



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 6, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Niagara
Charter Number 11051

900 Roosevelt Road
Niagara, WI 54151

Office of the Comptroller of the Currency
Iron Mountain Field Office
1302 1/2 South Carpenter Avenue
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.

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

- The bank originates a substantial majority of its loan inside the assessment area.
- The bank's loan-to-deposit ratio is reasonable.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels.
- The geographic distribution of loans reflects an adequate dispersion throughout the assessment area.

SCOPE OF EXAMINATION

First National Bank of Niagara's Community Reinvestment Act (CRA) performance was evaluated under the Small Bank Lending Test. Data from the bank's primary loan products, home mortgage loans and consumer loans, were used to evaluate the bank's lending performance.

The evaluation period covered the date range from the previous CRA examination, November 4, 2002 through September 29, 2008. The Lending Test evaluated home mortgage loans and consumer loans originated or purchased between January 1, 2006 and August 29, 2008. A random sample of loans within the bank's assessment area (AA) for each primary loan product was used in our analysis. The most recent demographic data available was also obtained.

DESCRIPTION OF INSTITUTION

First National Bank of Niagara is a \$65 million bank with its main office located in Niagara, Wisconsin. The institution is wholly-owned by Niagara Bancorporation, Inc, a one-bank holding company also located in Niagara, Wisconsin.

The bank also operates three branches, all of which are in Northern Wisconsin. The branches are located in Aurora, Spread Eagle and Florence. Additionally, First National Bank of Niagara operates six automated teller machines (ATMs). All locations have similar hours of operation.

The bank offers a variety of traditional products and services including commercial, real estate and consumer loans and various deposit products. The bank's business strategy has historically been to remain a local community bank that serves the needs of its community. As of June 30, 2008, the loan portfolio represented 72% of total assets. First National Bank of Niagara's primary loan products are home mortgage loans and consumer loans. By dollar volume, the loan portfolio consists of residential real estate loans (54%), consumer loans (25%) and commercial loans (21%). Over the past few years there has not been a substantial amount of loan growth; however, consumer and residential real estate loans have remained fairly stable. Local area deposits are the

source of funding for most of the loan portfolio. Tier 1 capital totaled \$9.7 million as of June 30, 2008.

There are no legal or financial impediments limiting the bank's ability to meet community credit needs of its assessment area. First National Bank of Niagara's last CRA evaluation was on November 4, 2002, using Small Bank procedures. The bank received a "Satisfactory" rating.

DESCRIPTION OF ASSESSMENT AREA

First National Bank of Niagara has one assessment area which includes a portion of northern Marinette County, Wisconsin, all of Florence County, Wisconsin and all of Dickinson County, Michigan. The assessment area does not lie within a Metropolitan Statistical Area (MSA). The bank has a total of 12 census tracts in its assessment area. This includes one moderate and eleven middle income census tracts. The assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The assessment area has a population of 43,566 and a median family income (MFI) of \$42,086 based on 2000 U.S. Census data. Updated Department of Housing and Urban Development (HUD) estimates MFI at \$51,900 in 2008. There are 12,025 families in the assessment area. According to Census data, 20% of families are low-income (2,364), 21% of families are moderate-income (2,551), 25% of families are middle-income (2,989) and 34% of families are upper income (4,121). In addition, 10.01% of assessment area households have incomes that fall below the poverty level. This area also has a high percentage (23%) of households that are retired.

The state and local economy is characterized as stagnant. There has not been a lot of loan growth as many customers are worried about their financial future and do not want to borrow unnecessarily. However, deposit growth has been stable despite the high volume of competition in the area. The unemployment rate in Northern Wisconsin is around 5.5% as of June 2008 and 7.2% in the Upper Peninsula of Michigan for the same period.

In assessing the bank's CRA performance, we contacted a representative from the Florence County Economic Development Commission to determine the community's profile and the performance of local financial institutions. In the representative's opinion, the community's credit needs are being met.

Competition from other financial institutions is strong in the local market. Nineteen financial institutions serve the same assessment area as First National Bank of Niagara. As of June 30, 2007, First National Bank of Niagara had a deposit market share of 4.21%, ranking eleventh.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

First National Bank of Niagara's loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's quarterly LTD ratio averaged 88% over 22 quarters from March 31, 2003 to June 30, 2008. Five similarly situated banks were chosen for comparison. The bank's LTD ratio ranked second during this period.

Financial Institution	Total Assets (000) as of June 30, 2008	Average Quarterly LTD ratio (1Q2003 - 2Q2008)
State Bank of Florence	\$72,129	97.10%
First National Bank of Niagara	\$64,462	88.18%
Stephenson NB&T	\$240,759	87.90%
Bank North	\$111,336	77.59%
Peshigo National Bank	\$146,144	73.58%
Farmers & Merchants Bank	\$148,016	68.17%

Source: Bank Call Report Information

Lending in Assessment Area

The bank originates a substantial majority of its loans to borrowers within its AA. A random sample of the bank's primary loan products shows 89.13% of loans by dollar amount and 88.89% of loans by number were originated within the AA.

Lending in FNB Niagara AA										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
RE - Mortgages	20	90.91%	2	9.09%	22	\$1,713	89.27%	\$206	10.73%	\$1,919
Consumer Loans	20	86.96%	3	13.04%	23	\$114	87.04%	\$17	12.96%	\$131
Totals	40	88.89%	5	11.11%	45	\$1,827	89.13%	\$223	10.87%	\$2,050

Source: Bank records (verified by examiners)

Lending to Borrowers of Different Incomes

The overall distribution of borrowers reflects reasonable penetration among individuals of different income levels.

The borrower distribution of home mortgage loans within the assessment area is adequate. Although the bank's percentage of loans to low-income borrowers is lower than the percentage of low-income families in the area, consideration is given to the

percentage of households living below the poverty level (10%). The bank's lending to moderate-income borrowers is somewhat higher than the AA demographics.

Borrower Distribution of Residential Real Estate Mortgage Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
% of Total	19.66%	5.00%	21.21%	25.00%	24.86%	35.00%	34.27%	30.00%

Source: Sample of 22 bank records (verified by examiners) and U.S Census Demographic Data. Income information was not available for 1 loan in the sample.

The borrower distribution for consumer loans within the assessment area is reasonable. The bank's lending to low-income borrowers matches that of the demographic data and the bank's lending to moderate income borrowers surpasses the census demographics.

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
% of Total	25.00%	25.00%	19.00%	35.00%	21.00%	30.00%	35.00%	10.00%

Source: Sample of 23 bank records (verified by examiners) and U.S Census Demographic Data

Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

The geographic distribution of home mortgage loans in the bank's assessment area is satisfactory. According to census data, 10.89% of the assessment area's total owner occupied housing units are located in the one moderate-income census tract in the AA. The bank originated 10% of its home mortgage loans to borrowers in this census tract.

Geographic Distribution of Residential Real Estate Mortgage Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
% of Total	0%	0.00%	10.89%	10.00%	89.11%	90.00%	0.00%	0.00%

Source: Sample of 22 bank records (verified by examiners) and U.S Census Demographic Data

The geographic distribution of consumer loans in the moderate-income census tract is low. None of the consumer loans in our random sample were to borrowers in the moderate-income census tract. However, based on discussions with bank management and analysis of additional bank reports, we found there were other consumer loans originated in the moderate-income census tract (located in the Amberg, Dunbar, Goodman and Pembine, WI areas) that did not make it into our sample.

It should also be noted that all of the bank’s branches are located in middle-income census tracts and the moderate-income tract is quite a few miles away with a low population base. With the strong level of competition from other financial institutions in the area it is reasonable that lending in that geography would be low. These facts, combined with the bank’s satisfactory performance with home mortgage loans, demonstrates the bank’s commitment to serving these areas.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
% of Total	0	0.00%	10.58%	0.00%	89.42%	100.00%	0.00%	0.00%

Source: Sample of 23 bank records (verified by examiners) and U.S Census Demographic Data

Responses to Complaints

The bank has not received any CRA related complaints since the last CRA 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.