Of these assessment area residents, 137,543 individuals reside in the MSA, while the remaining 31,647 reside in the BNA tracts. The population of Eau Claire, Chippewa Falls, and Thorp is 58,702, 13,000, and 677, respectively, according to 1995 population estimates.

CRA divides income levels into four categories: low, moderate, middle, and upper. The categorization of a borrower's or geography's income is determined

relative to the MSA median family income for MSA areas and the statewide nonmetropolitan median family income for non-MSA areas. Low-income individuals have incomes of less than 50% of the MSA or the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income individual as one with an income of at least 80% but less than 120% of the MSA or the statewide nonmetropolitan median family income. An individual with an income that is 120% or more of the MSA or the statewide nonmetropolitan median income is considered an upper-income person. BNAs and census tracts are classified using similar categories based on the level of the median family income in the geography.

As of the 1990 census, the median family income in the MSA is \$31,613, compared with the assessment area's median family income of \$30,653. According to 1990 census data, the statewide nonmetropolitan median family income in Wisconsin is \$30,290. There are 43,250 families and 61,719 households in the assessment area. Based on 1990 census data, the median household income for the assessment area is \$25,187, compared with the MSA's median household income of \$25,876 and Wisconsin's nonmetropolitan median household income of \$25,322. Approximately 9% of the families and 13% of the households in the assessment area have incomes below the poverty level.

The chart below shows the assessment area's population distribution by census tract or BNA income level.

**POPULATION DISTRIBUTION  
BY CENSUS TRACT OR BNA INCOME LEVEL**

	<u>Population</u>	<u>Percentage</u>
Low income	500	0
Moderate income	22,877	14
Middle income	121,598	72
Upper income	<u>24,215</u>	<u>14</u>
Total	169,190	100

The distribution of assessment area families and households by income level is summarized in the following table.

**ASSESSMENT AREA POPULATION DISTRIBUTION  
BY FAMILY OR HOUSEHOLD INCOME LEVEL**

<u>Unit of Measure</u>	<u>Low Income</u>	<u>Moderate Income</u>	<u>Middle Income</u>	<u>Upper Income</u>
Percentage of Families Compared to Median Family Income	19	19	26	36
Percentage of Households Compared to Median Household Income	24	17	20	39

Examiners contacted one government official and two civic leaders as part of the bank's CRA evaluation. Information from these contacts was used to help evaluate the bank's CRA performance.

According to community contacts and bank management, the local economy of Eau Claire is healthy and unemployment is about 3.3%. In addition, despite tremendous growth, there is no housing shortage because housing has kept pace with demand. Major local manufacturers include Pope & Talbot, Inc., Eau Claire Press Co., Allen-Bradley Co., Inc., and Nestle Food Company. The economy of Chippewa Falls is "very sound" and unemployment is not a concern at less than 3%. Cray Research, Inc., and Johnson Matthey are the largest employers in Chippewa Falls. Thorp's economy depends heavily on agriculture.

The standard of living for individuals in this community rises and falls with the condition of the area's agricultural economy. Dairy farming is the area's major agricultural activity. The local economy is described as being in "good shape," and unemployment is not a concern.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's performance in meeting the credit needs in its assessment area is considered satisfactory. The following criteria were analyzed to determine this rating.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's loan-to-deposit ratio is reasonable and, as such, meets the standards for satisfactory performance. The quarterly average of the bank's net loan-to-deposit ratio is approximately 62% since the previous evaluation.

The following chart, based on quarterly ROC data, shows that the bank's ratio has steadily increased from 58% to 65% since the previous CRA evaluation. The steady increase in the net loan-to-deposit ratio is attributed to the bank's business marketing efforts. A large deposit during the third quarter affected the bank's September 30, 1996, loan-to-deposit ratio.

Date	Net Loans (In thousands)	Deposits (In thousands)	Net Loan-to-Deposit Ratio
June 30, 1995	\$72,612	\$124,249	58.4%
September 30, 1995	\$75,390	\$124,651	60.5%
December 31, 1995	\$77,474	\$127,236	60.9%
March 31, 1996	\$78,925	\$123,181	64.1%
June 30, 1996	\$79,339	\$122,117	64.9%
September 30, 1996	\$79,895	\$125,276	63.8%

As listed in the June 30, 1996, Uniform Bank Performance Report ("UBPR"), the bank's net loan-to-deposit ratio was 65%, which placed the bank in the 36th percentile in relation to its peer group. There are no comparably sized financial institutions in the bank's main service area. Other than the bank, all financial institutions in Chippewa Falls are branch operations. Based on loan demand and the lack of any identified unmet credit needs in the assessment area, the bank's loan-to-deposit ratio meets the standards for satisfactory performance.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of a statistical sample of the loans originated by the bank since the last CRA evaluation reveals that a substantial majority of its loans were made inside its assessment area. The following table shows the percentages for number and dollar volume of major loan product lines that were inside the assessment area.

**PERCENTAGE OF LOANS IN THE ASSESSMENT AREA**

Major Loan Product Lines	Total Number of Loans	Total Dollar Amount of Loans
Consumer	81	79
Residential Real Estate	85	84
Small Business/Agricultural	91	89

According to Home Mortgage Disclosure Act ("HMDA") data, the bank originated 193 loans, or about 5% of the 3811 total made in the MSA during 1995. Four other lenders originated more loans. No lenders are dominant HMDA lenders in the assessment area, which has loans from 99 different reporters. There is significant competition among financial institutions in the assessment area for real estate loan originations.

According to HMDA data, the bank reported 56 loans from residents outside the Eau Claire MSA, about 21% of all loans made by the bank in 1995. In 1995 the bank approved 83% of applications received from outside the MSA. This level of activity outside the MSA is reasonable given that almost 19% of the assessment area's population lives outside the MSA.

The level of concentration in the assessment area shown in the preceding table exceeds the standards for satisfactory performance. As discussed previously, real estate loans comprise 73% of the bank's loan portfolio, and the bank made almost all of its residential real estate loans in the assessment area. As noted in the table, the vast majority of all the bank's loans are within the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's record of lending to borrowers of different income levels is very good and, as such, exceeds the standards for satisfactory performance. The bank provides consumer and residential real estate loans to individuals of all income levels, as shown in the following chart.

**DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA  
BY BORROWER INCOME LEVEL\***

<u>Loan Type</u>	<u>Low Income</u>	<u>Moderate Income</u>	<u>Middle Income</u>	<u>Upper Income</u>
RESIDENTIAL REAL ESTATE				
Total Number of Loans	9%	29%	33%	29%
Total Amount of Loans	10%	25%	30%	35%
CONSUMER				
Total Number of Loans	44%	30%	18%	9%
Total Amount of Loans	32%	36%	22%	11%

\*Income level based on Wisconsin's 1996 nonmetropolitan median family income of \$37,700 and the Eau Claire MSA median family income of \$38,700.

The data in the table indicate that the bank originated 38% of its residential real estate loans to low- and moderate-income individuals. Residential real estate loans comprise approximately 37% of the bank's total loan portfolio. This level of residential real estate lending seems more than reasonable given the number of competing financial institutions in the bank's assessment area.

As discussed previously under the Description of Institution section, approximately 41% of the assessment area's households have low and moderate incomes. The bank's consumer lending to low- and moderate-income individuals significantly exceeds the percentage of these individuals living in the assessment area. The bank made approximately 74% of its consumer loans to low- and moderate-income borrowers. The remaining consumer and residential real estate loans are divided between the middle- and upper-income categories.

All of the bank's commercial and agricultural borrowers are small businesses and farms. All small farm and small business loans sampled during the evaluation went to borrowers with gross annual revenues of \$1 million or less. The size and volume of the loans appear reasonable. Based on the CRA sample, 96% of the small farm and small business loans had amounts less than or equal to \$100,000 and the remaining 4% had amounts between \$100,001 and \$250,000.

According to 1995 HMDA data for the MSA, the bank originated a substantially higher volume of loans to low- and moderate-income borrowers than the aggregate of lenders. During that year, the bank originated 41 loans to low-income (20.4%), 37 loans to moderate-income (18.4%), 63 loans to middle-income (31.3%), and 55 loans to upper-income borrowers (27.4%). Aggregate lenders made only 6.8% of loans to low-income borrowers and 17.3% of loans to moderate-income borrowers. A review of 1995 LAR entries reveals that the bank reports applicants' entire incomes for HMDA purposes.

The bank's emphasis on small business lending, together with the high percentage of consumer and residential real estate loans to low- and moderate-income borrowers, demonstrates a strong commitment to meeting the credit needs

of all segments of the community and exceeds the standards for satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans among geographies of different income levels in its assessment area is reasonable. As discussed previously, the bank's assessment area includes 1 low-income tract, 6 moderate-income, 27 middle-income, and 6 upper-income tracts and BNAs. Approximately 72% of the area's population reside in the middle-income tracts and BNAs, 14% reside in the moderate-income tracts and BNAs, 14% reside in the upper-income tracts, and less than 1% reside in the low-income tract. As the following chart indicates, the bank's lending patterns mirror this distribution.

**DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA  
BY BNA OR CENSUS TRACT INCOME LEVEL**

<u>Loan Type</u>	<u>Moderate Income</u>	<u>Middle Income</u>
RESIDENTIAL REAL ESTATE		
Total Number of Loans	9%	91%
Total Amount of Loans	12%	88%
CONSUMER		
Total Number of Loans	6%	93%*
Total Amount of Loans	7%	91%*
SMALL BUSINESS/AGRICULTURAL		
Total Number of Loans	6%	94%
Total Amount of Loans	7%	93%

\*The remaining 1% consumer total number of loans and the remaining 2% consumer total amount of loans fall in the upper-income tract.

As the chart shows, the percentages of residential real estate, consumer, and small business and agricultural loans in the moderate- and middle-income census tracts and BNAs approximate the percentages of assessment area residents living in these tracts. It should be noted that the moderate-income area tracts are located in sparsely populated or industrialized sections of the assessment area, a reason the bank did not make larger percentages of loans in these tracts. In addition, there is little upper-income loan activity as a result of significant financial institution competition in the bank's assessment area. The upper-income tracts are located in Eau Claire, which has a large number of financial institutions. The bank has no loans in the low-income tract because this tract has a very small population.

HMDA data for 1995 showed that the bank made 3.5% of its loans in the MSA's moderate-income tracts, 96.5% in the middle-income tracts, and no loans in the low- or upper-income tracts. Aggregate lenders in 1995 made 9.5% of all HMDA loans in the moderate-income tracts, 74.8% in the middle-income tracts, and 15.7% in the upper-income tracts. The bank's HMDA lending in geographies of different of income levels compares favorably to aggregate lending figures for 1995.

The distribution of consumer, real estate, and small business and farm lending among the census tracts and the BNAs of different income levels compares favorably to the area's demographics. In addition, strong competition for loans in upper income tracts and limited demand in low-income tracts explain the absence of significant activity in those areas. Accordingly, the bank's geographic distribution of loans meets the standards for satisfactory performance.

GENERAL

The evaluation did not reveal any practices that are inconsistent with the substantive provisions of the fair lending and fair housing laws and regulations. The evaluation revealed violations of the technical aspects of Regulation C's Home Mortgage Disclosure Act and Regulation B's Equal Credit Opportunity Act. Management promised prompt corrective action. In addition, the bank has not received any CRA complaints since the previous evaluation.

## **PUBLIC DISCLOSURE**

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November 4, 1996  
Date of Evaluation

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

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The Northwestern Bank  
Name of Depository Institution

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095509100000  
Identification Number of Institution

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Chippewa Falls, Wisconsin  
Address of Institution

Federal Reserve Bank of Minneapolis  
250 Marquette Avenue  
Minneapolis, Minnesota 55401-2171

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.